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RAPID E-COMMERCE REVIEW

MOLDOVA STRUCTURAL REFORM PROGRAM October 2020

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ACRONYMS

API	Application Programming Interface
GoM	Government of Moldova
MoEI	Ministry of Economy and Infrastructure
USAID	United States Agency for International Development
B2C	Business to consumer
B2B	Business to business
G2C	Government to consumer
NBM	National Bank of Moldova
MSRP	Moldova Structural Reform Program
PSP	Payment Service Provider
PSD2	Payment Services Directive 2 (European Union)
PISP	Payment Initiation Service Provider
GDPR	General Data Protection Regulation (European Union)
CCPA	California Consumer Privacy Act
NCPDP	National Center for Personal Data Protection
BPMN	Business Process Model & Notation
ASYCUDA	Automated System for Customs Data
OPCML	Office for Prevention and Combating of Money Laundering
STISC	Information Technology and Cyber Security Service
NEPPP	National Electronic Payment Processing Platform
CX	Customer Experience (CX)
UX	User Experience (UX)
ODIMM	Organizatia pentru Dezvoltarea Intreprinderilor Mici si Mijlocii

EXECUTIVE SUMMARY

Digitization of the national economy and development of e-commerce is a national priority reflected in the Roadmap of the Ministry of Economy and Infrastructure. The need for such development is exacerbated by the recent Pandemic crisis. When working effectively, e-commerce has the potential to enhance the overall economy, drive up exports, and allow the Government to enhance tax collection. However, for e-commerce to thrive, all stakeholders need to ensure that a conducive environment is created.

USAID, through the Moldova Structural Reform Program (MSRP), commissioned a rapid review of the e-commerce landscape in Moldova with the view of quickly identifying any roadblock and offering its support for the development of e-commerce in the country.

The project was commenced around the 8th of July 2020, with a team comprising local and international experts. Given COVID restrictions, the expert team engaged with over 135 stakeholders in online meetings. 41 Meetings were carried out with the highest-level representatives from Government Ministries, Regulators, Development Partners, Associations, Logistics Firms, Telecommunication Providers, Payment Providers, SMEs, and E-Commerce Merchants. The meetings were aimed at understanding the critical roadblocks to the development of e-commerce. In many cases, we re-engaged with stakeholders to gain more insights or test our understanding and recommendations.

Through desk-based research and interviews, the experts found that the majority of the necessary building blocks of an e-commerce ecosystem are in place in Moldova. In other words:

1. Government policies and regulatory regimes are moving in the right direction
2. Fiscal incentives have been successfully implemented for specific sectors such as the IT
3. The infrastructure necessary for e-commerce is mostly in place.
4. The financial and payment system currently facilitates e-commerce transactions, and consumers have access to a variety of non-cash channels to make payments.
5. Logistic services are mainly in place for local and export deliveries.
6. Marketing and branding are being supported, although much work remains to educate small merchants on its importance.

There have been many interventions to get the necessary building blocks in place, and the expert group found a significant number of studies that informed their research. Whilst, all the building blocks are in place, there is evidence of friction within the system that needs to be addressed to get e-commerce accelerating in Moldova.

STRENGTHENING GOVERNANCE & IMPLEMENTATION AT NATIONAL LEVEL

Despite a plethora of initiatives, e-commerce is slow or even stagnant in its development. Why is this the case? This was a topic of great discussion among the expert team. The only conclusion they reached is that there is an absence of a centralized leadership framework to coordinate the various initiatives to drive the desired outcomes.

Moldova could benefit from a more comprehensive digital vision and strategy, where e-commerce is a part of it. Furthermore, Moldova would benefit from an implementation body at the national level that could program and manage all the digital and e-commerce initiatives and coordinate the provision of technical support where required.

The expert group also concluded that the private sector's involvement in the design and implementation of a digital and e-commerce strategy is crucial to success.

Getting Governance and implementation right at the national level is paramount. Without it, the expert team highlighted that even this report would end up in the elaborate archives of previous studies and recommendations. We propose two governance and implementation arrangements for consideration.

OVERVIEW ASSESSMENT OF E-COMMERCE IN MOLDOVA

The first key finding is the quasi-absence of e-commerce specific data collection and statistics. Naturally, it is difficult to measure any progress if there are no data sets to rely on.

Benchmarked against regional developments, Moldova's e-commerce is at an early stage of development. While the necessary infrastructure exists, both end-users and merchants seem to resist online channels for commerce.

Current e-commerce volumes are low; however, it is noteworthy that a consistent number of Moldovan's seemed to prefer international online e-commerce platforms to local ones. Frictions and inconvenience are cited as the main reason causing inertia in Moldova's e-commerce markets.

Overall, as things exist today, there are disincentives and barriers for merchants to go online, and for consumers to prefer digital over electronic channels for buying and paying for goods and services.

LEGAL & POLICY BARRIERS

Legal frameworks are in place, but inconsistent and self-contradictory interpretations by the regulators cause critical bottlenecks that stand in the way of e-commerce.

For example, one part of the law on data protection is restrictive in accepting other consent forms, such as a checkbox or a click. Albeit not being applied, another part of the same law exempts merchants from the obligation to obtain customer's consent during an online checkout process. Meanwhile, the strictest data protection laws in the world (GDPR and CCPA) do accept the click or checkbox as consent. This issue has been raised and acknowledged for years, yet the problem remains. Changing the law can take years; we have identified a practical quick-fix recommendation.

Distant customer identification is another anomaly that can stop e-commerce altogether. The law allows for distant identification; however, the AML agency threatens prosecution if a person is not systematically and physically identified during onboarding. In other words, distant commerce is only possible if there is a physical encounter first. Participants have testified that this rule is a forced exposure to contamination risks during pandemic times. In reality, the law only classifies the absence of physical presence as a risk, to mitigate via enhanced due diligence, and not as an interdiction per se. A National Bank regulation specifies to banks the requirements for conducting distant customer identification, further proving the legality of such a method. Current and former EU AML directives have been authorizing and leveraging distant customer identification for almost two decades.

There are also discrepancies between the different laws regulating e-commerce and other normative regulations, such as consumer protection laws. Coherence and harmonization will ensure clarity and reduce the cost of compliance, as merchants and other players in the ecosystem would not be forced to seek legal counsel before launching or expanding their e-commerce venture.

FISCAL AND ACCOUNTING CHALLENGES

Informal sellers have an unfair competitive advantage, as they avoid applying VAT and other taxes to their retail prices. Therefore, they can sell at far lower prices and have no incentives to formalize their business. When the e-commerce merchants scale, they hit the VAT registration threshold, and from that point onwards, they need to apply a steep 20% or more increase in prices, which turns away buyers. As a mitigation technique, small merchants avoid growing beyond the threshold or register a new company and split their transaction volume among the two entities, effectively doubling their overall VAT registration threshold.

E-factura or electronic invoicing is the dysfunctional digital version of an otherwise complex requirement. The “Factura” is a billing rule that requires both the seller and the buyer to get every B2B invoice signed by their respective executives or their official accountants. Our discussions with SMEs highlighted that such a requirement pushes buyers to pay for small B2B purchases informally, using personal cards or cash, to avoid the time and troubles of running after both sides’ signatories. Complying with the “Factura” rule reduces SMEs’ performance as they unnecessarily spend critical time and resources on every little B2B transaction, and at every step of their value and supply chains.

Similarly, the “e-bon fiscal” is another dysfunctional digital version of a fiscal payment receipt requirement. These printed receipts can only be printed by specific devices known to be unreliable and expensively sold and maintained by a handful of authorized providers. Small logistics firms offering cash-on-delivery payments for e-commerce purchases are suffering the most from the dysfunctional machines and the instability of the fiscal API. The resources invested in compliance with the “bon fiscal” requirement effectively double the actual cost of last-mile cash-on-delivery. Some logistics companies are looking at replacing the fiscal printers by a Mobile App through which customers can sign on delivery and receive an electronic “bon fiscal”, provided that the API from the fiscal authorities do work as expected.

Merchants face further challenges because of the Fiscal authorities' complex accounting, reporting, and auditing requirements. The study has found that a Moldovan SME incurs twice the bookkeeping costs of an American SME, for the same turnover, and with a lower purchasing power.

FINTECH, PAYMENTS AND WIDER FINANCIAL SERVICES.

Consumers choose financial exclusion because they lack trust in the financial system, and therefore prefer cash as the best payment mechanism.

Merchants avoid non-cash payment mechanisms because of high interchange fees, the high cost and inconvenience of installing payment solutions on their e-commerce website, and high deposit requirements by banks and other payment providers. While many financial services products such as loan and equity financing for merchants, insurance, and point of sale credit for end consumers, are available, merchants prefer not to take advantage of them and hence limited scalability.

The regulators have been progressive enough to allow alternative payment providers. However, based on the past crisis of confidence in the financial system, regulators are wary of allowing competition, innovation, or disruption. Thus, the status quo remains, allowing banks and card companies to dominate and dictate terms. Newcomers find it extremely restrictive to enter the financial services market because of high regulatory requirements and the difficulty in openly engaging with the regulators.

Alternative payment providers are admittedly a lot better than traditional players, according to ecommerce merchants; however, they do not offer their service to the same standard as international players. They are also constrained in being able to reduce payment fees because they are solely reliant on the banks to process payments.

The private sector is keen to develop a Fintech sector in Moldova. However, initiatives underway would benefit from extended coordination rather than specific types of companies or sub-sectors.

DOMESTIC AND EXPORT LOGISTICS

Domestic logistics are in place and allow for added value sellers to deliver their orders cost-efficiently. Improvements can be made by Posta Moldovei and two other last-mile logistic providers, especially about system integration (APIs) and service level agreements.

We found anecdotal evidence that shows a tendency for SMEs and market players to build and maintain their own storage, fleets, and logistics operations.

There is an evident lack of e-fulfillment solutions such as “Fulfilled by Amazon,” although some projects along these lines are emerging. If such a solution were available, we believe that e-commerce could develop faster.

On the export front, the logistics situation is worse. Export processes result in a slow and costly export of goods, especially for SMEs. Export documentation is cumbersome, and merchants do not mutualize resources like “Bulk and Break” solutions. The international return of goods is almost impossible to deal with.

In terms of logistics infrastructures, the country suffers from multiple pain-points such as; delays in constructing the Chisinau Giurgiulesti port highway, a blockade of road freight towards the east because of the Transnistria issue, long delays at the crossing of the Romanian border, and the non-recognition of the Cernavoda as an international waterway by Romanian custom authorities.

BRANDING & MARKETING

We noticed a clear lack of advanced digital marketing know-how and solution providers, which lead to low margin e-commerce businesses that barely survive, let alone scale.

At the branding level, a number of sectorial brands are being deployed; however, we could not find any follow-up actions on the “Made in Moldova” initiative. We strongly invite the authorities to secure the “Made in Moldova” trademark registration and build upon it at later stages.

On international marketplaces such as Amazon, eBay, Alibaba, and Etsy, we have noticed that Moldova is under-represented as compared to its neighboring countries.

On the other hand, we have identified the great potential for Moldovan SMEs to leverage the opportunity of e-Exports, especially towards the EU market. Moreover, we believe that SMEs have better chances of competing if they invest in Direct to Consumer (D2C) e-commerce, leveraging their quality and branding, rather than competing on volumes and prices.

An additional Fiscal-Marketing-Logistic opportunity of obtaining EU VAT numbers for Moldovan SMEs has been highlighted. It can enable SMEs to import and distribute their products on the EU online marketplaces without any intermediary.

SUMMARY OF RECOMMENDATIONS

We set out a summary of our recommendations and their alignment with the MOEI roadmap. Highlighted in red are the critical quick-win recommendations that are to be deployed immediately.

MOE REF.	MSRP REF.	OWNER	TITLE
NA	AML-01	AML Office	Publication on Distant Customer Identification (cases, technical & security requirements)
30	POS-01	Posta Moldovei	Develop an API for third parties & e-commerce platforms integrations
9	DAT-01	Data Protection Agency	Publication on the exemption from the consent requirement for e-commerce checkouts
9	DAT-02	Data Protection Agency	Amend Law no. 133/2011, adding different formats of customer's electronic consent
3	CON-01	Consumer Protection Ag.	Amend Law no. 105/2003 on consumers' rights in line with Civil Code
NA	MOE-01	MOEI Ministry of Economy	Update & ensure cross-reference between E-commerce law (284/2004) & other laws
22	MOE-02	MOEI Ministry of Economy	Create Incentive Mechanisms for the Development of Fintech
NA	MOE-03	MOEI Ministry of Economy	Include e-fulfillment services development to existing industrial parks projects
10	MOE-04	MOEI Ministry of Economy	Develop an advanced digital marketing capacity building program
11	MOE-05	MOEI Ministry of Economy	Assess the opportunity to register a state trademark & program "Made in Moldova"
35	MOE-06	MOEI Ministry of Economy	Encourage Direct to Consumer business model for SMEs
35	MOE-07	MOEI Ministry of Economy	Fiscal/Logistics/Marketing e-Export corridors to EU Marketplaces (quick-win)
NA	GOV-01	Government of Moldova	Define and implement a Digital Transformation Governance
5	EGO-01	E-government Agency	Company register website upgrade for international e-commerce compliance facilitation
13	NBM-01	National Bank of Moldova	Accelerate the Promulgation of PSD2 - allowing open banking
13	NBM-02	National Bank of Moldova	Launch of a Regulatory Innovation Hub for Fintech & PSPs
13	NBM-03	National Bank of Moldova	Lower licensing threshold conditions for small payment service providers
NA	MOF-01	Ministry of Finance	Creation of an Open Banking Implementation Entity
15	MOF-02	Ministry of Finance	A unified & instant collection VAT rate of 10% to boost e-formalization of SMEs
8	MOF-03	Ministry of Finance	Extension of the IT Park fiscal package to Fintech firms and SMEs from other sectors
22	ASO-01	ATIC & APCFA	Launch a Focused Fintech Association
NA	STA-01	National Bureau of Statistics	Develop & deploy an e-commerce specific data collection framework

Table I. Summary list of recommendations and MOEI roadmap correspondences

Source: MSRP team research