

# CHAPTER IV

## Building an enabling environment for e-commerce and the digital economy

This chapter focuses on the cross-cutting nature of e-commerce and the digital economy, and the importance of taking action in different policy areas. Building on the *Pacific Regional E-commerce Strategy and Roadmap* (PIFS, 2021), it summarizes progress to date and discusses goals and priorities for future activities to support an inclusive digital economy in the Pacific. Section A describes the key building blocks to enable e-commerce and an inclusive digital economy, and provides a brief assessment for the Pacific. Section B provides an overview of national and regional initiatives to develop a conducive environment for e-commerce and the digital economy. Section C describes the role of regional and global initiatives and partners in establishing this enabling environment.



# Creating an enabling environment for e-commerce and the digital economy in the Pacific

**Policies and regulations** in the Pacific need to be adapted to the digital economy

**Many policies** have not kept pace with digitalization



**A holistic approach is needed**, covering a range of policy areas:

- E-commerce readiness assessments and strategy formulation
- ICT infrastructure and services
- Digital payment solutions
- Trade logistics and trade facilitation
- Legal and regulatory frameworks
- E-commerce skills development
- Access to financing for e-commerce

There is a **strong momentum in the region** to address these policy concerns

**Regional cooperation and international support remain important**

- Technical support
- Industry expertise
- Financial support

**E-commerce diagnostic** studies started

- Regional e-commerce strategy and roadmap
- National diagnostics and strategies

**Private sector investments are also crucial** for advancing the digital transformation of Pacific SIDS

## A. BUILDING AN INCLUSIVE DIGITAL ECONOMY

### 1. Building blocks for an inclusive digital economy

Although the nature and scope of the digital economy will continue to evolve, several frameworks have been developed to understand how key components can be strengthened. These frameworks, while differing in general approach and specific priority areas, all emphasize the cross-sectoral nature of the digital economy. The digital economy is becoming increasingly inseparable from the functioning of the overall economy, with diverse sectors and industries all digitalizing at different speeds. Existing frameworks acknowledge that strengthening the enabling environment for the digital economy is a complex endeavour and requires attention across a range of areas. This has several important implications for policymakers. These include identifying the starting point and priorities for reform with limited government resources; understanding core challenges and opportunities at the interplay of various ecosystem components; and articulating visions and actions that can lead to an inclusive and dynamic digital economy.

In addition, an enabling environment for the creation and capturing of value in the digital economy necessitates the skills and capabilities to effectively collect, use and analyse large amounts of digital data. The ever-changing digital landscape has set in motion the development and widespread use of digital platforms, which provide the mechanisms to bring a set of parties together to interact online. For digital economies to be truly inclusive, it is essential to create an empowering environment that responds to the needs of women and other groups at risk of being left behind. Ensuring that the concerns of at-risk and marginalized groups are being addressed in the design and implementation of policy interventions and decisions is central to building inclusive digital economies. All this must be done in a context that is fast evolving – and likely more rapidly than previous large-scale economic transformations (UNCTAD, 2019b).

Global frameworks that support building inclusive digital economies include the eTrade for all initiative and the Inclusive Digital Economy Scorecard (IDES). These frameworks enable governments to better understand the challenges and opportunities for engaging in the digital economy.

The policy areas under eTrade for all (see figure IV.1) are aimed at building competitiveness in e-commerce – an important component of the digital economy that is closely tied to SMEs and export competitiveness. These policy areas are considered critical for strengthening the overall business,

regulatory and policy environment for accelerated uptake of e-commerce and development of the broader digital economy. They form the basis of the eTrade Readiness Assessment methodology (UNCTAD), which, in turn, forms the basis of the Pacific E-commerce Initiative and national and regional assessments and strategies developed by initiative partners (see section IV.B.2).<sup>17</sup>

The IDES framework developed by UNCDF is designed to help governments set priorities for digital transformation in each respective country. Inclusiveness is factored in as a critical cross-cutting element. The framework relies on four foundational components – policy and regulation, infrastructure, innovation and skills – to identify constraints hindering the development of an inclusive digital economy. Multiple constituent indicators are used to assess the status of a country's overall digital economy and the level of inclusion for key segments of the population such as women, youth, refugees, migrants, MSMEs and people living in rural areas. Since

Figure IV.1. The eTrade for all policy areas



Source: UNCTAD.

2021, IDES has been implemented in 25 countries in Africa, Asia and the Pacific, and will be expanded to additional countries in the near future.<sup>118</sup>

Both frameworks outline important goals for Pacific SIDS and can be useful for policymakers who wish to strengthen their enabling environments for the digital economy. Although the frameworks may differ in areas of emphasis and methodological approach, they collectively provide the following:

- **Solid frameworks for diagnostics and strategy formulation:** The complex nature of the digital economy requires a detailed review of each relevant dimension, as well as an understanding of the interdependencies involved. Beyond serving as a key diagnostics tool and needs assessment, they also support project, programme and strategy formulation. For example, an eTrade Readiness Assessment can help prioritize policy interventions that would be included in a national strategy. IDES can feed into the design of targeted and relevant interventions in combination with strategic measures laid out in the implementation and monitoring and evaluation plans. Taken together, the frameworks also make it easier to understand the potential impact of actions in one area on other ecosystem components.
- **Resources to help reinforce a virtuous cycle between e-commerce and the digital economy:** In the early stages of maturity, e-commerce depends on several broad enabling factors within the digital economy such as digital literacy, smartphone penetration and digital entrepreneurship. As consumer and enterprise uptake of digital tools accelerates in the medium to long term, e-commerce drives growth in these same enabling areas, reinforcing its own growth but also that of the digital economy as a whole. For example, basic digital literacy is required for e-commerce transactions. At the same time, e-commerce helps build more advanced digital literacy that can support growth in the broader digital economy.
- **A basis for supporting interoperability and harmonization within the Pacific:** harmonization and interoperability are critical to promote access to regional markets. This is especially important for cyberlaws, business regulations, technical systems for payments and other infrastructure areas. A focus on harmonization and interoperability stresses adherence to common principles but does not require each country to adopt the same tenets. This leaves space for countries to be flexible in their own approach.<sup>119</sup>

## 2. E-commerce readiness in the Pacific region

Strengthening the enabling policy environment is important in the Pacific where the transition to a digital economy and local e-commerce platforms is just beginning to take hold. The few local e-commerce platforms that have emerged continue to experiment and have not achieved long-term sustainability (see chapter III). Policies that enhance the overall business, policy and regulatory environment would increase the likelihood of their success and growth, and make it easier for other businesses to enter the market. This section provides a summary of relevant policy areas and related policy recommendations. More detailed analysis can be found in national and regional e-commerce assessments and strategies.<sup>120</sup>

### a. Policy framework and institutional coordination

E-commerce is a cross-cutting policy issue that has implications in many sectors, including banking and financial services, telecommunications, ICT infrastructure, education, trade and transportation. Identifying key policy actions in this context is a challenge and involves regulators, line ministries, technical agencies, the private sector and civil society actors. Developing a whole-of-society understanding of these issues and ensuring coherence of policy actions is therefore crucial. Although national e-commerce assessments have been carried out for most Pacific SIDS, contributing to whole-of-society understanding, national strategy formulation and implementation related to e-commerce or the digital economy is still at an early stage (see box IV.1 and section IV.B.1).

Limited interministerial coordination on related issues remains a challenge. As in most parts of the world, ministries tend to operate in silos and national sectoral development strategies often do not adequately take into account the potentially transformative role of the enhanced digitalization of economies. This may, for example, reduce the ability to harness the potential of e-commerce to allow entrepreneurs

### Box IV.1. Case study: Improvements in the Solomon Islands digital ecosystem since the 2018 eTrade Readiness Assessment

Solomon Islands is an archipelago State with 900 islands (300+ of which are populated) spread across a chain of islands measuring some 1,500 km in total length. These geographic characteristics mean that the country is faced with formidable natural barriers that have constrained development in a number of areas: domestic markets development and integration; SME-led productive sector growth; government-to-business and government-to-consumer services; and general development in rural areas, where 76 per cent of the population resides. E-commerce has been identified as a nascent lever of growth for lowering these barriers in the medium to long term, and in this context, UNCTAD conducted an eTrade Readiness Assessment for the country in 2018. The assessment became a key tool for policymakers to understand the challenges the country faced as it moved towards a digital economy and provided concrete recommendations for overcoming these challenges. By 2021, an estimated 38 per cent of recommendations from the assessment had been implemented by the Solomon Islands Government and partners (UNCTAD, 2022e).

Several improvements have been made within the national e-commerce ecosystem. The arrival of the Coral Sea Cable System and subsequent connectivity with four provinces via the Solomon Islands Domestic Network system has ushered in a new era of connectivity for the country. E-commerce has also seen improved stewardship and the gradual emergence of a strategic vision. Public sector coordination has been boosted by the National E-commerce Strategy project steering committee and technical working task force, who also oversee strategy implementation. The national financial inclusion agenda has continued developing at a brisk pace, as evidenced by the launch of the Third National Financial Inclusion Strategy and a regulatory sandbox, and the upcoming introduction of a new mobile money solution beyond existing solutions such as EziPei and iumiCash. New fintech models have been tested – in particular the YouSave voluntary saving scheme app designed especially for the self-employed.

The significant progress achieved since 2018 motivated the Solomon Islands Government to develop its first national e-commerce strategy, aimed at strengthening the business, regulatory and policy environment for e-commerce and the broader digital economy. Through a forward-looking and practical approach, the Solomon Islands National E-commerce Strategy 2022–2027 provides a framework to leverage resources and forge partnerships to accelerate e-commerce development. The National E-commerce Strategy aims to support the country's burgeoning digital economy and national transformation journey, but also focuses on broader economic growth pillars. The strategy contributes to the National Development Strategy (2016–2035) overall vision of improving the social and economic livelihoods of all Solomon Islanders by 2035 (Solomon Islands Ministry of Environment, Climate Change, Disaster Management and Meteorology, 2021).

*Source:* UNCTAD.

and businesses to access new markets, reduce transaction costs or develop new business models. More consideration could also be given to the integration of digital trade considerations in national export strategies. Such strategies encourage greater participation and value addition by Pacific SIDS in global trade and are an important tool to boost participation in future free trade agreements that include an e-commerce chapter, such as at the World Trade Organization (PIFS, 2021).

One avenue for enhancing policy coordination and coherence is the establishment of national e-commerce steering committees, as well as the development and implementation of national e-commerce strategies. Where e-commerce or digital economy policies and strategies have been developed, such steering committees can play a key role in guiding implementation and monitoring progress. Overall, political leadership and commitment remain vital to ensure ministries and agencies facilitate and contribute towards e-commerce and an inclusive digital economy.

#### b. ICT infrastructure and services

Equitable access to affordable, reliable, high-speed and high-capacity broadband Internet is key for e-commerce and the digital economy. Resolving ICT connectivity issues and closing the digital divide related to Internet access has been at the centre of policy developments over the last two



decades. However, many Pacific SIDS are still grappling with how to leverage private sector resources and expertise to support investment in the smaller, less profitable markets. Liberalization of telecommunication services has produced clear benefits in terms of improved connectivity. However, Pacific SIDS still face challenges in the core areas of affordability, reliability and speed – all of which create obstacles to e-commerce uptake, especially in rural areas (see chapter II).

An enabling regulatory environment is instrumental to incentivize further private sector investment and ensure that the impact of such investment is maximized. Appropriate policy actions will vary by country but general principles include adequate digital infrastructure to support universal access; competitive telecom markets that bring down prices and introduce new consumer services; and a focus on the unique access challenges of rural populations. Measures to encourage coverage expansion – such as sharing of ICT and fixed infrastructure between different MNOs – could be one way to increase coverage and decrease costs.

### c. Trade logistics and trade facilitation

An effective and competitive national and international trade environment is vital for domestic and cross-border e-commerce. However, transportation of goods within Pacific SIDS and across the region is time-consuming, labour-intensive and costly. Last-mile delivery is not feasible in many parts of the region due to constraints with transportation infrastructure, limited use of physical addresses and lack of widespread transportation services. Policy solutions that ease these constraints would enhance the business case for e-commerce and build consumer trust. More local courier services, for example, would reduce e-commerce delivery times, increase predictability and create a source of local jobs.

The regulatory environment around trade facilitation is inconsistent across Pacific SIDS (PIFS, 2021). Implementation of solutions in the Pacific region is being designed, where relevant, to align with the World Trade Organization Trade Facilitation Agreement and support regional approaches consistent with the Pacific Agreement on Closer Economic Relations Plus (PACER Plus) (see section IV.C.2). Some World Trade Organization members have made noticeable progress towards implementation of the Trade Facilitation Agreement. In addition, automation of border procedures plays a key role in supporting e-commerce. In the Pacific, the Automated System for Customs Data (ASYCUDA) developed by UNCTAD has become the system of choice for Customs declaration processing and is running or being implemented in 15 Pacific SIDS (see also section IV.C.2).<sup>121</sup> In addition, UNESCAP supports country efforts towards trade digitalization through its Readiness Assessments for Cross-Border Paperless Trade (see section IV.C.2).<sup>122</sup>

### d. Legal and regulatory frameworks

As in many other regions, the legal and regulatory frameworks for e-commerce and the digital economy have not kept pace with the growing use of digital technologies by consumers, governments and businesses in the Pacific. Across the region, there is a diverse legislative and regulatory environment for e-commerce (see table IV.1). Only four Pacific SIDS having comprehensive legislation on e-transactions and e-signatures, and none of these countries has comprehensive legislation concerning data protection and privacy. Three of these economies have comprehensive legislation for cybercrime, with the remaining countries having partially developed legislation or no existing legislation. Comprehensive consumer protection legislation has not yet been developed in any of the Pacific SIDS.

The establishment of predictable and transparent legal frameworks is critical to enabling and facilitating e-commerce transactions. Regulatory gaps should be addressed as a matter of priority, especially in the context of current e-commerce companies that would need to comply with laws in multiple countries if they expanded to multiple countries in the near future. Updated regulations and the accompanying regulatory certainty will contribute to increased confidence for both businesses and consumers. In addition, the enactment or modification of certain laws should be enforced consistently to avoid uncertainty and delays in the implementation of strategy and policy. Such legal reforms will improve government capacity to regulate the digital economy efficiently and to reach administrative decisions on the basis of a set of up-to-date and relevant laws.

Maintaining adequate standards of protection and reducing discrepancies in the different applicable rules are vital to supporting a vibrant digital economy in the region. International standards and regional harmonization of regulations can be helpful in this context, especially in relation to the promotion



Table IV.1. Status of legislation in key areas related to the digital economy, Pacific SIDS, 2022

Jurisdiction	E-transactions / e-signatures	Consumer protection <sup>a</sup>	Data protection and privacy	Cybercrime and security	Intellectual property and copyright	Online content regulation <sup>b</sup>	Domain names <sup>c</sup>	Online dispute resolution	Digital ID	E-payment	Taxation
Cook Islands	None	Partial	None	None	Partial	None	Comprehensive	None	None	None	None
Federated States of Micronesia	None	Partial	None	None	Partial	None	None	None	None	None	None
Fiji	Comprehensive	None	None	Comprehensive	Partial	Comprehensive	None	None	None	None	None
French Polynesia	None	None	None	None	Unknown	None	None	None	None	None	None
Kiribati	None	Partial	None	None	Partial	None	None	None	None	None	None
Marshall Islands	None	Partial	None	None	Partial	Partial	None	None	None	Partial	None
Nauru	None	None	None	Comprehensive	Partial	Partial	None	None	None	None	None
New Caledonia	Unknown	Unknown	None	Unknown	Unknown	Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
Niue	None	None	None	None	Partial	None	Partial	None	None	None	None
Palau	None	Partial	None	Partial	Partial	None	None	None	None	Partial	None
Papua New Guinea	Comprehensive	None	None	Comprehensive	Comprehensive	Partial	None	None	None	Partial	None
Samoa	Comprehensive	Partial	None	Partial	Partial	Partial	None	None	None	None	None
Solomon Islands	None	None	None	Partial	Partial	None	None	None	None	None	None
Tonga	None	Partial	None	Partial	Partial	Comprehensive	Comprehensive	None	None	None	None
Tuvalu	None	None	None	Partial	Partial	Partial	Comprehensive	None	None	None	None
Vanuatu	Comprehensive	None	None	Partial	Partial	Partial	None	None	None	None	None

Source: UNCTAD (forthcoming).

Notes: Highlighted areas are those covered by the UNCTAD Cyber Law Tracker. For the classification outlined in Table IV.1, the status in each jurisdiction is classed as 'comprehensive', 'partial', or 'none'. To be classed as comprehensive, the legislation must (a) specifically address the online environment, and (b) address most of the known issues within the subject area. Legislation being classed as comprehensive does not, however, preclude that further reform is needed. Where the regulatory environment in a jurisdiction is classed as 'partial', some examples of relevant legislation have been found, but there is no systematic approach to addressing the known issues within the subject area in question. The classification 'none' does not necessarily mean that no law in the relevant jurisdiction applies to the subject area being discussed.

a. In the context of consumer protection, countries with sector-specific consumer protection laws (e.g. in the telecommunications sector), and those relying on general protections afforded to all buyers (such as Sale of Goods Acts) have their system classed as 'none'.

b. In the context of online content regulation, legislation has been classed as 'partial' where examples are found of specific regulations applying online.

c. In the context of domain names, the classification 'comprehensive' means that the legislation specifically addresses the domain name system. The classification 'none' indicates that the legislation does not specifically regulate domain name issues (although the registry will of course have rules regarding registration and disputes).

of financial messaging and payments, cybersecurity, privacy and emerging technologies across the region. However, the uniformity and applicability of international standards in the Pacific remains relatively low, which has implications for the quality of goods and services for domestic populations. Only three Pacific SIDS (Fiji, Papua New Guinea and Vanuatu) have internationally recognized standards bodies, whereas other economies have only ad hoc standard practices and procedures.

#### e. Digital payment solutions

Reliable, affordable and secure payment options are critical for businesses and consumers to engage in e-commerce. Digital payments not only underpin e-commerce transactions but also provide one of the best ways to increase digital literacy and consumer familiarity with the digital economy. For many people, digital payments may be the primary way they engage with digital technologies (for domestic remittances, for example). However, low banking penetration in the region affects the availability and affordability of bank-based digital payment solutions. As a result, economies are mostly cash-based, with very low credit or debit card use. In addition, the absence of local payment gateways results in high costs to set up merchant accounts.

Digital financial services infrastructure in the region is underdeveloped and policymakers have a key role in strengthening these systems. This includes the establishment of local payment gateways and incentives to boost the fintech space. To overcome obstacles that limit e-commerce payment aggregation in the region, focus should be placed on addressing challenges in the areas of payments infrastructure (such as lack of network infrastructure, lack of payment network interoperability and absence of local payments processors); regulations (such as rigid know-your-customer requirements and lack of uniform licensing); digital payment economics (such as those related to fees); and financial literacy and technical skill sets (UNCDF, 2021c).

The World Bank and the International Finance Corporation are supporting central banks in the region to implement a set of critical reforms of national payment systems, including the legal and regulatory framework, implementation of digital clearing and settlement systems and the creation of oversight skills in the sector (PIFS, 2021).<sup>123</sup> At the same time, non-bank payment service providers are emerging, such as M-PAiSA (Vodafone) and MyCash (Digicel) mobile wallets, and are progressively increasing their role in the financial market (UNCDF, 2021c). The monetary authorities of the Pacific Islands Regional Initiative have already made headway through establishing the *Pacific Regional Regulatory Sandbox Guidelines*. Regulatory sandboxes to facilitate fintech solutions have been approved in Fiji and Papua New Guinea based on these guidelines.

#### f. E-commerce skills development

Changing demand for skills in digital economies is expected to lead to new types of jobs and employment. Fundamental changes will need to be made to the nature and conditions of work, and to skills training, to respond to the rapid pace of technological and structural change brought about by digitalization (UNCTAD, 2017a). In this context, digital skills development should respond to the needs of business owners and MSMEs so they can tap into the potential offered by digital technologies.

However, e-commerce and digital entrepreneurship skills in the region remain relatively low – although some momentum is emerging, particularly in online commerce through social media platforms (see chapter III). The software and web development base in the region remains small, which hinders the development of local digital content. A lack of ICT mainstreaming in school and university curricula – as well as in technical and vocational education and training – remains an obstacle for the development of ICT capabilities.

Policy action needed in several areas includes upgrading the curriculum at primary and secondary school levels; introducing digital entrepreneurship and supply chain courses at university level; and providing broad community-based training workshops. However, government officials and policymakers responsible for drafting and enforcing the policies in this area often do not possess the necessary knowledge to drive the e-commerce agenda.

Women in the Pacific are disproportionately affected by a lack of access to e-commerce skills development. Identifying relevant focused interventions should therefore be a priority. Some interventions targeting increased women's participation in e-commerce have started to appear in the



region, supported by the UNCDF Pacific Financial Inclusion Programme and ADB. In the absence of gender-disaggregated data, the *Pacific Regional E-commerce Strategy and Roadmap* could serve as a useful source for further exploring the barriers that women face in e-commerce.

#### g. Access to finance for e-commerce

Access to financing, especially for innovation and entrepreneurship across the e-commerce value chain, facilitates the growth of the digital economy. E-commerce firms and digital entrepreneurs in the Pacific have very few options to raise the financing needed to establish or grow their digital businesses – which are often considered high-risk by financial institutions. Challenges include weak financing instruments specific to MSMEs, high interest rates and overall weak enterprise capacities to demonstrate and maintain strong credit. Stringent know-your-customer requirements in banking for MSMEs and other private businesses force dependence on informal and community lending solutions. In addition, small producers are negatively affected by the working capital financing required to produce and export goods.

Incentives to promote dedicated loan schemes for digital businesses, enhance access to venture capital and develop alternative credit scoring schemes could help increase access to finance for e-commerce firms. Given the generally small market for innovators in Pacific SIDS, providing access to finance mechanisms at the regional level could further promote efficiencies and sustainability (PIFS, 2021). These could include crowdfunding initiatives, regional venture capital pitching events and support or e-commerce innovation challenges.

## B. THE PACIFIC E-COMMERCE INITIATIVE

The Pacific E-commerce Initiative is a multi-stakeholder partnership that supports Pacific Island Forum countries to engage in e-commerce, with the objective of promoting sustainable growth and poverty eradication in the region. The initiative was developed as a result of an e-commerce workshop organized by PIFS, UNCTAD and the World Trade Organization in 2017, during which participants acknowledged the need to develop solid analytical and policy foundations as a precondition to undertaking truly transformative actions.<sup>124</sup> E-commerce is one of the priority areas identified in the *Pacific Aid for Trade Strategy 2020–2025* (PAfTS) (see box IV.2) and focus is placed on the regional dimension of e-commerce, complementing the work being undertaken at the country level. By considering the regional dimensions of e-commerce, the initiative seeks to: (a) achieve selected priorities through more cost-effective approaches; and (b) achieve priorities which are outside the reach of single companies or Members.

The initiative is coordinated by PIFS and has been the driving force behind the development of harmonized national and regional e-commerce assessments – which have, in turn, informed the development of the *Pacific Regional E-commerce Strategy and Roadmap*. The latter was endorsed by Pacific Trade Ministers in August 2021. In 2022, the focus shifted to implementation of the measures recommended in the Regional Strategy. This includes, but is not limited to, the development of national e-commerce strategies aligned with the strategy.



## Box IV.2. The Pacific Aid for Trade Strategy

The region's trade priorities are enshrined in the PAfTS developed by PIFS and endorsed by Forum Trade Ministers in 2020. It provides strategic direction and sets regional aid-for-trade priorities grounded in Pacific regionalism and development agendas as determined by Forum Member States. Its implementation is guided by four guiding principles: strategic regional impact; prioritization; leveraging existing mechanisms; and ownership.

E-commerce has been identified as one of the four thematic priority areas in the strategy. Given its potential for structural transformation and economic diversification, e-commerce is a critical enabler of the digital economy and presents substantial opportunities for businesses and regional integration. Advancing the digital economy through inclusive and secure e-commerce is reflected in PAfTS, with the strategy highlighting opportunities to empower businesses, benefit consumers and utilize growing levels of Internet penetration and mobile use across the region.

The remaining three thematic priority areas – the services sector, comprehensive connectivity and deepening forum markets – are closely related to the broader digital ecosystem.

- Services sectors such as tourism, ICT, telecommunications and financial services cope with infrastructure barriers relatively better than manufacturing sectors and offer stronger economic diversification potential. These sectors either drive digital transformation (e.g. ICT and fintech) or serve as natural anchors for digital transformation (e.g. tourism and e-commerce).
- Under the theme of comprehensive connectivity, the strategy considers issues such as labour mobility and physical connectivity. These are critical for supporting a robust digital economy, for instance through market matchmaking and improvements in the general business environment.
- Trade facilitation reforms and quality infrastructure across the Pacific will enable SMEs to penetrate or expand their presence in international markets. This will also benefit cross-border e-commerce in the region.

*Source:* UNCTAD, based on Pacific Islands Forum, 2020.

## 1. National e-commerce readiness assessments and strategy development

National e-commerce assessments are essential to identify strengths and weaknesses in the e-commerce readiness of countries. They can serve as a basis for formulating relevant policies to harness the potential of digital technologies for economic growth and social development. In the Pacific, national assessments have often been the first opportunity for Pacific SIDS governments to take stock of digital transformation within their respective country comprehensively and inclusively. Assessments cover the seven policy areas included in the eTrade Readiness Assessment methodology (see section IV.A.2).

A total of 11 comprehensive assessments have been undertaken in the Pacific region to date (see table IV.2). The assessments have enhanced general knowledge on digital economic development, strengthened stakeholders' overall perception of e-commerce, fostered public-private dialogue among e-commerce participants, and helped to identify priority actions to inform regional and national e-commerce strategies.

Because most Pacific SIDS are comparable in both economic size and structure, the national assessments have allowed for comparison of the status of e-commerce development across the region and helped identify priority actions to pursue at the regional or subregional level (see section IV.B.2). The national assessments have also served as an important diagnostic assessment and prioritization tool for the development of national e-commerce strategies in some of these economies. As of October 2022, three Pacific SIDS have fully developed and endorsed national e-commerce strategies: Tonga (2021), Vanuatu (2021) and Samoa (2022). Development of the national e-commerce strategy was still in progress for Solomon Islands (with support from UNCTAD), Tuvalu (with support from PIFS) and

**Table IV.2. Year of the most recent e-commerce assessments and strategies in Pacific SIDS**

	<b>Assessment</b>	<b>Strategy</b>
Samoa	2017	2022
Solomon Islands	2018	2022*
Vanuatu	2018	2021
Kiribati	2019	2022**
Tonga	2019	2021
Tuvalu	2019	2023*
Federated States of Micronesia	2020	
Fiji	2020	
Niue	2020	
Papua New Guinea	2020	2023*
Cook Islands		2021**
Nauru	2021	
Regional	2020	2021

Source: UNCTAD. See also Pacific Islands Forum (2022) and Pacific E-Commerce Initiative (2022).

\* Ongoing.

\*\* E-commerce acceleration plan, ongoing.

Kiribati (with support from the Enhanced Integrated Framework). These national strategies are based on national priorities and provide a vision and road map for the development of e-commerce and the broader digital economy. They are also aligned in their methodological approach with the *Pacific Regional E-commerce Strategy and Roadmap*. Several other Pacific SIDS have reached out to PIFS to secure funding to develop their own national e-commerce strategies.

## 2. Regional baseline assessment and strategy

In 2020, the E-Commerce Assessment: Pacific Region (PIFS, 2020) consolidated the findings from the national assessments conducted by PIFS and UNCTAD. The assessment concluded that, overall, e-commerce in the Pacific was at a nascent stage (see section IV.2). While some sectors and countries had observed growth in e-commerce activities, for e-commerce to flourish, some crucial constraints would still need to be addressed through a comprehensive regional initiative (see sections III.D.3 and IV.A.2). The assessment provided a springboard for the development of the *Pacific Regional E-commerce Strategy and Roadmap* (PIFS, 2021) endorsed by Forum Trade Ministers in August 2021. The principles of the *Pacific Regional E-commerce Strategy and Roadmap* are based on the *Framework for Pacific Regionalism*. Strategy measures are also aligned with the framework criteria for the regionalism test to assess regional initiatives (see box IV.3).

The *Pacific Regional E-commerce Strategy and Roadmap* outlines the Pacific consensus on regional priorities to increase digital trade readiness and proposes a vision of a transformative Pacific economy where all businesses and consumers actively engage in domestic and cross-border e-commerce. Its mission is to transform Pacific livelihoods through accelerated economic growth that is inclusive and equitable.

The regional strategy targets three overarching outcomes: (1) more online consumers; (2) more online businesses; who are (3) connected through a faster and more inclusive network. Seven intermediate or thematic outcomes are linked to the three overarching outcomes, one for each of the eTrade Readiness policy areas. Direct impacts are captured through 18 strategic outputs, which are delivered through 54 measures (see table IV.3)

### Box IV.3. Framework for Pacific Regionalism

The *Framework for Pacific Regionalism* was the highest-level policy document at the time of drafting the *Pacific Regional E-commerce Strategy and Roadmap*. The Framework is based on: (1) regionalism; (2) putting the private sector at the core; (3) sovereignty; and (4) partnership. It is also closely aligned with PAFTS, and mainstreams gender equality.

The regional strategy is premised on the principles of the Framework. Under the Framework, the following criteria are set out for regional implementation of the Regionalism Test: establish a shared norm or standard; establish a common position on an issue; deliver a public or quasi-public good which is regional or subregional in its scope; realize economies of scale; overcome national capacity constraints; complement national governments; or facilitate economic or political integration. Given its comprehensive approach to digital trade, many of the regional strategy's measures will require interaction with and leadership by ministries and agencies with mandates beyond trade related matters.

In July 2022, a new top-level regional development strategy was approved – the *2050 Strategy for the Blue Pacific Continent* – in which Pacific leaders commit to invest in and strengthen partnerships and regional regulatory arrangements to ensure a well-connected region.

Source: UNCTAD, based on PIFS (2014 and 2022).

The strategy, in addition to providing a regional road map for e-commerce development, will also encourage harmonization of approaches and facilitate learning between countries. A harmonized regulatory approach on taxation of digital firms, for example, could be beneficial as cross-border e-commerce and digital trade expand. Learnings from countries with more developed digital ecosystems could also be shared with less digitally advanced countries in the region through the regional strategy's governance and implementation mechanism.

The ambitious development goals proposed by the *Pacific Regional E-commerce Strategy and Roadmap* will require a sound governance mechanism. At the core of the strategy's governance mechanism lies the Pacific E-commerce Committee, which has been established under the auspices of PIFS (see figure IV.2). Members of the Committee comprise national e-commerce focal points from Pacific Islands Forum countries. Representatives of agencies implementing measures envisaged under the strategy and funding partners of those measures will be able to attend as observers. The Committee reports to Forum Trade Ministers through the Steering Committee of the PAFTS Working Group. The *Pacific Regional E-commerce Strategy and Roadmap* recommends that subcommittees for the private sector and development partners are also established.<sup>125</sup> PIFS provides Secretariat support to the Committee with support from the PDEP.

Figure IV.2. The Pacific Regional E-commerce Strategy and Roadmap governance framework



Source: PIFS (2021).

**Table IV.3. Pacific Regional E-commerce Strategy and Roadmap: priority areas and strategic outputs**

**VISION:** A transformative Blue Pacific economy where all businesses and consumers actively engage in domestic and cross-border electronic commerce.

**IMPACT:** Transforming Pacific livelihoods, through accelerated economic growth that is inclusive and equitable.

Overarching outcomes	Policy area	Thematic outcomes	Strategic outputs
More online consumers More online businesses	PA 1: E-commerce Readiness and Strategy Formulation	E-commerce is mainstreamed in national and regional level policies	1.1 National E-commerce strategies are developed and implemented in Forum island countries, which are built on domestic consensus and inspired by the Regional E-commerce Strategy and Roadmap 1.2 Statistics on e-commerce are available to inform national and regional policymaking and the formulation of donor-funded programmes 1.3 E-commerce potential and opportunities in the Pacific are visible and recognized internationally
Connected through a faster and more inclusive network	PA 2: ICT Infrastructure and Services	Fast, reliable, affordable and inclusive internet connectivity is achieved	2.1 International connectivity is expanded and strengthened across the Pacific 2.2 Supply of general and last-mile domestic connectivity is expanded across the Pacific 2.3 Demand for better connectivity is stimulated across the Pacific
More online businesses	PA 3: Trade Logistics and Trade Facilitation	Fast, reliable, affordable and inclusive delivery of online purchases is achieved within and across borders	3.1 Trade procedures relevant to cross-border e-commerce are digitalized and harmonized across Forum island countries 3.2 Logistics systems relevant to e-commerce are strengthened and their costs to business reduced 3.3 Postal readiness for e-commerce has increased 3.4 Accessibility of e-commerce platforms has increased
More online consumers More online businesses	PA 4: Legal and Regulatory Framework	Predictable laws and regulations have encouraged businesses and consumers to trust marketplaces and engage in e-commerce	4.1 E-commerce-related laws are made or amended based on United Nations Commission on International Trade Law model laws as the best international standard, plus other best international practices 4.2 International agreements on e-commerce benefiting Forum island countries are negotiated and concluded
More online consumers More online businesses	PA 5: Electronic Payment Solutions	Digital financial services, including payment solutions for e-commerce, are widely adopted by businesses and consumers	5.1 Non-bank digital payment solutions for e-commerce are deployed across the Pacific 5.2 Business-friendly digital payment solutions spearheaded by commercial banks and MNOs are integrated in e-commerce ecosystem
More online consumers More online businesses	PA 6: E-commerce Skill Development	Better informed and prepared, and more confident populations have mastered digital innovation	6.1 The regional innovation/start-up ecosystem for e-commerce business ventures is strengthened 6.2 Digital skills are enhanced for all
More online businesses	PA 7: Access to Finance for E-commerce	Funding options for businesses seeking to start or accelerate their digital journey have been expanded and diversified	7.1 Availability of risk-sharing facilities and blended finance solutions has increased for e-commerce players (marketplace, vendors, merchants) 7.2 Alternative sources of finance for e-commerce ventures have been mainstreamed in access to finance solutions and are promoted regionally

Source: PIFS (2021).

## C. THE ROLE OF REGIONAL AND GLOBAL INITIATIVES AND PARTNERS

### 1. Lessons from other regional groupings

The Pacific E-commerce Initiative has not only taken inspiration from global initiatives, such as eTrade for all, but has also benefited from the experiences of and tools developed by other regional groupings in the field of e-commerce. Specific examples were drawn from the work of both the Association of Southeast Asian Nations (ASEAN) and the Caribbean Community (CARICOM).

ASEAN developed the Work Programme on Electronic Commerce<sup>126</sup> and the ASEAN Agreement on Electronic Commerce, which was ratified in 2019.<sup>127</sup> E-commerce developments in the 10 Member States are coordinated through the ASEAN Coordinating Committee on Electronic Commerce.<sup>128</sup>

The *Vision and Roadmap for a CARICOM Single ICT Space* (Caribbean Telecommunications Union Secretariat, 2017) is supported by an *Integrated Work Plan for the CARICOM Single ICT Space* (CARICOM Secretariat, 2017). A CARICOM Digital Agenda 2025 has also been developed.<sup>129</sup> The CARICOM Secretariat works with Member States in the design and implementation of policies, programmes and projects to accelerate development of the sector.

The regional initiatives in ASEAN and CARICOM provide valuable insights into how the Pacific E-commerce Initiative and Pacific SIDS can develop digital ecosystems with harmonized ICT policies, legislation, regulations, technical standards, best practices, networks and services. Digital agendas and agreements across both regions are underscored by functional cooperation that also reflects and fulfils the social, cultural and economic priorities of Member States. Drawing on the lessons learned and best practices from other regional groupings provides a foundation for the Pacific E-commerce Initiative and Pacific SIDS to conceptualize a regional digital ecosystem that promotes even greater cohesion and collaboration so countries can be in a better position to leverage the opportunities arising from digitalization.

### 2. E-commerce support programmes

Pacific SIDS require a significant injection of technical support, industry expertise and financial support to accelerate growth in e-commerce and the digital economy. No single development partner will suffice to meet the wide array of support needs. The past decade has seen a range of collaborative, multi-themed approaches from international partners – both development and private sector partners – adapted to the Pacific context. These partners have brought best practices and technologies from around the world to the region.

The eTrade for all initiative comprises 35 partner organizations, including technical agencies and non-governmental organizations active in the digital economy space. The initiative is a trusted information hub on development solutions and provides multiple resources related to the digital economy.<sup>130</sup> For Pacific SIDS, it offers tangible benefits in terms of access to reliable information on development solutions offered by eTrade for all partners. The coordinated approach facilitates access to technical support for projects and pilot initiatives, and effectively connects the dots between countries, partners and donors. One example is the eTrade Readiness Assessments and national e-commerce strategies where partners often support design and implementation phases. The initiative also allows Pacific SIDS to engage in the global dialogue on digitalization and is a useful channel for keeping abreast of global developments for those in more geographically isolated locations. PIFS joined eTrade for all in November 2022, becoming the thirty-fifth partner.

The Alliance for eTrade Development (eTrade Alliance)<sup>131</sup> is a global development alliance between USAID and 12 private sector partners<sup>132</sup> that supports cross-border e-commerce development for MSMEs. Membership of the alliance is mostly made up of industry leaders. This provides a competitive advantage because many are actively seeking new product testing and investment grounds. Pacific SIDS governments have placed a priority on building the digital economy and seeking investment links with larger firms. In this context, the eTrade Alliance can offer support for the introduction and scaling up of new technologies. The Alliance has five workstreams: policy and enabling environment for e-commerce; MSME skills development for e-commerce; e-commerce logistics and trade facilitation;



access to finance; and inclusive trade. In March 2022, the Alliance co-hosted a digital trade dialogue (along with PIFS and Pacific Trade Invest) to present proofs of concepts for promoting e-commerce for Pacific MSMEs.

Several donor-supported programmes are driving growth within the region's digital economy. These programmes operate at different levels and involve a range of technical areas and stakeholders. Institutions must coordinate well with each other to address the developmental needs that have been identified and avoid overlap.

UNCDF is a well-established actor in the region responsible for piloting, scaling and anchoring numerous solutions across the digital economy spectrum in Pacific SIDS. The agency is engaged in digital payments, financial inclusion, and digital entrepreneurship and literacy initiatives. It is also leading the PDEP, which leverages the comparative advantage of each partner in their contributions to poverty reduction, livelihood improvement and economic growth through e-commerce and the digital economy. The programme brings together synergies in e-commerce (UNCTAD), last-mile finance and digital inclusion (UNCDF) and programme management (UNDP).

PACER Plus is a regional trade and investment agreement intended to stimulate economic development across the Pacific. It also provides a broad framework for regional integration between Pacific SIDS plus the economies of New Zealand and Australia. Under this agreement, key outcomes of the PACER Plus Implementation Unit Strategic Plan 2025 offer an opportunity to enhance online market access and stimulate the growth of e-commerce.<sup>133</sup> In addition, implementation of the Arrangement on Labour Mobility (alongside PACER Plus) can reduce gender gaps in the labour market through more flexible working arrangements and generating new opportunities in e-commerce and online forms of work. The Agreement is implemented by the PACER Plus Implementation Unit<sup>134</sup> and hosted by the Government of Samoa.

UNCTAD has extensive experience in Customs automation and modernization, and has provided tailored approaches for the deployment of ASYCUDAWorld in smaller Customs administrations. The system is being rolled out in nine Pacific SIDS in addition to the five current ASYCUDA users. The ASYCUDA Support Mechanism for the Pacific includes comprehensive capacity-building to promote long-term sustainability and ensure that policymakers benefit from the latest innovations in information technology. It has enabled these countries to speed up Customs clearance and increase Customs revenue. It also promotes e-commerce and digital government transactions and has provided national economies with reliable data to inform policymaking and promote cross-border trade.<sup>135</sup>

The Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific aims to accelerate the implementation of digital trade facilitation measures for trade and development. Legal and technical readiness checklists were developed by the Legal and Technical Working Group of the UNESCAP Interim Intergovernmental Steering Group on Cross-border Paperless Trade Facilitation.<sup>136</sup> The checklists provide support for implementation of the substantive provisions within the framework. In the Pacific, UNESCAP has completed readiness assessments for cross-border paperless trade for Timor-Leste and Tonga, and another is under way for Tuvalu.<sup>137</sup> The readiness assessments provide countries with recommendations and action plans towards trade digitalization.

### 3. Regional coordination

Regionalism plays a particularly important role in the Pacific. Sharing and combining resources helps leverage the Pacific voice, influence and competitiveness; and overcome geographical and demographic disadvantages. Pacific Islands Forum Trade Ministers have identified a small number of high-priority issues related to trade that can be addressed by forms of regionalism under the coordination of PIFS. These priority issues include the services sector, e-commerce, connectivity and deepening markets.

The *Pacific Regional E-commerce Strategy and Roadmap* addresses the focus areas for e-commerce and identifies measures that can be implemented through collective action, as identified in *The Framework for Pacific Regionalism* (PIFS, 2014) (see section IV.B.2). The strategy seeks to address collective challenges and harmonize activities. As such, the work on e-commerce at the regional level is intended to complement and not substitute existing or planned national processes.



To maintain coherence of collective actions and for all Pacific SIDS to benefit from the assistance provided at the regional level, the regional strategy promotes similar strategy and implementation tools across the region. This approach may also help generate support from development partners who find supporting individual economies too resource-intensive but appreciate collective actions that could help generate a broader regional impact. The institutional set-up to implement the regional strategy has allowed for progress to be made in pursuing this support (see section IV.B.2).

#### 4. Continued donor support

Increased support for regional and national initiatives around e-commerce and the digital economy is encouraging. Since the inception of the Pacific E-commerce Initiative in 2017, the involvement of development partners and implementing agencies has been instrumental in shaping the strategy and road map. Traditional donors supporting economic and trade development in the region – including the Australian Government Department of Foreign Affairs and Trade, the New Zealand Ministry of Foreign Affairs and Trade, the European Union, USAID, the World Bank and ADB – all have ongoing multi-year, regional, subregional and national projects.

Over the last two decades, most support provided by development partners in the digital field has targeted ICT infrastructure, onshore broadband connectivity, fibre-optic and offshore submarine cables and, in some instances, satellite connectivity. However, preliminary results from a recent stocktaking exercise by PIFS suggest that more development assistance is now going to soft infrastructure. This may range from laws and regulations for e-commerce to supporting entrepreneurs to move online through incubation programmes, training, toolkits and support for cross-border e-commerce market access.<sup>138</sup> Out of the 48 interventions reported on by partners, 19 focused on trade logistics and trade facilitation (including cross-border), seven on skills development and seven on legal and regulatory frameworks. Nine of the reported interventions covered more than two policy areas.

This shows that donors acknowledge the importance of strong e-commerce and digital economy ecosystems for the region to take advantage of enhanced connectivity. While donor focus has been expanding to include creating local capacity for both businesses and citizens to take advantage of the power of the Internet, the COVID-19 pandemic has accelerated the need for digital readiness for businesses, consumers, citizens and governments. However, Pacific SIDS markets are currently not well served by regional or global marketplaces.<sup>139</sup> E-commerce activities still focus predominantly on the domestic market – with the exception of diaspora-driven e-commerce. Very few Pacific merchants are listed on regional and global marketplaces. In addition, fulfilment centres in Australia and the United States contain a limited number of Pacific-made goods. More support directed at Pacific exporters with the potential to sell in these marketplaces may therefore be needed.

While support for developing e-commerce ecosystems is important, more attention could be given to ensuring that consumers and traders have better options and the confidence to buy and sell online. In this context, UNCDF has launched several initiatives providing grants to existing marketplaces and vendors to expand their businesses beyond their markets and borders (see box IV.4).<sup>140</sup> In addition, initiatives such as those promoted by Pacific Trade Invest in export markets and the eTrade Alliance at the regional level can be reinforced and replicated.

Establishment of the proposed Pacific E-commerce Private Sector Subcommittee would assist PIFS in defining and updating resource needs. It would also assist in more focused targeting of development partners and agencies, and in formulating new technical assistance programmes for the region. In addition, the Pacific E-commerce Portal provides visibility of the different initiatives that are being undertaken in the region and allows for better coordination between development partners and donors.

#### Box IV.4. The Pacific Digital Economy Programme

The PDEP is a UNCDF, UNDP and UNCTAD joint programme implemented in close collaboration with key stakeholders from the public and private sectors. The programme is financially supported by the Australian Department of Foreign Affairs and Trade.

The programme has the objective of leaving no one behind in the digital era and supports the development of inclusive digital economies in the Pacific, more specifically in Fiji, Tonga, Samoa, Vanuatu, and Solomon Islands. The programme seeks to create inclusive economies by addressing specific market constraints, narrowing the digital divide, and having a positive impact on the lives of Pacific islanders. The PDEP has four workstreams: 1) enabling policy and regulatory environment; 2) open digital payments ecosystem; 3) inclusive innovation; and 4) empowered customers.

Positive results have been achieved since the inception of the PDEP in 2021. The programme has promoted cross-cutting improvements in the enabling environment by supporting the development of national and regional e-commerce strategies, and strengthened policy and legal frameworks for the digital economy. Technical assistance facilitated by UNCTAD, UNCDF and UNDP has also enabled institutional, policy and regulatory best practices to be implemented by relevant agencies. The programme also supports implementing agencies by investing in policies to respond to regional integration goals and promote equity and inclusion.

The PDEP has accelerated the environment for the start-up of digital businesses, competencies to build a digital ecosystem and financing to kick-start a digital economy. The PDEP approach to private and public sector collaboration has transformative potential to increase people's meaningful participation in the digital economy. PDEP programming in Solomon Islands spurred the development of a robust foundation for digital financial services, which is essential for financial inclusion. Similarly, a FinTech Innovation Challenge took place in Singapore to address development challenges related to digital payments.

Complementing national solutions has bolstered the sustainability of programme activities with partner countries and showcases the great potential for dynamic digital transformation. The PDEP will continue to support the improvement of the digital environment, reflecting international good practice and thus advancing the interoperability of systems and simplification of services.

*Source:* UNCTAD, based on UNCDF, UNDP and UNCTAD (2022a and 2022b).

## 5. The role of the private sector

Private sector investment is crucial in advancing the digital transformation of economies and societies. For Pacific SIDS, the numerous, multidimensional investment needs include:

- Financial infrastructure, electricity, transportation logistics (including reverse logistics)
- ICT-enabling infrastructure, including telecommunications and data centres
- Multinational enterprises seeking to invest in productive sectors where digitalization is occurring
- Multinational enterprises with a smaller footprint seeking to penetrate virgin markets, such as fintech firms
- Companies and organizations offering skills development solutions.

Investment needs, prioritization, promotion and aftercare need to be carefully identified and expanded on within national investment policy and promotion frameworks (UNCTAD, 2015b). UNCTAD notes that less than 25 per cent of digital development strategies contain relevant details on investment requirements for infrastructure, and less than 5 per cent on investment needs beyond infrastructure, including for the development of digital industries (UNCTAD, 2017b). Priority should be given to joint ventures and investments that promote links with local suppliers, create knowledge and foster technical expertise spillover.

Pacific SIDS can also consider establishing special economic zones where investors can have access to good supporting infrastructure and several shared services. Investors in these zones are afforded



protection from some of the challenging infrastructural issues that national SMEs face. This can be justified if investors forge meaningful links that benefit national suppliers.

Opportunities that provide entry points for investors to access the entire region easily improve their business scope. A good example is the regional sandbox (and accompanying guidelines) developed by the Pacific Islands Regional Initiative and adopted by eight Pacific SIDS (Alliance for Financial Inclusion and Pacific Islands Regional Initiative, 2020). The sandbox provides a unified and coordinated multi-country regulatory environment that effectively creates a single market that fintech firms, including investors, can access.

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Strengthening the enabling environment for e-commerce and the digital economy is a complex endeavour because the building blocks of the digital economy are diverse and cross-cutting in nature. Although there are opportunities to build on frameworks, strategies and solutions that are locally driven, several constraints hamper the design and implementation of effective approaches. Understanding the enablers and constraints to building inclusive digital economies in the region provides a starting point to develop relevant approaches.

Throughout the Pacific, countries are in the process of developing their own digital visions and starting to build enabling environments for e-commerce and the digital economy. This requires a broad road map that pursues a coordinated and harmonized approach with various stakeholders, both at the national and regional level. Although significant progress has been made, there is still considerable scope in the Pacific to expand regional initiatives, improve connectivity and broaden e-commerce opportunities. Developing synergies between initiatives at the regional and national levels and strengthening public–private collaboration can help develop common approaches and strengthen the business and policy environment.

In the transition to a digital economy, Pacific SIDS will encounter both development opportunities and challenges. It is critical to take a holistic and balanced approach that ensures that all Pacific islanders benefit from the digitalization of economies. Chapter V provides perspectives and recommendations on some key considerations.

