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Transforming Transactions: Does Pakistan's e-Commerce Policy Deliver?

Anum Malkani

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TABADLAB

Bismillah irr Rahman irr Rahim

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Anum Malkani
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Available from:
Tabadlab
Mezzanine Floor, Beverly Centre, Blue Area, Islamabad, Pakistan, 44000.

Tabadlab Private Limited is a for-profit think tank based out of Pakistan.
Tel: +92 51 2726668
info@tabadlab.com

Abbreviations

4IR	Fourth Industrial Revolution
ADB	Asian Development Bank
BISP	Benazir Income Support Programme
CGAP	Consultative Group to Assist the Poor
CoD	Cash on Delivery
FBR	Federal Bureau of Revenue
FDI	Foreign Direct Investment
G2P	Government to Person
ICT	Information & Communication Technology
IOT	Internet of Things
IT	Information Technology
MoC	Ministry of Commerce
MoITT	Ministry of Information Technology & Telecom
MoST	Ministry of Science & Technology
NITB	National Information Technology Board
OECD	Organization for Economic Cooperation and Development
P2G	Person to Government
P2P	Person to Person
PoS	Point of sale
PTA	Pakistan Telecommunications Authority
R&D	Research & Development
SBP	State Bank of Pakistan
SME	Small & Medium Enterprise
SMEDA	Small and Medium Enterprises Development Authority
TDAP	Trade Development Authority of Pakistan
UNCTAD	United Nations Conference on Trade and Development
WEF	World Economic Forum
WTO	World Trade Organization

Abstract

In 2020, the State Bank of Pakistan forecasts total e-commerce activity in Pakistan to have more than tripled since 2016-17. The growth of the Pakistani e-commerce sector has largely been in spite of government policy action (or lack thereof), not because of it. Despite e-commerce being recognized as an important tool to boost small and medium sized enterprises (SMEs), employment and exports, the policy response has been slow.

In October 2019, the Ministry of Commerce released an e-commerce policy, five years after beginning the process of its formulation. The existing growth, growing demand, and increased interest from the political leadership were instrumental in catalyzing the publication of this policy.

The Ministry of Commerce's e-commerce policy has been formulated at the same time as the emergence of a much wider policy interest in Pakistan's digital opportunity, manifest in the Prime Minister's Digital Pakistan initiative, the State Bank of Pakistan's financial inclusion efforts and its National Payments Systems Strategy.

This paper examines the e-commerce policy from the perspective of the wider market context, the overall technology ecosystem, and the public policy architecture that the policy has been formulated for.

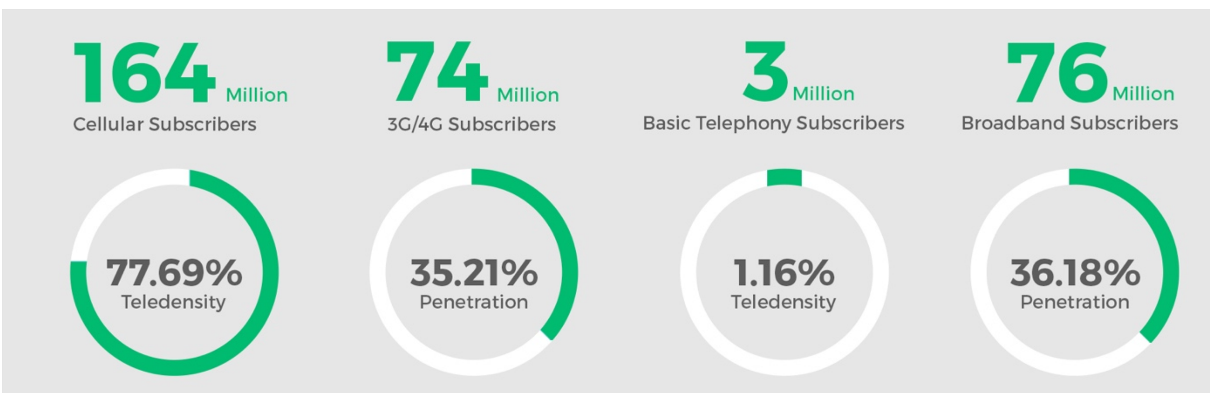
Contents

1 The Digital Opportunity

The Fourth Industrial Revolution (4IR)[1] has disrupted nearly every sector of the economy, from financial services to retail, from construction to fashion, from design to medicine. The World Economic Forum (WEF) estimates that by 2022 over 60 percent of global GDP will be digitized. This enormous transformation begs an existential question: What will be the implications of this digital divide for half of this planet's population that currently does not participate in the digital economy?

In 2017, only 16 percent of Pakistanis were using the internet, compared to 30 percent for the wider South Asia region and 43 percent for the low and middle-income countries' cohort[2]. In 2018, there were 73 mobile cellular subscriptions per 100 people, compared to 87 for South Asia and 101 for the low and middle-income countries' cohort[3]. Pakistan Telecommunications Authority (PTA) data shows that, as of October 2019, while teledensity in Pakistan is 77 percent, the 3G/4G penetration is only 35 percent—this means that the pipeline to get onto the digital highway faces material constraints. Overall, the steep progress for digital access in Pakistan of the early 2000s has evolved into very slow growth, with little major breakthroughs in the last decade[4].

Figure 1: Pakistan Telecom Indicators 2019

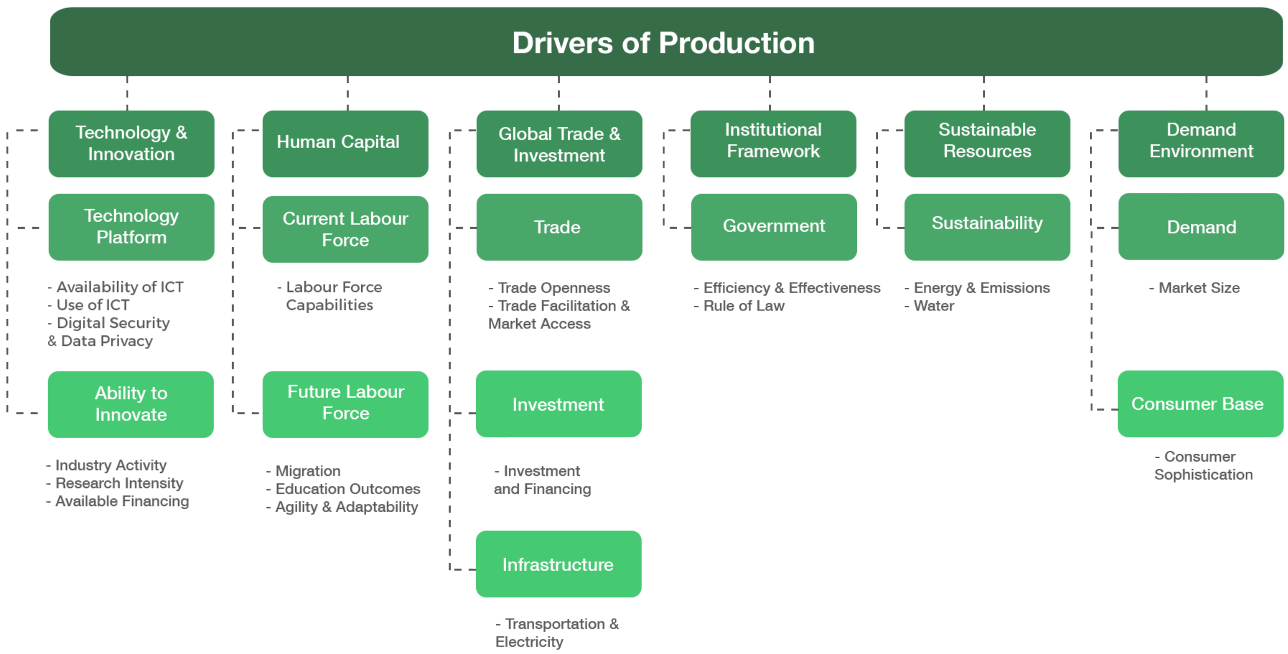


Source: Pakistan Telecommunication Authority (PTA), October 2019

As the world digitizes at breakneck speed, the statistics suggest that Pakistan may be left behind unless proactive policies are implemented to increase digital access and catalyze digital transformation of the economy. The World Economic Forum's Readiness for the Future of Production Framework identifies key enablers, shown in the diagram below, that position a country to capitalize on emerging technologies and opportunities in the future of production. In 2018, Pakistan ranked 93rd of 100 countries, falling in the nascent countries' category, with poor performance across all indicators.[5]

An effective and coherent digital transformation that enables access at affordable prices, promotes digital literacy and skills, and ensures the relevance and value proposition of digital content to local populations is essential to Pakistan's future. It is also vital that the regulatory landscape encourages innovation and growth whilst safeguarding consumer interests and the greater public good.

Figure 2: WEF Driver of Production



Source: World Economic Forum – Readiness for the Future of Production Report 2018

1.1 Technology Policy in Pakistan

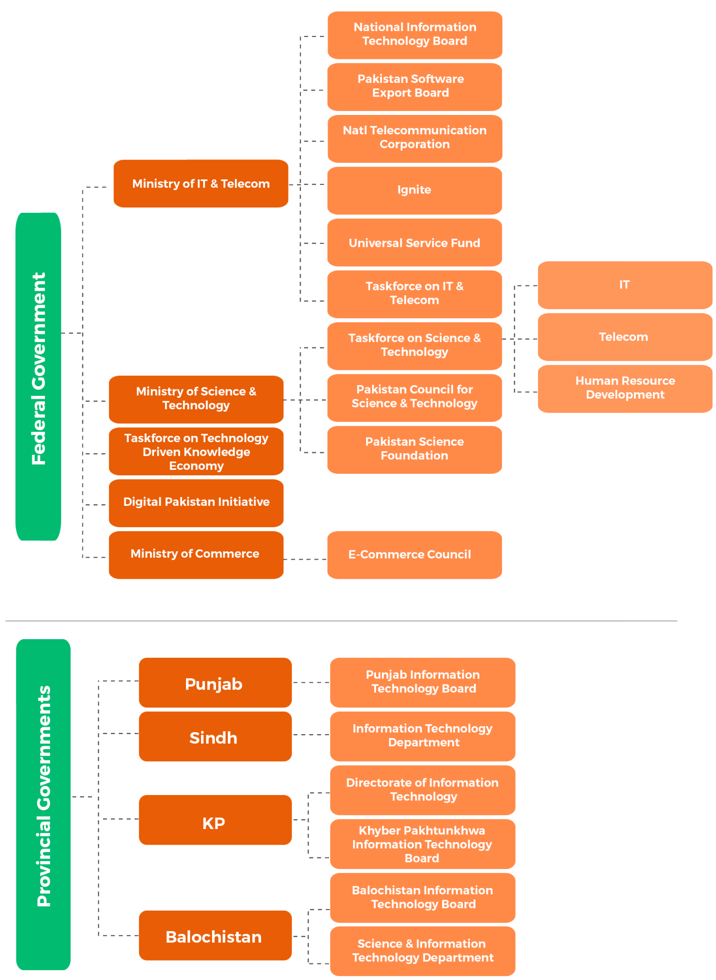
The turn of the century saw increasing interest in digitization and an effort toward understanding of the importance of technology adoption. The driving focus of the effort was to utilize the growing importance of information technology (IT) to help grow the economy. The National IT Policy and Action Plan was launched in 2000 by the Ministry of Science and Technology (later renamed the Ministry of Information Technology & Telecommunications), with the aim of developing the IT sector in Pakistan. It emphasized the role of the government in establishing a policy and regulatory environment that would help drive economic growth through IT. The plan was ambitious and wide-ranging, covering an array of essential prerequisites to foster an enabling environment for IT growth, including skills development, software exports, and e-governance. Unfortunately, the policy was largely left unimplemented. Two decades on, digital inclusion, infrastructure access, device ownership, skills development, export growth and regulation, all remain below expectations.

In the interim, public policy in Pakistan continued to attempt to address the challenges and opportunities of the digital age, through policy initiatives such as the Mobile Cellular

Policy 2004, Broadband Policy 2004, and the Telecom Policy of 2015. This proliferation of policy initiatives has resulted in growing functional mandates with a concomitant expansion of organizational structures to tackle each new initiative. The original Ministry of Science and Technology (MoST) became the Ministry of IT and Telecom (MoITT), but the MoST has since been reconstituted. There is a National IT Board (NITB), with seemingly a supra-organizational mandate. Pakistan also has a Taskforce on IT and Telecom, a Taskforce on Innovation, a Taskforce on Science and Technology, and a Taskforce on Technology Driven Knowledge Economy, as well as numerous committees, councils and working groups.

Provinces have also been active in the pursuit of digital readiness which each province having its own IT Board, IT Department or both, with varied capacities and roles. Provincial IT Boards often operate independently of provincial IT departments. Punjab and KP have also introduced their own Digital policies to guide efforts within the provinces.

Figure 3: Public Sector Actors Landscape for IT / Digital



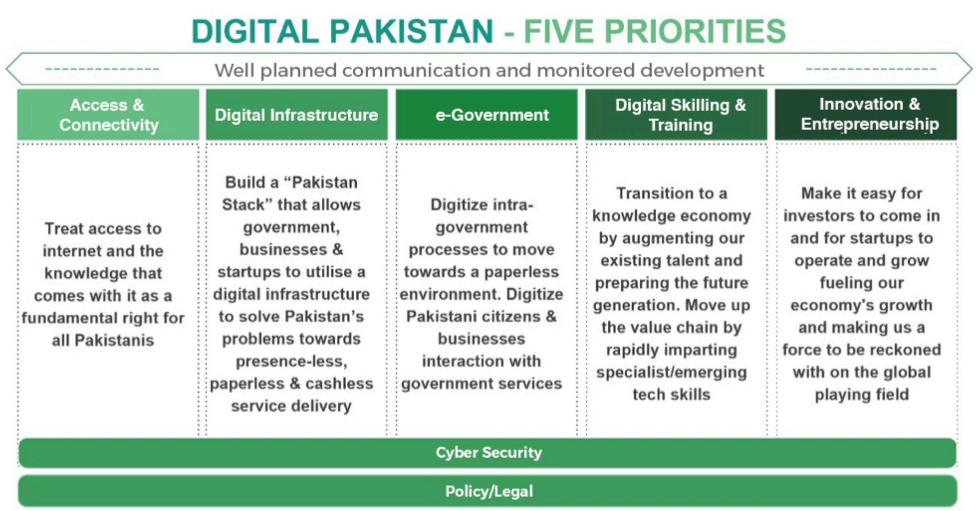
Source: Author's Mapping

The creation of organizational silos has resulted in fragmented policy interventions. Policies on Digital, Telecom, Broadband, IT, National Payments Systems Strategy, Ehsas and Kamyab Jawan programmes, the Strategic Trade Policy Framework and now the e-Commerce Policy, are just a few examples. There are almost no inter-ministerial linkages on vital issues that are central to a coherent public policy posture in the digital age, or the fourth industrial revolution, including climate change, skills, transportation, gender, mental health, and rights and freedoms. Despite much activity, paperwork and press releases, there is still ambiguity on the current status and future direction of key issues such as data protection, digitization of the economy, especially digital financial transactions, and foreign direct investment (FDI) in in e-commerce.

More clarity is needed on the roles and responsibilities of organizations in the ecosystem, which would ideally encourage consolidation and do away with redundant task forces, committees and working groups. Digital inclusion and digital transformation of the economy are complex and multi-dimensional policy issues, requiring coherent and holistic policy action. Inter-agency alignment and exhaustive stakeholder engagement are especially important for information and communication technology (ICT) policies which can only be effectively designed and implemented through extensive cross-functional inputs and support. Effective policies also require the involvement of the private sector and participation of citizens, especially where government officials lack understanding of new technologies and are reluctant to pursue digitization projects.

The current government seems to have some sense of the dispersed and disorganized nature of past efforts and structures. This has been channeled in the enthusiasm for digital transformation with the launch of a new “Digital Pakistan” initiative. Initial indications of working towards policy coherence, as illustrated in a framework published by the Digital Pakistan initiative, seems a key area of interest for the government.

Figure 4: Digital Pakistan – Five Priorities

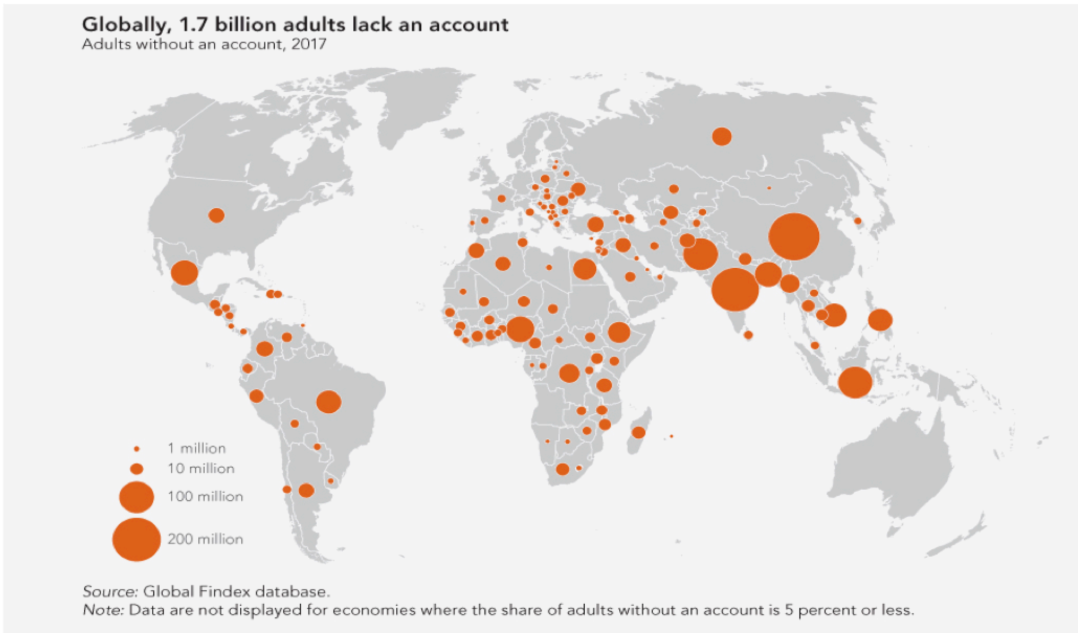


Source: Digital Pakistan Initiative

1.2 Digital Financial Services & Financial Inclusion

Despite evidence of an array of policy interventions designed to expand access, Pakistan has one of the world's largest unbanked populations at an estimated 100 million adults, mostly women[6].

Figure 5: Unbanked Population of the World



Source: The Global Findex Database https://globalfindex.worldbank.org/basic-page-overview

Government patronage of the microfinance sector in the late 1900s and early 2000s—through its support for initiatives like the Rural Support Programmes, the Pakistan Poverty Alleviation Fund, and Kushali Bank, as well as the branchless banking regulations of 2008 had put Pakistan ahead of its time in paving the way for inclusive finance. The National Financial Inclusion Strategy, launched by the State Bank of Pakistan (SBP) in 2015, formally highlighted financial inclusion as a priority. An ostensibly favourable policy and regulatory ecosystem have failed to drive improvements in Pakistan's performance in financial inclusion. In 2017, the World Bank's Global Findex Report found that only 21 percent of Pakistanis (over the age of 15 years) had an account, compared with 70 percent for South Asia and 58 percent for the lower middle-income countries group. The challenges to improving these numbers as cited by respondents are not having sufficient funds to maintain an account, high costs of financial services, outreach of financial institutions, social norms of having a shared account in the family, mistrust of financial institutions, and complex compliance requirements and documentation.

The proliferation of digital technologies in the financial sector is revealing new ways to close the financial inclusion gaps. The fintech sector in Pakistan is fast growing and the State Bank of Pakistan's National Payment Systems Strategy 2019 is an indication that there is public sector cognizance of the centrality of financial inclusion to the 4IR and notions of digital transformation, particularly, of the economy. Mobile money providers are attempting to fill this gap and have shown strong growth to increase mobile banking accounts from 15 million in 2015 to 38.5 million in 2018[7]. The key challenge associated with this growth is that more than 53 percent of these accounts are inactive owing to a weak digital payment ecosystem[8]. While the opportunity for mobile accounts to support financial inclusion is huge given more than 160 million biometric verified cellular subscriptions, it will be critical to ensure high activity and utilization of these account concurrently.

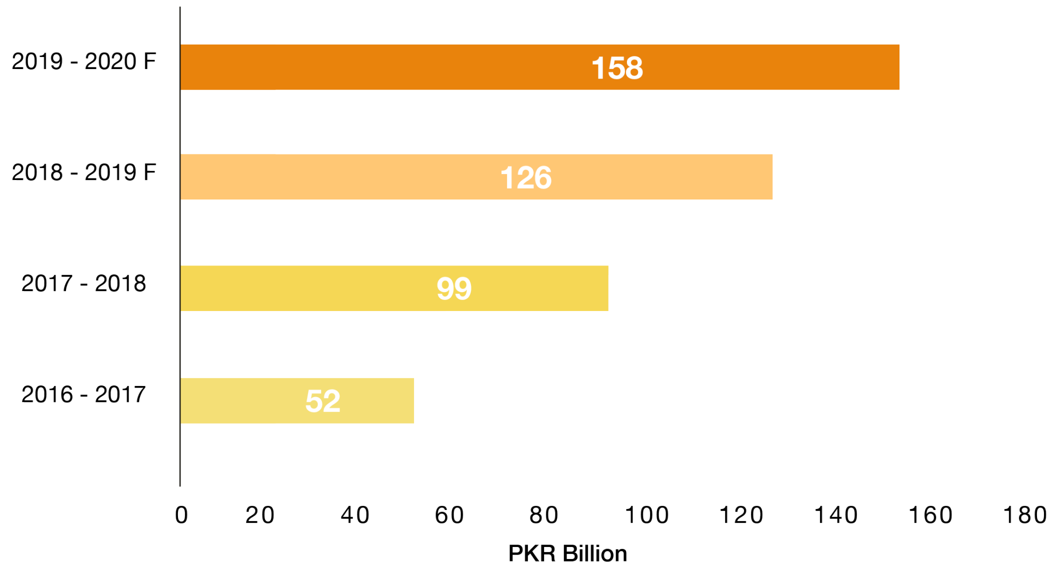
1.3 State of e-commerce in Pakistan

The internet has given rise to new business models across sectors and industries. E-commerce is a prime example of how new technologies are disrupting traditional ways of doing business and rapidly transforming the economy. According to World Trade Organization (WTO), "electronic commerce, or e-commerce, is defined as the "production, distribution, marketing, sale or delivery of goods and services by electronic means". An e-commerce transaction can be between enterprises, households, individuals, governments and other public or private organizations"[9]. With the advent of the digital economy, geography is no longer a barrier: producers, consumers and governments can be connected to other producers, consumers and governments anywhere in the world. By reducing transaction costs and geographical constraints, digitization not only opens up access to new markets but also lowers barriers for new players to enter the market.

The e-commerce opportunity in Pakistan received global attention in 2018. The State Bank of Pakistan (SBP) Annual Report for 2017-18 showed that the e-commerce market in Pakistan doubled from FY17 (PKR 20.7 billion) to FY18 (PKR 40.1 billion) for all e-commerce transactions made via digital payments. Including Cash on Delivery (CoD) transactions, the figure was PKR 51.8 billion for FY17 and PKR 99.3 billion for FY18. SBP forecasted total e-commerce activity to be at PKR 126 billion for FY19 and will reach PKR 158 billion in FY20.

While there has been significant growth in electronic commercial activity, it is important to note that less than half of this was via digital payments. The SBP Annual Report for 2017-18 estimated 80 percent to 90 percent of the volume and 60 percent of the total value of e-commerce in Pakistan was CoD. According to State Bank of Pakistan (SBP), e-banking transactions grew by 24% in volume between FY 2018 and 2019[10]. Despite the growing ecosystem of digital transactions in Pakistan, it is cash, and not digital payments, that remain the preferred mode of payment.

Chart 1: Total e-commerce activity in Pakistan



Source: State Bank of Pakistan 2017-18

Consumers prefer CoD primarily because they lack trust not only in e-commerce but also in the institutional protections afforded to them[11]. Fear of low-quality products, transaction frauds, complex and costly return/accountability processes makes customers weary of paying in advance for e-commerce goods and services. Financial inclusion and know-how of using digital financial services are also challenges to reducing CoD, with the lack of low-cost payments infrastructure and low financial literacy. Low penetration of credit cards, 1.6 million across Pakistan, and restrictions on use of debit cards (24.8 million across Pakistan) for online transactions further increases preference for CoD. CoD also allows e-commerce merchants to acquire customers and gain their trust, but it has several downsides. Merchants are vulnerable to order cancellations and unpaid purchases and may have to pay higher courier fees as couriers must collect cash and sometimes have to make several delivery attempts to reach the customer.

The market must also be prepared for the entry of international players into Pakistani e-commerce. On the one hand, Alibaba's entry may allow Daraz to benefit from the former's expertise and access to international markets, but it may also flood the Pakistani market with Chinese products which could have a detrimental impact on local SMEs and manufacturing, as well as on the trade deficit.

Overall, increasing internet penetration, growth of the fintech industry and expansion of digital wallets, the development of the national payment gateway by the SBP, the interest of international e-commerce players, along with the increasing focus of policymakers on digitization and digital inclusion, all contribute to a positive outlook for the future of e-commerce in Pakistan. So how should this journey be undertaken, and with what kind of a roadmap?

2 The Public Policy Response

2.1 Background and Genesis

The Ministry of IT and Telecommunications (MoITT) originally began working on an e-commerce policy back in 2014. This was partly a result of the 3G/4G license award—a long delayed and unnecessarily controversial process[12]. However once 3G/4G became available, the improved countrywide digital access opened the doors to a new world of the potential for innovative digital solutions across a diverse array of sectors, including health, education, transport, finance, tourism and retail to name a few.

In 2016, the continued absence of an e-commerce policy lead to a more prominent role for the Ministry of Commerce (MoC), and in tandem with the State Bank of Pakistan, a number of engagements were initiated to agree on a formal e-commerce policy for Pakistan. The MoC formed an "e-commerce Policy Board" and notified five working groups (taxation, payment infrastructure, regulatory framework, logistics, and e-commerce, WTO & development) to work on various aspects of the policy.

The MoC began focusing on e-commerce as a way to boost exports as well as promote small and medium-sized enterprises (SMEs), entrepreneurship and employment in Pakistan. The multi-dimensional nature of e-commerce however, means that several ministries and departments must be engaged, and their interests be aligned for ownership of the agenda. This often proves to be a challenge. For example, while the MoC and the private sector may be in favor of tax breaks to encourage e-commerce growth, the FBR and respective provincial revenue authorities are geared to increase tax collection. Moderating and managing such debates is essential to the development of a robust public policy response to the digital opportunity at large, and the potential for e-commerce in Pakistan, specifically.

2.2 E-Commerce Policy Developments

Pakistan has published three discrete policy documents to support e-commerce and Pakistan's ability to play catch-up with 4IR. The Digital Pakistan Policy of 2018, the Digital Payment and National Payments Strategy 2019 and the E-Commerce Policy Framework 2019.

2.2.1 May 2018: MoITT's Digital Pakistan Policy

The Digital Pakistan Policy launched by the MoITT in May 2018 highlighted e-commerce as an area of focus and recognized the role of digital payments in enabling its growth. The policy, although wide in its scope, lacked depth in understanding and addressing the gaps, identifying and engaging all the relevant stakeholders, and defining specific and actionable steps towards reaching its stated policy goals.

2.2.2 November 2019: SBP's Digital Payments and National Payments Strategy

The digitization of the financial sector must go hand in hand with the digitization of other sectors of the economy such as e-commerce, as cash-dominance is a key obstacle to scalability. The development of a robust and interoperable payments infrastructure which enables low-cost digital transactions across providers and geography is increasingly seen as a crucial milestone towards financial inclusion. The push on digital financial services has helped create a number of use-cases for conversion of users from cash to digital. These include a bouquet of transactions covering:

i. Government-to-Person (G2P) payments like BISP stipends and pensions

ii. Person-to-Government (P2G) transactions like utility bills, fees and taxes, and

iii. Person-2-Person/Business (P2P/B) like retail payments directly through wallets, point-of-sale (POS) payments through QR codes, carrier billing for digital services and digital lending.

On November 1st 2019, the SBP launched its National Payment Systems Strategy, an important step towards digitization of payments and financial inclusion. In addition to identifying the gaps in Pakistan's payments ecosystem, the document outlines the steps the SBP will be taking towards developing a more effective payments infrastructure and identifies key use cases that will fuel digitization of payments in Pakistan. Following the payments strategy, the SBP has also introduced Regulations for Digital On-boarding of Merchants to improve acceptance of digital payments by simplifying documentation[13] and reducing merchant discount rates[14].

2.2.3 2019: MoC's e-Commerce Policy Framework & Policy

The development of the e-commerce policy was five years in the making. The challenges of inter-agency coordination and diverse stakeholder alignment, as well as the turbulent final years of the previous government, resulted in significant delays. After multiple drafts and press releases, the final policy document was launched in October 2019. Below, we assess the document in terms of its fit for purpose, its timeliness, whether it is appropriately holistic, and how robust it is.

2.3 The Rationale for e-Commerce Policy Coherence

According to the Ministry of Commerce (MoC), 98 percent of businesses in Pakistan are SMEs. They employ 78 percent of the non-agricultural workforce and constitute 30 percent of Pakistan's GDP. Given the importance of this segment to Pakistan's economy, there is great need for providing support to SMEs and enabling their growth. SMEs can greatly benefit from digitization, but they are also less able to invest in and adopt new technologies.

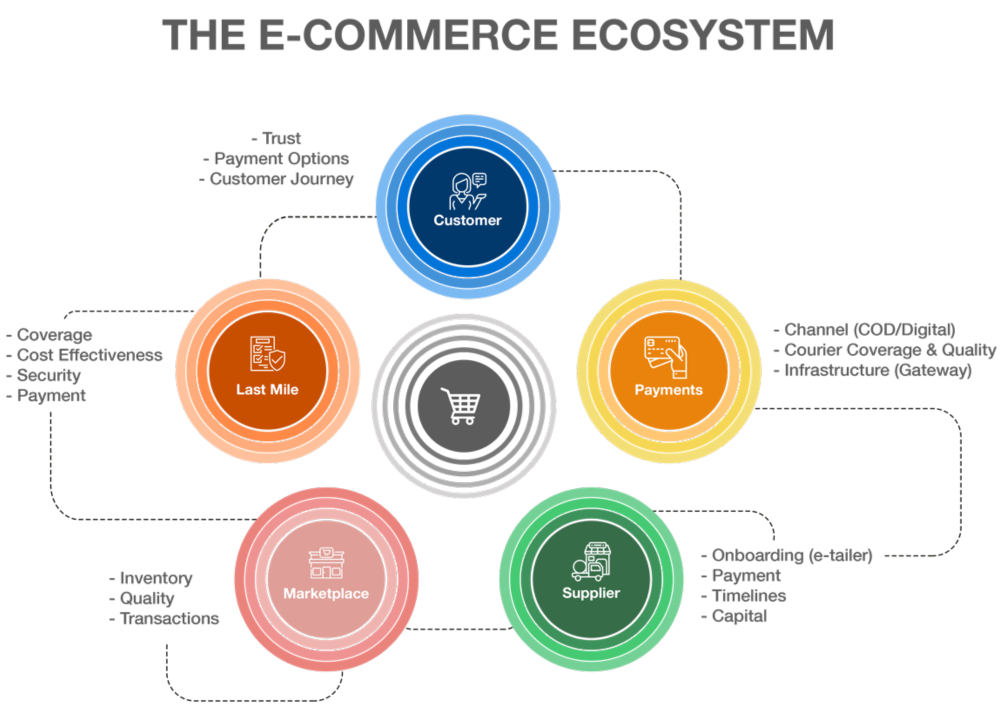
As new technologies eliminate spatial barriers and provide access to new markets, they can play a critical role in promoting exports. E-commerce can enable SMEs to extend their reach in ways that were previously only possible for large firms. Bringing Pakistan's 3.2 million SMEs online could have a major impact on GDP, exports and employment[15].

Digitizing more and more services and sectors of the economy also presents an opportunity to provide access to communities that have traditionally been excluded. Fintech is an exciting prospect for financial inclusion as it provides access in areas where brick and mortar bank branches have not been commercially viable. Similarly, e-commerce presents an opportunity to improve the lives of people living in far flung areas by using the internet to provide access to products and services that were previously inaccessible.

Without proactive policies to take advantage of this, e-commerce may result in the opposite: widening the gap between the rich and the poor, the rural and the urban, the digitally included and the digitally excluded. The United Nations Conference on Trade and Development (UNCTAD) B2C E-Commerce Index 2018 ranked Pakistan 117 out of 151 economies[16]. Pakistan does not feature in the subset of Top 10 developing and transition economies in the index, while India and Bangladesh do. Pakistan's low performance in e-commerce is attributed to low digital and financial inclusion, and poor ICT and logistics infrastructure.

While there has been growth of the sector during the last couple of decades, e-commerce in Pakistan is still very nascent and requires serious, sophisticated and coherent policy intervention. In order to reap the benefits of a well-functioning e-commerce sector, it is critical that the fundamentals of the ecosystem are developed in tandem and any policy efforts should aim to enable the nodes to build on existing developments, address bottlenecks and leverage market opportunities. The framework below aims to provide a simplistic view of how e-commerce can be approached.

Figure 6: e-Commerce Framework



Source: Adapted from an interview with Nadeem Hussain of Planet N

3 Assessing the e-Commerce Policy

To date, Pakistan's response to the digital opportunity has been mixed, but its response to the e-commerce opportunity has been particularly slow and unimaginative. The growth of the Pakistani e-commerce sector has largely been in spite of government policy action (or lack thereof), not because of it. Once e-commerce was recognized as an important tool to boost small and medium sized enterprises (SMEs), employment and exports, the subsequent policy response was highly delayed. Organizational, individual and institutional differences were allowed to slow down the system, and struggled to prioritize the industry and bring all stakeholders together thereby failing to prioritize the potential of the Fourth Industrial Revolution (4IR). For this reason, the very publication of an e-commerce policy by the Ministry of Commerce MoC) in October 2019 represents a major milestone.

3.1 Examining the MoC's e-Commerce policy, October 2019

This document identifies the areas for intervention to enable e-commerce growth and the relevant stakeholders needed to achieve its policy objectives. The MoC describes the goals of its e-commerce policy to develop "*e-commerce in Pakistan by creating an enabling environment for the growth of existing e-commerce enterprises, allowing and encouraging new entrants, facilitating local and cross-border trade (especially exports) by reducing the cost of doing business, enhancing competitiveness and contributing to the overall digital economy*".

The e-commerce policy identifies the following nine pivotal areas to progress for achieving its goals:

1. E-commerce regulatory and facilitation environment
2. Financial inclusion and digitization through payment infrastructure development
3. SMEs and Youth Empowerment through e-commerce
4. Consumer protection in digital environment
5. Taxation on e-commerce activities
6. ICT sector and telecom services in Pakistan
7. Logistics for e-commerce platforms
8. Data protection and Investment
9. Global connectivity and Multilateral Negotiations

The analysis below examines each of the nine pillars of the policy.

3.1.1 E-commerce Regulatory and Facilitation Environment

Given the cross-cutting nature of e-commerce, it is a positive development that the e-commerce policy mandates the creation of a National E-Commerce Council with public sector representatives from various departments and ministries as well as private sector representatives. However, that is the only specific and measurable action item. While providing an overview of the pertinent legislation (e-transaction law, cybercrime laws and data protection laws, etc.), the policy does not provide any detail on how the existing laws, which are now quite dated, will be amended to address evolving e-commerce needs.

With regards to export promotion, the policy makes mention of the implementation of the Trade Facilitation Agreement and the National Single Window, but these are not new developments triggered by the e-commerce policy deliberations. Similarly, with regards to the important issue of re-export, it states the Customs Act (1969), Sales Tax Act (1990), Income Tax Ordinance (2001) and other related regulations will be amended to allow re-export, but does not explain what specific amendments will be made and when these will be effected.

3.1.2 Financial Inclusion and Digitization through Payments Infrastructure

The policy recognizes the need for promoting digital payments and reducing Cash on Delivery (CoD) transactions. However, it does not present an effective strategy to do so. It sets ambitious targets without an understanding of the barriers that retailers and consumers face such as access to financial institutions and products, cost of transactions, trust in digital payments, technical know-how and tax implications.

In the absence of policy measures that seek to address these barriers, the enforcement of maximum CoD transaction amounts will be futile and may even stunt e-commerce growth. Consumers who are unable or unwilling to make digital payments will be excluded, while e-commerce savvy consumers can easily dodge the requirements by splitting purchases to remain under the CoD threshold. Women are less likely to be financially included in Pakistan, which means imposing CoD limits may disproportionately exclude women entrepreneurs as well as women consumers. In Bangladesh, Consultative Group to Assist the Poor (CGAP) found that women often run informal businesses on Facebook or WhatsApp and, due to cultural norms, may face greater challenges in getting their businesses registered[17]. Since they require little upfront investment, informal businesses are also easier for women to sustain as they allow them the flexibility to work their own hours.

The topic of an international payment gateway is crucial for the promotion of exports through e-commerce. Unfortunately, the policy does not make much progress, simply stating that efforts will be made to invite international payment gateways to Pakistan. Given the failure of Paypal to operate in Pakistan, the policy should have done more to understand and address the reasons behind the reluctance of international payments providers to enter the market.

3.1.3 SMEs and Youth Empowerment

The policy recognizes e-commerce as a means of expanding market access for SMEs, local artisans and freelancers, and identifies the key issues in this space. While touching on the key needs of SMEs, such as training, access to finance, e-commerce business facilitation hub and local language content, the policy does not explain how these initiatives will be funded and executed. Although the Small and Medium

Enterprises Development Authority (SMEDA) is expected to play a central role in some of these initiatives, it is not clear if it has the capacity to do so.

3.1.4 Consumer Protection

Lack of trust, fear of fraud and inability of consumers to resolve transactional issues is a big obstacle to e-commerce growth in Pakistan as well as to digital transactions. This is not limited to local consumers. The trust of foreign consumers in Pakistani products and in the regulatory framework is also key to export promotion through e-commerce.

The policy makes specific but ambitious recommendations for effective consumer protection such as, amendment of laws to cover e-commerce transactions, mandatory customer support provision by e-commerce merchants, training of judicial officers, and establishment of consumer courts and e-courts. A code of conduct for e-commerce merchants is also provided.

3.1.5 Taxation Structure

The policy touches upon the contentious issue of taxation of e-commerce but, unfortunately, provides no indication of which direction the MoC and the tax authorities plan to go in. The policy states the obvious conflict between providing tax breaks to enable e-commerce growth versus protecting the country's revenue base, ending with an assertion that it is "quite a controversial issue to deal with." This is a surprising statement to include in an official, formal policy formulation as most areas of public policy are potentially controversial. Public officials are responsible for processing, analyzing and resolving the tensions, conflicts and "controversies" innate to the drafting, formulation and execution of public policy. The other recommendations included are generic and do not tackle the core issues of taxation or provide clarity on how the desired goals will be achieved to support growth of e-commerce.

3.1.6 ICT Infrastructure and Telecom Services

Digital inclusion is a key barrier to the development of e-commerce in Pakistan and, generally, to the digitization of the economy and society at large. Better infrastructure for connectivity, increased access to affordable devices, higher levels of digital literacy and local content, social and cultural norms (in case of women) will be critical inputs to shaping an inclusive digital economy and society. The e-commerce policy is relatively silent on a deeper analysis or strategy on how these important barriers can be tackled.

The policy does not explain how initiatives meant to increase the quantity and quality of research and development (R&D), or to enhance the provision of devices to entrepreneurs or to increase the availability of ICT equipment and services will be funded. Another area missing from the policy is the issue of e-commerce marketplaces and websites using imported IT solutions such as Magento. It is unclear how the the MoC will aspire to support home-grown IT solutions for e-commerce, both for domestic use and for export. The policy also lacks a discussion on more reliable and affordable local cloud services and/or allowance to use foreign services.

3.1.7 Logistics

In 2018, the World Bank Logistics Performance Index ranked Pakistan 122 out of 160 countries in logistics, with poor performance across all indicators—customs, infrastructure, tracing and tracking, timeliness, international shipments, and competence. Given the crucial role of logistics in e-commerce, the policy pays very little attention to the gaps in logistics services in Pakistan and the steps that must be taken to improve logistics to facilitate the growth in domestic as well as cross-border e-commerce. A deeper exploration of the logistics space should have confronted issues such as:

- the inefficiencies and delivery gaps in peri-urban and rural areas (for example, an understanding of the issues a woman artisan in a peri-urban or rural area must confront - price, accessibility, awareness, skills);
- the affordability, traceability, reliability of logistics services in Pakistan (for example, the availability of call centers and customer service, procedures for product returns);
- the potential and pitfalls of leveraging sharing economy platforms such as Careem and Uber, and local last-mile delivery networks like Cheetay and Bykea for logistics solutions; and
- the prohibitive costs of cross-border shipments, what specific steps can be taken to make international deliveries more cost-effective. For example, will Pakistan Post negotiate lower costs with international logistics companies, or will bilateral treaties (such as the one between the United States Postal Service and China Post which greatly facilitated the growth of Chinese e-commerce) be sought?

3.1.8 Data Protection and Investment

Data protection is a requirement not only to safeguard domestic consumers, but also to enable Pakistan to participate in global trade. The policy states that Ministry of Information Technology and Telecommunications (MoITT) is in the process of formulating Pakistan's Cloud Policy but does not discuss specific areas that must be considered in relation to e-Commerce. It also states that the tabled Data Protection Act will be enacted without insights into the adequacy of the proposed legislation to provide adequate cover for promotion of e-commerce. A discussion on existing issues with data in terms of the degree of privacy and protection afforded to citizens' data, potential value of open banking, and other data regimes is missing. Greater flexibility and agility to e-commerce actors from the perspective of developers, retailers, consumers and consumers of business intelligence and analysis, can be afforded through a secure and open data exchange.

3.1.9 Global Connectivity and Multilateral Negotiations

The policy states that the Trade Development Authority of Pakistan (TDAP) will be transformed into a digitally savvy and services-oriented organization with capabilities for digital marketing and e-commerce promotion. However, the digital transformation of government entities is a challenge in Pakistan, where public sector organizations lack the funds, will and skills to digitize. The policy does not confront these challenges or provide a credible roadmap for the digitization of TDAP and the specific roles that will enriched for it to become an effective gateway for e-commerce. The policy also asserts that there must be "engagement at the multilateral forums" but does not detail an exhaustive list of forums, nor does it outline a tailored approach for the various engagements envisaged, for example - trade corridor initiatives.

3.2 What the e-commerce Policy Does Well

The policy is a positive first step towards highlighting the e-commerce vertical as a means of economic development in Pakistan. The MoC has succeeded in identifying the key areas for intervention and in identifying and bringing together the key stakeholders who must be involved and one can hope that the proposed e-commerce council will continue in this trajectory. The policy is also holistic in its approach, covering diverse but pertinent areas including digital payments systems, logistics infrastructure, taxation regimes, and skills training.

3.3 Where the e-Commerce Policy Falls Short

Unfortunately, given that the policy response to the e-commerce opportunity in Pakistan has been severely delayed, the document falls short on expectations of a clear and robust roadmap with concrete, measurable and timely actions, at this late stage. Although wide in its scope, the depth of the document is insufficient given the expanse of opportunity Pakistan has on the e-commerce front. The e-commerce policy contains a number of useful general recommendations, but it is rather limited in actionable, and more importantly, measurable metrics. The policy, in general, lacks a framework for tracking and evaluating completion of recommended actions, and their contribution to the wider purpose-level impact that the government seeks through e-commerce.

For a broad framework for e-commerce policy intervention, organizations such as the ADB, WTO, World Economic Forum, UNCTAD and OECD have published numerous reports and white papers. The policy should reflect a much deeper understanding of Pakistan's specific challenges and deficiencies in the ecosystem particularly for areas like digital and financial divide, regulatory and institutional gaps, taxation, digital payment infrastructure and acceptance, and value-add through cross-border e-commerce.

4 Recommendations and Next Steps for the e-Commerce Policy

Despite advances in some areas of technology policy, Pakistan has not been able to take advantage of the myriad opportunities that a digital future holds. Perhaps the most glaring example of this is in the absence of a robust e-commerce framework. Recent shifts in discourse suggest that policymakers have begun to understand the potential of the digital revolution in terms of how Pakistanis conduct commercial transactions—and that there is substantial economic potential in e-commerce, both in the domestic and international markets. There has been notable activity in the technology policy space, with multiple departments and ministries mobilized, and committees and councils convened. The Prime Minister's Digital Pakistan initiative, the State Bank of Pakistan's financial inclusion efforts and its National Payments Systems Strategy, and most importantly, the Ministry of Commerce's e-commerce policy framework that has been analyzed above, all signify increased policy attention to Pakistan's digital opportunity.

A successful series of digital policy efforts require a coherent, and robust approach that is uncompromising in ensuring that the definition of objectives, and the achievement of goals are trackable and measurable.

The e-commerce policy should be revisited to incorporate the following:

1. A coherent roadmap with key milestones, timelines and mechanisms to track, monitor and evaluate progress by the National e-Commerce Council. Without proper planning and funding, these initiatives are at risk of never being launched, poor and costly execution, or being abandoned before completion.

2. Establish metrics for the performance of the policy objectives and accountability measures within political and administrative tiers including top leadership, bureaucratic/technocratic layers and functional formations of all entities in the Action Matrix18.

3. Clarity on the allocation, availability and deployment of funding to fast-track the proposed interventions as numerous recommendations involve significant outlay in terms of human and financial resources to be effective in achieving the desired objectives.

4. Develop a phasing plan to identify catalytic entry points for quick wins and high impact that would help snowball growth in the e-commerce sector. High priority areas such as facilitating sellers' access and onboarding to cross-border marketplaces and government-approved trading platforms in other countries.

5. Dedicated focus on increasing gender and social inclusion to ensure traditional barriers do not hinder economic progression for the digitally and financially excluded groups.

6. A tailored set of policy actions should be devised for the different nodes and actors within the e-commerce ecosystem to ensure that there is coherence across different policy areas and public institutions.

The current, proposed e-commerce policy does not adequately account for the range of opportunities for ameliorating the ambient digital policy context. To truly transform transactions, policy must prioritize the following seven areas:

1. Strengthen the technology and payments infrastructure and improve access across the country;
2. Strengthen the digital payments ecosystem to enable digital transactions;
3. Strengthen the regulatory and legal framework, including protecting consumers from fraud, and ensuring data protection and privacy;
4. Clarify taxation policy with regards to local and international e-commerce;
5. Enable access to foreign markets through multilateral and bilateral agreements;
6. Support the needs of SMEs and promoting women and youth entrepreneurship and employment
7. Advance consumer awareness and digital literacy and skills

For each of these seven areas of engagement needed to transform transactions, there are a number of distinct indicators that can serve as benchmarks or markers of progress. Each of these benchmarks should ideally be set with clear quantity, quality and time targets. A suggested organization of priority areas and specific indicators is presented below:

Table 1: Proposed Priority Areas & Indicators for a Revised e-commerce Policy

Thematic Focus Areas to Strengthen e-Commerce	**Indicators**
Strengthening Digital Infrastructure *To enable access to the internet for all at affordable prices*	▪ Fixed broadband penetration ▪ Mobile (3G/4G) penetration ▪ Local cloud services – Quality of Service / Affordability ▪ National Payment Gateways – Value and Volume Transacted ▪ Homegrown e-commerce platforms and their usage

Strengthening Digital Payments Ecosystem *To enable online payments and minimize CoD transactions*	▪ Accounts (bank, mobile, wallets) ▪ Cards (Debit / Credit) and Online Usage ▪ E-commerce merchants ▪ Merchants accepting digital payments ▪ CoD vs Digital Payment Volume and Transactions
Strengthening the Regulatory and Legal Framework *To protect merchants and consumers from fraud, ensure data protection and privacy and create an enabling regulatory environment which also complies with international laws and standards*	▪ E-Commerce specific review and updates to e-transactions, consumer protection, ease of doing business processes ▪ Data protection and privacy laws ▪ Clarifying taxation policy with regards to local and international e-commerce
Enabling access to foreign markets *To promote exports and reducing the trade deficit*	▪ Multilateral and bilateral agreements to boost exports ▪ Improved customs processes for value-added export
SME Development *To support SMEs and women and youth entrepreneurship/employment*	▪ Facilitation of onboarding of SMEs to e-commerce platforms ▪ Digital and Financial Literacy for Businesses ▪ Local Language Platforms and Content ▪ ICT Trainings to use and manage e-commerce platforms ▪ Export orientation programmes
Increasing consumer adoption *To promote consumer awareness and adoption to increase e-commerce activity*	▪ Digital and financial literacy for individuals ▪ Last-mile coverage of rural areas ▪ Localized content, products and services

The above blueprint should serve as a guide for effective e-commerce policy interventions. The foundations—digital access, financial infrastructure, and legal and regulatory reform—must be strengthened before Pakistan can hope to embark on a technology revolution. These are the building blocks of a digital economy. Clear leadership, adequate resourcing, inter-ministerial ownership and engagement, and realistic, but ambitious setting of targets are all critical to enabling e-commerce as a genuine driver of economic activity and growth.

The current momentum built by the efforts of the Ministry of Commerce to frame e-commerce as a major opportunity should be leveraged to its fullest. The proposed National E-Commerce Council must convene as soon as possible, and progress must be reported and tracked relentlessly.

Pakistan should also start looking towards the future of e-commerce. While entrepreneurs and consumers struggle with the basics such as cross-border payments and data protection, the world of e-commerce is transforming rapidly with the use of data analytics, blockchain, the internet of things (IOT), and drones. The public and private sector both need to explore how the Fourth Industrial Revolution (4IR) can help solve the problems that afflict a state, society and economy that often finds itself stuck in the pre-digital age.

Technological progress presents the potential for leapfrogging—socially, politically and economically. Pakistan's policy response to this opportunity must transform from a reactive one to one that is proactive, holistic and effective—for the sake of economic growth, through the empowerment and enablement of individuals, firms, the state and society at large.

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