



PERSPECTIVES ON EMERGING E-COMMERCE IN THE PACIFIC

INTRODUCTION

Sustained investment in communications infrastructure and digital financial products is strengthening the foundations of digital economies in the Pacific. Driven by the desire to close the Pacific's wide financial inclusion gap, a wide variety of stakeholders have channelled resources towards facilitating access to banking services, remittances and insurance as well as developing the tools and skills needed to capitalise on them. Nonetheless, other elements of the digital financial ecosystem, such as e-commerce, have failed to keep pace.

Like any other market, digital financial ecosystems need a balance between supply and demand in order to thrive. The increasingly established mobile money and digital banking services available across the Pacific make it easier for users to receive and hold funds, but their value proposition is limited by the fact that it remains difficult to spend these funds digitally. A renewed emphasis on the supply side of digital finance, specifically digital payment solutions and e-commerce platforms, will rebalance the ecosystem and incentivise more low income and remote Pacific Islanders to make the shift to a cashless economy.

The United Nations Conference on Trade and Development (UNCTAD) in collaboration with the Pacific Islands Forum Secretariat (PIFS) recently commissioned E-Trade Readiness Reports for Pacific Island countries in which they have taken a high level approach to identifying

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the obstacles to e-commerce platforms in the region. In this focus note, the United Nations Capital Development Fund (UNCDF) will adopt a more granular approach, assessing the opportunities and challenges for e-commerce actors at the platform, merchant and customer levels. It will then expand upon the UNCTAD reports' findings, offering concrete examples of how current policies and market approaches impact the growth of e-commerce businesses to identify specific interventions that can trigger accelerated growth in the sector.

In the process, this focus note also aims to give an overview of the momentum that is building in the Pacific e-commerce sector. It will focus primarily on three e-commerce platforms based in Fiji, Tonga and Samoa, but will also draw on the experience of a range of other e-commerce businesses from across the Pacific. By acting as market disruptors, these new e-commerce actors can contribute to achieving the sustainable development goals, specifically: promoting sustained, inclusive and sustainable growth (Goal 8), acting as catalysts for innovation in the region (Goal 9) and reducing inequalities by opening up new opportunities for low-income and remote communities as well as local Micro, Small & Medium Enterprises (MSME) (Goal 10).

E-COMMERCE PLATFORMS

Enabling conditions for e-commerce, such as those in the recent budget announcement from the Government of Fiji (e.g. financial support for MSMEs to sell their goods and services via Vodafone's Vitikart eCommerce platform) were put in place relatively recently in the Pacific, leading to an emergence of multiple e-commerce platforms, each aiming to establish an early mover advantage in their country and even the region. The platforms have developed a range of unique business models targeting different segments of their country's population, but they face a number of sectoral challenges that will need to be overcome for the sector to achieve its potential. By analysing the platforms' business processes, we can assess how the wider challenges identified in the UNCTAD report affect the day-to-day running, and long term sustainability, of early e-commerce platforms in the Pacific:

E-commerce platforms act as the connective tissue of the digital ecosystem, offering merchants the opportunity to reach a wider clientele without incurring additional fixed costs, in the process creating a level playing field on which MSMEs can compete with their larger rivals. However, in the Pacific, the smallness of internal markets can stifle competition, allowing larger companies to establish dominant positions within their sectors. This significantly reduces the number of MSMEs who stand to benefit from the opportunities unlocked by e-commerce. Each



platform covered in this focus note have approached this challenge differently.

In August 2020, Vodafone launched its Vitikart e-commerce platform, which was developed with support from UNCDF. The platform allows businesses in Fiji to offer their goods on a single online marketplace. Until recently, Vodafone has chosen to focus on onboarding the larger, higher-end merchants on Vitikart, those that mostly sell branded products and have the ICT capabilities to ensure their e-shops are well-stocked and maintained. However, this results in the platform replicating existing market dynamics with no competition between the platform merchants, creating little pressure to offer the low prices that have been the primary driver of e-commerce adoption in regions such as Asia. Vodafone intends to expand the number of merchants on their Vitikart platform to increase competition, but there is not a ready pool of businesses for them to tap into. For this reason the government of Fiji has recently announced financial support to develop the required capacities for local businesses. The existing merchants give the platform product volume and credibility, but they have also made it difficult for Vitikart to establish itself as a legitimate competitor to retail shopping.

Two other e-commerce platforms operating in the Pacific region are Pacifikart, which provides an e-commerce platform for the Tongan diaspora in New Zealand to buy goods for their family back in Tonga, and Maua, which operates in Samoa. Both have chosen to focus on smaller and medium sized merchants, creating different challenges. Many MSME merchants have limited digital literacy, meaning that they have little concept of the potential of e-commerce to increase their turnover. In many cases they also sell generic products and don't have access to the product photos and specifications that give customers the confidence to buy without seeing the goods. These two barriers mean that it can be very difficult to on-board new merchants and, in many instances, the merchants have insisted that the platform cover the cost of uploading products.

The Maua app developers have made a conscious decision to target micro enterprises such as street vendors and smallholder farmers, adopting a theme that mirrors aspects of the Facebook app, such as intuitive user interface and experience, to ensure that they are comfortable using it. With around 50 active local vendors and more than 1,000 active buyers, the platform has shown improved uptake in this segment, smaller vendors spend a relatively short time as active users on the platform as they struggle to keep their products updated to reflect seasonal variations in price and availability.

1. Income Stream

As documented through UNCDF's recent research on the viability of mass-market digital finance in the Pacific, the small market sizes in Pacific countries make it a challenge for e-commerce platforms to achieve financial sustainability. This is exacerbated by the fact that both merchants and clients are reluctant to absorb the cost of maintaining the platform.

Whereas in larger markets merchants make the calculation that e-commerce dramatically expands their sales without significantly impacting their fixed costs. In spite of the platform costs, online sales are still more profitable, and have less associated risks, than opening additional physical stores. While some existing customers may choose to buy online rather than visit the shop, the final sales and profit figures would generally be expected to increase significantly. Indeed, additional online exposure would be expected to encourage new people to visit in person, increasing the footfall in their brick-and-mortar outlets. The result is that e-commerce has little opportunity cost.

In Pacific markets, many vendors are sceptical of the ability of platforms to increase their overall sales figures. They view an online platform as a service that offers their existing customers a more convenient way of buying their products and they reason that the customer should pay for this convenience. Of the more than 20 restaurants that Fijian online food delivery business Cyberfood lists in Suva, only four pay any sort of commission or subscription fee for their service. Pacifikart has yet to negotiate a commission structure with any merchants and relies on charging customers a fee for what are, essentially, remittance payments to relatives. Vitikart is the only platform to successfully negotiate a commission structure.

E-commerce platforms are most effective when they enable market disrupting MSMEs to access a larger share of the market. In the absence of these players, Pacific e-commerce platforms have largely targeted established merchants that are sceptical of the platforms' potential to increase their total revenue and are therefore reluctant to share a portion of their profits.

2. Payments

Payments has rightly been identified by the UNCTAD e-trade readiness report, as well as many other stakeholders as one of the main barriers to the expansion of e-commerce in the Pacific. It is also an area in which stakeholders can design cost effective interventions to de-risk investment in payment gateways by financial institutions, allowing nascent e-commerce to build up much needed momentum.

Access to payment gateways varies significantly across the Pacific. Many countries, including larger Pacific countries like the Solomon Islands, don't have any form payment gateway in place. To create a payment gateway, credit card schemes require a guaranteed minimum number of transactions per month and will levy a US\$10,000 fine on the banking partner if that number is not reached within two years.¹ Banks in smaller countries have largely decided that the returns offered by nascent local e-commerce ventures are not worth taking on the risk incurring this fine, let alone deal with other risks associated with online payments, such as card fraud and chargeback risks.

Even in countries such as Fiji that do have multiple payment gateways available, gaining access to them can be complicated, especially for e-commerce platforms

¹Interview with ANZ bank representative at their Fiji hub.

that act as aggregators. "Card not present" transactions, such as online retailing, need to offer additional consumer protection compared to standard ("card present") EFTPOS transactions. The transaction is considered to be a prepayment for a good or a service; in the event that the goods or services are not supplied, the merchant is liable to repay the customer the full amount. This is called a chargeback. If the merchant cannot, or will not, refund the money, the credit card schemes will hold the bank hosting the payment gateway responsible. To offset the risks associated with online payments, banks insist that e-commerce merchants provide a deposit with their bank from which these chargebacks can be deducted. Presented with innovative business models such as e-commerce platforms, it is not uncommon for banks to either refuse them or to ask for prohibitive deposits, sometimes exceeding a month's turnover for the merchant. Faced with uncertain revenues, low profit margins and high portal integration costs some e-commerce companies simply can't afford to put in place the systems required to accept credit card payments.

Mobile money wallets offer a potentially powerful alternative to online payment gateways, but have so far struggled to overcome a number of hurdles. The low penetration of mobile money accounts, especially among middle and high income customers that many e-commerce sites target, means that only a small percentage of customers are able to use this payment option at the time of purchase. When it was launched the Maua App only accepted payment through M-Tala, a Vodafone mobile wallet product, but saw an immediate surge in their sales volume once cash on delivery was offered. Additionally, as mobile network operators (MNOs) have started moving into the domain of e-commerce with initiatives such as Vitikart, it has made direct competitors such as Pacifikart hesitant to offer M-Paisa payments for fear that the payment data is not adequately secured.

In the Pacific, digital payments remain one of the largest obstacles to rapid growth in e-commerce. Lack of access to online payment gateways restricts the number of businesses that can conduct online sales, reducing the value proposition of credit and debit cards or mobile wallets that can be used online. There are signs of progress, however. Vitikart is not positioned to address the needs of low income users, but has been able to leverage Vodafone's corporate standing to trailblaze pathways that smaller users can take advantage of. The company was the first platform to offer customers the possibility of making Visa and Mastercard through a payment gateway offered by WestPac Fiji. Westpac subsequently accepted Fiji Eats, a food delivery platform, as a customer and is

currently processing the applications of a number of other e-commerce sites. These initial breakthroughs will be instrumental in allowing banks such as Westpac to develop more accurate risk profiles for e-commerce in the region and will hopefully encourage competitors to start offering access to online payment gateways.

Where in Fiji Westpac has been primarily driving acceptance of merchants for access to their online payments gateway, in Papua New Guinea similar efforts have been driven by Bank South Pacific (BSP). Although it already had an online payments gateway for many years, it has only in the last few years focused its attention on onboarding MSME merchants. It is expected that this approach will soon be replicated in other Pacific countries where BSP operates, starting in Fiji.

While Fiji and PNG are showing some progress in expanding access to payment gateways, other countries in the region have yet to take their first steps. Stakeholders can cost-effectively accelerate the process by working with financial institutions to de-risk the creation of payment gateways in smaller countries.

3. Converting visits in sales

E-commerce platforms invest significant capital in advertising, using a variety of targeted strategies through social media and search engines aimed at encouraging potential clients to visit their sites. Orders per visit figures are followed closely because this conversion rate is both an indicator of the effectiveness of their advertising strategy and a crude way of calculating the cost of each sale. Global figures for conversion rate are in the order of 2.7% but informal discussions with platform managers for this focus note suggest that conversion rates in the Pacific are closer to 1%.

Lower conversion rates are to be expected in a region that is new to e-commerce, but evidence suggests that other factors also play a role. The usage statistics of Cheap Games Fiji, a pure e-commerce business launched in 2019, offer some interesting insights into the challenges that platforms face. The data provided by their e-commerce software states that they had 19,000 visits which led to 250 sales, giving them a relatively low 1.3% conversion rate. However, their company accounts show a total of just under 2,000 sales for the year, giving them an enviable conversion rate of 10.5%. The difference arises from the fact that most customers are reluctant to complete the checkout process online. Instead, when they reach the checkout stage customers switch to messaging apps, such as Whatsapp and Viber to reconfirm the price, terms and warranty before agreeing a time to collect the goods and pay with cash or by swiping their card on the EFTPOS from the merchant.

²<https://www.statista.com/statistics/439576/online-shopper-conversion-rate-worldwide/>



The experience of Cheap Games Fiji suggests that e-commerce platforms such as Vitikart and Pacifikart may be losing a significant portion of their potential sales to the merchants whose products they host on their platform. This understates their actual conversion rate and compromises their ability to reach financial sustainability. The problem is exacerbated by the fact that platforms are rarely able to control stock or offer reduced prices to ensure that the sale is completed online.

4. Logistics

The UNCTAD eTrade Readiness reports focus extensively on the impact that poor international logistical processes will have on the growth of e-commerce. Many of its conclusions also apply to domestic e-commerce platforms because low-cost, reliable delivery services play an important role in growing e-commerce's market share. Distances to a merchant's physical premises are often quite short in a Pacific urban setting making delivery costs an important factor in shaping the customers' decision to shop online or in person.

Additionally, effective parcel tracking services can play an important role in reducing the transaction costs and fraud risks associated with online payments as well as boost customer confidence in e-commerce platforms. In instances where customers request a chargeback on a transaction because they allege that the goods were not supplied, the onus of proof rests with the platform or merchant that accepted the payment. Currently only some of the national postal services offer a tracked delivery service, but are likely to struggle to adapt to rapid growth in deliveries. Additionally, in many instances the merchant is able to select the method of delivery, often delivering in person, meaning that official tracking is rarely obtained. Without effective processes in place to track parcels and obtain proof of delivery, merchants and platforms will struggle to meet the level of proof that credit card schemes require to successfully overturn customer challenges.

Logistics issues can also impact the ability of e-commerce platforms to supply remote communities. Higher delivery costs for remote communities are largely inevitable, but this burden is exacerbated by pricing uncertainty for merchants. Parcel delivery services rarely have fixed price lists arranged on a simple regional or provincial basis. Faced with variable prices for remote deliveries, merchants with lower profit margins will simply overstate delivery costs to avoid booking a loss, further isolating these remote communities.

The UNCTAD report also highlights the lack of official street addresses in many areas of the Pacific as a potential obstacle to the growth of e-commerce. Local platforms are finding their own solutions for this problem. Some of which were founded by companies that were previously engaged in satellite tracking services and they have been able to use geo tagging as a way of overcoming this obstacle. Most platforms ask for a delivery address and telephone number, but they also require that the user to locate their address on the map. This offers a relatively fool proof solution and none of the platform representatives identified addresses as an area of concern.

E-COMMERCE MERCHANTS

E-commerce platforms can act as a catalyst for the digital economy, because they significantly reduce the risks and cost of launching a digital sales channel by providing "readily available technological features, standard web store templates, and easy-to-use administration capabilities" (Wanga, et al., 2016). The value proposition of e-commerce platforms for established retailers in the Pacific, as discussed above, is not always clear. The platforms do allow remote customers to make purchases, but these orders make up a miniscule part of the total turnover. For instance, Vitikart estimated that less than a quarter of sales went to customers outside of the main Island of Viti Levu.

Interviews conducted with merchants suggest that the primary benefit of their initial foray into e-commerce appears to be the increased exposure garnered as a result of having their products on the platforms, primarily Vitikart. Vitikart has been able to mobilise Vodafone's veteran marketing team to help establish the platform, with a huge emphasis on digital marketing. With their extensive experience in Search Engine Optimisation (SEO) and Pay Per Click (PPC) strategies, as well as targeted advertising on social media, the marketing team have ensured that products and merchants featured on Vitikart appear at the top of most search results in Fiji and feature prominently on Facebook and Instagram. The increased visibility is enough to justify paying the platform commission. However, given that most customers are still reluctant to finalise the checkout online, the advertising comes at little to no cost to the merchant.

Vitikart's approach of relying on larger merchants is unlikely to lead to long term sustainability and growth of a real e-commerce economy in the Pacific. Eventually, Vitikart and other platforms will have to encourage MSMEs to make the transition to digital sales, allowing them to compete with their larger rivals. For this to happen a number of barriers will need to be addressed.

1. Business Models

The majority of Pacific retailers, especially MSMEs in remote areas such as Sun City in Taveuni, have optimised their businesses to satisfy the requirements of a customer base within a specific geographic area. By offering most of the product categories that their clients require on a daily basis and matching their competitors' prices they can dissuade their clients from venturing further afield. The selection that they offer within product categories is limited by shelf space and the capital available for stock, with many offering a single option per product.

E-commerce adopts a radically different strategy, combining the digital shop window and cost effective delivery services to overcome geographic barriers, challenging the prevalent business model in the Pacific. E-commerce platforms also mimic the effects of concentrated urban centres: the massive digital footfall allows retailers to differentiate themselves through specialisation, out-competing their rivals by increasing selection within a limited product range. Not only can specialists offer customers a better selection of products, they can also offer them at lower prices, using economies of scale to negotiate better prices from their suppliers.

Some established MSMEs will make this transition successfully, but the largest source of future e-commerce businesses is likely to be new start-ups emerging from the booming informal e-commerce platforms hosted on social media like Facebook, Instagram and messaging apps, such as Whatsapp and Viber. These social media offer an easy and cost-effective way for entrepreneurs to test niches, identify marketable products and build up an initial client base. Companies such as Cheap Games Fiji started out on Facebook and Instagram and were driven to establish a formal business and develop their website in order to satisfy surging demand. Others will follow in their footsteps and they will have a significant advantage over existing MSMEs: digital literacy.

2. Digital and Financial Literacy

The recent improvements in connectivity in the Pacific region means that most retailers, large or small, have still underdeveloped experience in using digital sales channels as vendors. Many are unaware of the general business practices that have allowed online businesses

such as Alibaba and Amazon to become global giants in such a short time. Even fewer are familiar with the digital marketing strategies and online-only company structures that allow e-commerce merchants to supply a larger share of the market at a fraction of the cost.

Digital marketing requires a high level of digital literacy, but is the difference between success and failure for an e-commerce start-up. Social media platforms such as Facebook sell the data collected through their various products (Facebook, Instagram, Whatsapp) to merchants, allowing them to target specific groups with a high degree of precision. While many will just bombard people who search for their product type, more sophisticated merchants will target specific demographics according to the time of year. Kids are often targeted because they convince their parents to spend, women are targeted in the months leading up to Christmas, while men are targeted in the days leading up to Christmas because they tend buy at the last minute. Customers can also be targeted by age and address, usually a good proxy for income, allowing merchants to hone in on customers in relevant income brackets. Digital advertising demands a long term strategy, is an ongoing process and can be a time consuming exercise, but it allows merchants to reach their target audience for a fraction of the cost of conventional advertising. A whole year of targeted online advertising can cost less than a single billboard, but may bring in ten times as many customers.

Merchants with high levels of digital literacy can also automate many of their customer relations functions allowing them to further cut costs. The latest chat bots offered by social media platforms are not limited to answering the standard FAQs. They are even able to access the company inventory to answer questions about product availability. The result is that e-commerce businesses can serve a larger customer base with a smaller work force. Unless they have the digital skills to maximise advertising and automation opportunities, aspiring e-commerce businesses will struggle to cut their prices enough to encourage customers to move to online channels.

The low penetration of digital financial services in the Pacific means that even merchants with a background in ICT and as such with high levels of digital literacy do not have the required levels of digital financial literacy. For example, some of the e-commerce site managers interviewed for this focus note expressed reluctance to accept credit card payments directly on their site because they believed storing customer details would make them a target for hackers. In reality, the online payment gateways route the customers to their own site where the payment is processed, and the merchant never has access to the customer's card details.



3. E-commerce readiness

Pacific companies, regardless of scale, face logistical issues in transitioning to e-commerce, in large part because of the low penetration of e-commerce ready Enterprise Resource Planning software (ERP). Most retailers either use custom made software or lower cost options that do not offer integration with widely used e-commerce platform software. The result is that product and order data has to be uploaded onto the platform manually, a solution that is not viable for scaling.

For example, one of the sports equipment retailers on Vitikart, uses an Indian software package that doesn't integrate with Vitikart's back office. A member of their marketing team has to load all products individually and then manually adjust stocks to reflect physical sales in their outlets. The company does monthly specials but these are only available on Vitikart if the manager has the time to input them manually. The same applies to Pacifikart's new partnership with a supermarket in Suva: faced with the prospect of uploading all their products individually and keeping stock levels updated the grocer has insisted that the platform pay for an additional member of staff to do the data entry. Pacifikart has had fewer issues in Tonga, in part because their product offering is smaller, focusing more heavily on household goods.

ICT is a growing sector in some countries in the Pacific, with a number of rapidly expanding companies offering outsourced software development services to large scale multinational corporations. One example is Acton Fiji

Limited, an employee-owned software company that specialises in Microsoft Dynamics based solutions. Having seen what seemed like a gap in the local market, they developed an Enterprise resource planning (ERP) system designed specifically for MSMEs that offers seamless integration with the majority of e-commerce platform software. Most of their prospective customers currently use locally developed software that has lower upfront costs but offers limited features, are rarely updated and almost impossible to integrate with other platforms. In some cases, retailers are still using Microsoft Excel as the basis for their entire operation. Despite the numerous advantages of adopting e-commerce ready ERP software, most MSMEs struggle to justify the relatively high upfront costs of installing such a new system.

Despite these challenges, opportunities do exist to facilitate a shift towards e-commerce ready software solutions. For example, the Fiji Revenue and Customs Service (FRCS) is currently implementing regulations that makes it compulsory for retail companies to register sales in real time. This is being implemented in phases, starting with sectors deemed to have a higher risk of tax fraud. Such regulatory changes leave companies with little option but to upgrade their systems, making it an ideal opportunity to support MSMEs in sectors with e-commerce potential to adopt future-proof systems that will allow seamless integration with online platforms further down the line. Smaller retailers can be encouraged to take their first steps in e-commerce by offering subsidized access and training to simple, all-in-one e-commerce solutions such as Shopify.

E-commerce has significant potential for certain types of MSME merchants in the Pacific. To realise it, however, will require significant investment in digital and financial literacy, as well as the software tools required to integrate their businesses with the platforms that are becoming more and more established. Most importantly, it will require a redesign of conventional business models in order to give potential customers an incentive to adopt e-commerce.

E-COMMERCE CUSTOMERS

Pacific e-commerce platforms have, for the most part, struggled to grow their customer numbers and sales volumes to levels that ensure their financial sustainability. This has largely been attributed to low levels of digital and financial literacy, coupled with uneven access to digital finance tools. While these are undoubtedly contributing factors, limiting the pool of potential customers, the success of alternative digital sales channels suggest that they are not the only factors in play.

Digital and financial literacy levels in the Pacific are well below the global average, but this has proven to be a minor obstacle to the emergence of thriving online market places. Popular apps such as Facebook, Instagram and Viber have extremely high penetration rates among smartphone users in the Pacific, and enterprising small informal businesses and individuals have been able to capitalise on this. For example Buy and Sell in Fiji, just one of many trading groups on Facebook, has 139,000 members and hosts 3,300 posts per day. Buy and Sell in Kiribati, has 23,000 members in a country with a population of 120,000 dispersed across four time zones. These groups are competing with equivalent groups on the other apps. The fact that these groups have a membership equivalent to 10% of their respective national populations clearly demonstrates that digital literacy is not the main obstacle to the success of online businesses.

A much smaller pool of people have access to digital payment tools such as credit and debit cards or mobile money wallets, but this is also likely to be a secondary factor in explaining the struggles of e-commerce platforms. The emergence of successful niche retailers such as Cheap Games Fiji, whose founders started out selling through social media channels, demonstrate that it is possible to achieve financial sustainability using the same mix of payment methods as e-commerce platforms.

The limited number of e-commerce platforms in the Pacific occupy a space between traditional bricks and mortar retailers and the well-established informal marketplaces that operate through social media platforms. While other factors do play a role, the primary obstacle to their rapid uptake has been their inability to develop a strong enough unique selling point to lure customers away from their existing shopping patterns. Until they develop a competitive advantage, their appeal will primarily be limited to diaspora communities who use them as a cost-effective way of remitting money to their families.

The experience of e-commerce retailers in the Pacific also suggests that it is not enough to simply expand access to digital financial tools, but also important to ensure that customers are better informed of the advantages they provide. Credit and debit cards and, to a lesser extent, M-Paisa, provide customers with a high degree of protection, at no extra cost, in the event that the purchased goods are faulty or do not arrive. Customers also need to be reassured that they are not liable if their card details are ever hacked when using them on an e-commerce website. The fact that Pacific customers continue to favour cash or bank transfers not only indicate that they are mostly unaware of these benefits, but also that as a consequence e-commerce is still in its infancy in the region. Mobile money accounts such as M-Paisa, which verify the identity and credentials of merchant account holders, will have an opportunity to grow their presence as the digital market grows and customers are looking for an external guarantor for transactions.



CONCLUSION

E-commerce platforms operate most efficiently as part of an ecosystem, offering e-ready MSME merchants a complete service package and linking them with a nationwide customer base that is eager to take advantage of the wealth of products and competitive pricing on offer. However, nascent e-commerce platforms in the Pacific face an uphill struggle to offer a compelling value proposition because the digital rails, upon which they rely, are under-developed and neither merchants nor customers have fully adapted to the opportunities offered by these digital channels.

While the issues that Pacific e-commerce platforms face are complex and the short term prospects may appear not very promising, but there is reason for longer term optimism. Connectivity in the Pacific continues to improve rapidly. The bustling informal digital economy confirms that there is a market for e-commerce products and services, and the emergence of online-only businesses demonstrates that merchants are starting to respond to the new opportunities.

In their efforts to accelerate the adoption of digital channels, stakeholders should keep in mind the realities of e-commerce: barriers to entry are low, attrition rates are extremely high, and success usually comes early or not at all, while market domination, such as that of AOL in the 90's, can disappear in a short timeframe. Rather than supporting individual players, efforts should focus on strengthening and extending the digital rails and building awareness of and confidence in the digital financial services that underpin e-commerce.

Payment gateways are an integral part of any e-commerce ecosystem and, by sharing some of the risk taken on by financial institutions, stakeholders can ensure region-wide access for merchants to accept digital payment methods to settle transactions, and eliminating some barriers to entry that startups face. Supporting the emergence and adoption of mobile money accounts can connect remote communities to the digital economy, especially in conjunction with e-commerce friendly logistics services.



However, the experience of current e-commerce platforms shows that the impact of these reforms will be limited if both consumers and merchants are unaware of the benefits of digital financial services, or do not trust the regulatory structures upon which they rely. Pacific merchants frequently state the cost and difficulty of integrating digital payments into their sites and many do not fully understand the associated advantages. For consumers, completing transactions online has emerged as a clear friction point, with a majority insisting on direct contact, with collection and payment done in person. This shows not only a lack of trust in online payments, but also a lack of awareness of the protections that card schemes such as VISA and MasterCard, and also mobile money payment operators grant consumers.

Removing the barriers to adoption of digital financial services among both merchants and consumers in the Pacific will organically lead to a surge in both demand and supply of product through digital channels. When that happens, Pacific e-commerce platforms will be empowered to play their natural role as the connective tissue of the digital economy.



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