Policy Dialogue on E-commerce in Afghanistan

BIRUNI INSTITUTE | كانون البيروني

Proceedings Report

This report summarizes the deliberations of the Policy Dialogue on E-commerce in Afghanistan. The Dialogue was held in native languages and this document provides translated summary of the discussions in English. Statements, viewpoints, and opinions reported in this paper do not constitute endorsement or agreement by the Biruni Institute.

E L E C T R O N I C   C O M M E R C E

Biruni Institute organized the "Policy Dialogue on E-commerce in Afghanistan" in January 28, 2020 in Kabul. The event brought together all the concerned stakeholders - women entrepreneurs, Government Departments/Ministries, Chambers of Commerce, experts to evaluate the status of e-commerce in Afghanistan, challenges and opportunities, and take stock of the potential needs for future engagements in term of capacity building and knowledge transfer.

The Policy Dialogue on E-commerce in Afghanistan offered an opportunity to enhance the knowledge and capacity of entrepreneurs, particularly female entrepreneurs, in the application of e-commerce platforms to expand their business exports and participate in local, regional and global supply chains.

The world has witnessed the rapid emergence of electronic commerce (e-commerce) that is the buying and selling of goods and services over the internet. This has brought about significant changes in the way business is conducted across the globe. The COVID-19 crisis and the lockdown further accelerated expansion of e-commerce & use of digital platforms towards new firms, customers and types of products. This was equally witnessed in Afghanistan during the first wave of Covid-19 in summer 2020.[1]

The South Asia region is also experiencing substantial growth through e-commerce platforms. However, e-commerce is still at a nascent stage in most LDC members including Afghanistan. Despite security challenges and political uncertainties, digital niche market such as online shopping and delivery of food, selling books, clothing & home appliances are growing in major cities such as Kabul, Herat and Mazar-e-Sharif.[2]

The early wave of e-commerce in Afghanistan is driven by young entrepreneurs and IT talents familiar with the steadily growing IT ecosystem at home and beyond. This is also indicative of the fact that development of e-commerce and IT industries is intertwined and goes hand in hand.

As a landlocked country, Afghanistan pays a high price to neighboring countries for international bandwidth and as a result, fixed broadband penetration remains low at less than 1% of households. In 2019, over 90% of Afghanistan's population had mobile network coverage and 14% of country's population used internet services.

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[1] "Business Pulse Survey: The Impact of Covid-19 on Businesses in Afghanistan", IFC: August 2020.
[2] UNCTAD report 2019

Some government and private sector services have also begun to go digital: about 11% of the country's population has made a digital payment in 2017, and digital government services (e-governance)– while nascent – are being rolled out across the country. This is in line with President Ashraf Ghani's vision to promote and adopt e-governance practices across the public sector[3]. He tasked several working teams from within the government agencies including National Statistics and Information Authority (NSIA), Ministry of Communication and Information Technology (MoCIT), Da Afghanistan Central Bank (DAB) & Ministry of Commerce among others to coordinate efforts to improve payment systems, IT infrastructure, data safety issues and build capacity.

The challenges however remain enormous. The overall unsatisfactory economic performance in the country coupled with inadequate infrastructure, quality and cost of internet, lack of access to finance, lack of secure online payment methods impedes the private sector growth including online businesses.

Afghanistan can do more to capture the potentials of digital networks and services to support economic development. To help build the market in Afghanistan, the government envisions a growth agenda that is anchored around the private sector, aid effectiveness, and regional connectivity[4]. To help Afghanistan expedite and regulate its digital transformation ambitions, the Government has successfully passed the regulatory framework entailed "Law on Electronic Transactions and Electronic Signatures".[5]

E-commerce is one such area that can empower micro, small and medium enterprises (MSME) and women entrepreneurs, to grow their businesses domestically and facilitate the economic integration of landlocked Afghanistan regionally and internationally. Examples from other developing countries illustrate that women entrepreneurs using ICT technologies find new export markets and reach a significant number of customers, secure a higher number of orders, and significantly cut setup and overheads costs. Also, the use of ICT ensures efficient business practices, and allow for flexible working arrangements, e.g. work from home, etc. Therefore, e-commerce can be a powerful tool for bringing in greater gains to women entrepreneurs since it addresses the outmoded barriers of geographic isolation and limited access to information and financing.

Thus, a public private dialogue was needed in Afghanistan to increase awareness and equip women entrepreneurs with knowledge and skills in using e-commerce platform that can facilitate business opportunities and assist them in becoming a part of domestic, regional or global supply chains. In this connection, Biruni Institute held a one-day High Level Policy Dialogue on E-commerce in Afghanistan aiming to enhance women's economic empowerment and entrepreneurship as a strategy for poverty reduction, social wellbeing and sustainable economic growth, thereby achieving the SDG 5 on Gender Equality and other related goals of the 2030 Agenda for Sustainable Development.

The event hosted around 70 participants from all concerned stakeholders – Government Departments & Ministries, women entrepreneurs, Chambers of Commerce, civil society, experts, and media.

At the beginning, on behalf of the Biruni Institute, Nazir Kabiri, the Executive Director of Institute, welcomed the participants, and stressed on the importance

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[3] https://president.gov.af/da/?p=25341
[4] Reference is made to Afghanistan's National Peace and Development Framewo[...]
Conference.
[5] The Law has been drafted in light of relevant international documents, including the UNCITRAL Model Law on Electronic Commerce and UNICITRAL Model Law on Electronic Signatures and United Nations Convention on the Use of Electronic Communications in International Contracts.

of the Dialogue on E-commerce in Afghanistan as a step to spark wider discussion on this important topic. Then, Nagesh Kumar, head of ESCAP, briefly talked about the role and prospect of e-commerce in South Asia.

Subsequently, delivering the inaugural speeches, H.E. Nisar Ahmad Ghoryani, Minister of Industry & Commerce expressed the government's commitment to promoting digitization and the needed enabling environment for promoting e-commerce in Afghanistan.

Minister of Economy, H.E. Karima Hamid Faryabi emphasized the important role that e-commerce can play in post covid economic recovery and the appeal the industry can have for women-led SMEs.

Afterwards, the panel discussion assessed the current status of e-commerce and its prospects in Afghanistan. Moderated by Manizha Wafeq, Chair of Afghanistan Women Chamber of Commerce and Industry (AWCCI), it included following dignitaries form the relevant sectors:

- o Sulaiman Bin Shah, Advisor to the Minister, Ministry of Industry & Commerce (MoIC)
- o Masi Stanikzai, Founder and CEO at Click.af
- o Mostafa Kakar, CEO, Parsa Technologies & Former Managing Director Afghanistan Payments System (APS), Da Afghanistan Bank (DAB)
- o Ahmad Waheed Wais, President at Afghan Post, GoIRA
- o Mohsena Saqeb, President of Jama Design, Entrepreneur

The main issues that were addressed by the panelists are as follows:

- The prospects and potentials of E-commerce in Afghanistan (providing examples such as: low inventory costs; less risk of contracting covid-19; wide access and transnational reach; connecting to South Asia and Central Asia and value chain creation).

- Practitioners' experiences in E-commerce and es... country

- Challenges and opportunities the industry faces in Afghanistan (e.g., Public sector/government awareness of the operations; tax offices awareness and their attitude; online payment methods; central bank rules and facilitation mechanisms; internet speed; client-seller trust issues; IT capabilities).

- How women entrepreneurs can be empowered through adoption and promotion of E-commerce industry (e.g., the context of Afghan cultural norms and the appeal of e-commerce).

Findings

Following discussions from our panellist, challenges ahead of e-commerce start-ups and initiatives can be divided into two types: demand-side and technical/logistic challenges.

Demand-side

Within the demand driven factors, participants discussed about the factors that limit the size of e-commerce market severely in Afghanistan. Domestic consumers are already limited by the percentage of

internet users and urban dwellers in the country. For instance, only less than 14% of the population had access to internet in 2019 in Afghanistan. Another factor limiting the demand for the use of e-commerce markets is the low levels of ICT literacy in Afghanistan. These factors drastically limit the size of the market and therefore its impact in the share of domestic consumption.

Another issue mentioned by the discussants was the issue of trust involved with cash payments. Most e-commerce actors rely on cash payments and in-house delivery, while customers only way of assessing the quality is online images and inspection upon delivery (involves security risks). This creates a sensitive-trust issue, if mismatched the damages the reputation of the market as a whole. The issue is already "talk of town". This puts a limit to the e-commerce ecosystem in Afghanistan and it may take years before the full potential is realised.

The e-commerce market's overseas customer base is very niche and demand-driven market. There, Afghan start-ups face strong competition from already established online platforms, as well as operation costs.

Technical/logistical challenges

Second type of challenges are broader and technical which requires comprehensive whole-of-society approach to enable e-commerce, this is where the role of the government and the banks become more important. These challenges include:

- **ICT Infrastructure**

All actors within the e-commerce ecosystem need a reliable and cheaper access to online payment solutions that makes it easier for them to process their transactions. Currently the ICT infrastructure within Da Afghanistan Bank is nascent and small steps are being taken to move toward improved online payment solutions. Several projects and initiatives are undergoing to make Afghan Payment Solutions (APS) available to all vendors. The online payment options provided by the Afghanistan International Bank (AIB) is simply too expensive.

- **Proper Licensing**

Other dimensions of the challenge of infrastructure includes lack of proper accommodation at the Ministry of Commerce and Industry for electronic businesses. Presently e-businesses register under trading license and are considered as import-export firms. Subsequently, all the rules and regulations of a trading company is applicable on them. Upon a proper categorisation of e-business, they will have their own category as their modus operandi differ significantly from trading companies.

- **Postal codes and postal service coverage**

Afghanistan does not have a comprehensive postal code system and there are currently no plans to be rolled out. This makes delivery and the reach of the e-commerce limited to urban and difficult. Afghan Post has only started operating fully over the past year and has contracts with a couple of government agencies only. It takes decades if not centuries before it becomes a fully-fledged postal service operating in Afghanistan and the region. Alternatives exist, such as DHL and other options that gives some flexibility but also very costly. These alternative options do not provide service inside Afghanistan. Assuming domestic postal services resume (far from happening any time soon), security challenges severely impairs those as the government's control doesn't go beyond major city centres.

- **Access to internet**

The cost of internet is simply too high in Afghanistan, largely due to the monopoly by the Afghan Telecom, the state-run firm that handles Fibre Optics. The speed of internet is another troubling issue that acts as a bottleneck to proper usage of online services.

- **Electricity challenges**

Afghanistan heavily relies on imported electricity for its domestic consumption and that is severely disrupted by supply shocks, especially in the winter. Regular power cuts are part of daily life in Afghanistan and as a business, if your sales and subsequently heavily relies on online sales, this is hurt gravely by the power cuts. Conflict with the anti-government elements often lead to power cuts too as they cut the supply lines running through areas where the government has less control. This leaves the capital, at times without electricity for several days. An issue detrimental to businesses cash flow.

Then, CEO of International Chamber of Commerce of Afghanistan, Hojat Fazly and Noor Alam Hakimyar, CEO of Harakat organization, concluding the panel discussion, talked about existent challenges and opportunities in the development of digitization in the country. They have also emphasized on the necessity and significance of required e-commerce infrastructure as substantial element of industry's development in Afghanistan.

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