Global Fund for Ecommerce:
The Vehicle to Enable Entrepreneurs in Developing Countries to Sell More Online

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I. Introduction

Ecommerce has emerged as a powerful driver of economic growth, inclusive trade and job-creation worldwide. While research shows that ecommerce dramatically increases the odds for small businesses to export, grow, and stay in business, most businesses around the world have yet to use this tool of 21st century trade, especially in developing countries. Only 9 percent of small companies and 16 percent of midsize companies in low-income countries sell online, according to the World Bank, while adoption is only 35 percent for midsize companies in upper-middle income countries. Even fewer merchants have adopted online payments required for transacting with overseas shoppers, with a recent MasterCard study of four advanced and emerging economies showing that while 90 percent of merchants had a website, only 20 percent were set up to accept payments online.

Of course, some of the low adoption rates are due to factors in the broader economy, such as expensive broadband connectivity. Yet research shows that the main elements obstructing companies from leveraging ecommerce are their lack of e-skills and ecommerce capabilities, such as marketing abroad. The main reason for merchants' sparse adoption of online payments is not — as usually believed — low consumer adoption, but the perceived cost of online payments and lack of ability to set up online payment systems.

As global trade digitizes, the thorniest challenge remains the scant adoption and use of ecommerce capabilities and online payment tools, particularly in the developing world. This paper proposes a new initiative, the Global Fund for Ecommerce, as a vehicle to bring developing country entrepreneurs into the digital era. The Fund finances concerted capacity-building programs run by export promotion agencies and expert trainers selected by ecommerce and payment platforms in 50-75 countries, with the aim of training 100,000 small business merchants to expand their ecommerce export by $10 billion in the first year after the training. It employs a rigorous selection criteria and performance metrics enabling iterative improvements and discovery of best practices. As such, it not only transforms but also systematizes SME ecommerce capacity-building worldwide.

I set out a methodology and three possible models for capitalizing the Fund by private investors, ecommerce platforms, and/or donor nations, and eventually making it self-sustaining.

II. Global Fund for Ecommerce: How It Works

Research shows that merchants in developing countries need is greater awareness of why and how to adopt ecommerce and, in particular, how to use online selling as a means to attract buyers

from around the world. In addition to standard trade issues such as meeting foreign product standards, participation in cross-border ecommerce requires merchants to have a range of new capabilities, such as:

- Identifying best-fit foreign markets and customers in the cyberspace
- Marketing via social media and geotargeted ads
- Leveraging plug-ins for tasks such as data analytics on customers
- Creating a multichannel shopper strategy
- Using online payments systems used by overseas customers
- Partnering with foreign ecommerce platforms
- Understanding delivery and return systems and their costs
- Understand ecommerce fulfillment process for overseas markets

Export promotion and trade capacity-building as we know them won't suffice to help companies in these areas. Public sector support tends to be *ad hoc*, and export promotion agencies unlikely have the best technical knowhow in cross-border online sales. The best trainers of merchants are either other merchants who have used ecommerce successfully, or ecommerce platforms like eBay or payment platforms like PayPal that have not only the right expertise, but also a keen corporate interest cultivating new ecommerce users. However, they are as yet not organized to systematically train merchants, nor are they funded to do so.

This needs to change. Fortunately, governments around the world are already working on programs and ideas on ways to build SMEs' capacity to engage in ecommerce. This experimentation lends itself to testing of models that might work. However, many of these experiments, unless thoughtfully designed and rigorously and expertly executed, can be a waste of resources – have a low return on investment. And unless measured against common metrics, these experiments also do not lends themselves to iterative improvements and cross-country learning – that can only happen when the characteristics and performance metrics of the various projects are captured.

SME capacity-building for ecommerce should work like venture capital: there needs to be a criteria for projects, and consistent measures across projects on their outcomes. These are discussed next.

Project Selection Criteria

SME capacity-building projects have two starting points: sourcing of the SMEs, which in most cases will be done by the export promotion agency in association with industry chambers or direct marketing, and vetting and selection of the SMEs, which can be done by the export credit agency with a secondary vetting by the project funder.

The companies that participate need to meet certain criteria, primarily:

1. Be in business: have at least $100,000 in revenue over the past 6-12 months.
2. Be willing to pay a small, $200 application fee, which serves as a commitment device and helps screen out uncommitted as well as pre-revenue companies.

3. Have a dedicated team and/or person to be trained.
4. Have a clear, tangible export goal to attain via the program, such as "doubling ecommerce exports to the U.S. market in the next 6 months." Each company will be assessed by their attainment of the goal.

Since the training needs to be scalable and thus is unlikely fully customized to any one SME, the export promotion agency will group the applicant companies by:

1. Market: B2B or B2C
2. Sector: goods or services; ideally even finer cuts as food products, electronics, clothing, car parts, IT services, etc.
3. Readiness for cross-border ecommerce:
    a. Companies that already export using ecommerce
    b. Companies that have ecommerce sales but do not export
    c. Companies that have revenue and export but have no online sales
    d. Companies that have revenue but do not have online sales or export

Thus one program could be for 200 B2C food processing companies that have some export revenue but none from online sales. This way each participant starts more or less from the same level and the training is more customized – which helps overcome the perennial tension is SME capacity-building between customization and scalability.

Each paying applicant is this assessed as a potential entrant into the program is to submit the following ***characteristics***:

1. Sector
2. Locations(s) in which operate
3. Revenue and EBITDA this year and two prior years
4. Number of employees
5. Names of person(s) to be trained and their skill level (dropdown of four)
6. Cross-border ecommerce readiness (dropdown of four)

In the interest of capturing the gender dimension of digital trade, something many donor agencies are interested in, the seventh characteristic companies should submit is the gender of the founder and of C-level team members.

Once companies responding to a call for companies by an export promotion agency, submit these data, and pay their application fees, non-qualifying companies are screened out and the remaining ones are grouped as above, by their market, sector, and readiness. Of course, the export promotion agency can simply do calls for companies in specific regions and sectors, to ease the work of grouping companies.

Performance Metrics

Measuring companies' performance is key to learning from the various projects and improving their performance over time. As such, each company that is admitted to the program needs to

submit the following ***performance metrics*** when applying, 6 months into the project and every 6 months thereafter for 2 years:

1. Total ecommerce sales and purchases
2. Ecommerce sales of all sales and purchases of all purchases
3. Ecommerce exports and imports
4. Ecommerce exports of total exports and imports of total imports
5. Names of ecommerce export markets, by share of total exports
6. Names of ecommerce import markets, by share of total imports
7. Margins in ecommerce sales
8. Margins in ecommerce exports
9. ROI from investments in ecommerce sales
10. ROI from investments in cross-border ecommerce sales
11. Intensity of use of online payments in all sales and purchases
12. Intensity of use of online payments in all exports and imports
13. Number of employees, plus contractors and vendors, by gender
14. Number of employees, contractors and vendors directly associated with ecommerce, by gender
15. Number of employees by their skill level and gender
16. Main obstacles to increasing ecommerce sales (dropdown of options)
17. Perceived impact of training on ecommerce sales (dropdown 1-10)

SME Training

The training is done by experts in ecommerce and cross-border ecommerce. To make the effort most actionable, SME merchants immediately begin using a global platform such as eBay. There could be cost-sharing whereby 20 percent of the cost of these trainers is paid by the platform, which is poised to get new clients via the program; 80 percent is paid by the project funders.

Providing capacity-building is not new to platforms. Among the leading examples of models aimed to help SMEs reach new markets is the capacity-building project among B2B ecommerce platform Tradekey, the Deauville Partnership, World Bank, and International Trade Center that helps merchants in Tunisia, Morocco and Jordan to reach international buyers. For its part, eBay has a Seller Center that helps guide aspiring eBay sellers, while eBay University offers low-cost personal instructors in U.S. and Canada for companies to learn to sell online.

The participants in each group of, say, 200 SMEs are trained for the equivalent of 3 weeks, or 120 hours, and individually an hour. With trainers charging $200 per hour, the overall net cost per a group of 1,000 companies with 1,100 applying is $70,000, or $700 per company. Platforms cover $14,000 (with customer acquisition cost collectively at $14) at and the export promotion agency (or donors and investors) cover $56,000.

This means that there can be training for 100,000 companies to export online with $5,600,000, plus administrative costs of approximately $400,000 for a team of 2 program managers operating for 2 years. As such, it could be possible to train 100,000 companies at $6 million. If,

conservatively, a typical company has $100,000 in sales and doubles it to $200,000 as a result, the overall trade gains from the project are $10 billion.

Project graduates can be offered an online training tools to keep refurbishing their skills, and goal-setting tools to keep them on track to attaining their self-ascribed revenue and export targets.

To encourage performance by companies, the best performers can receive hard cash and service prizes and strong PR, such as in an Inc. 1,000 competition. Similarly, trainers whose cohorts have the best performance metrics can be given a strong bonus.

This model of course presumes that training is effective even if done at scale and not fully customized to company. It also presumes that online training, however customized, is not as effective as in-group training by a live instructor – which of course means that some of the trainees would need to pay their costs to be presence in the locations where training is carried out. We also here assume that SMEs would be willing to pay the application fee. A/B tests in each of these areas to identify the optimal model(s).

III. Funding the Global Fund for Ecommerce

High-ROI ecommerce capacity-building projects should not be stymied by lack of capital or long wait times for financing. Perhaps the best way to ensure financing and impact alike is a Global Fund for Ecommerce. The fund can run on one of three funding mechanisms:

1. Public-Private Partnership: Social Impact Bond

The first and likely the best model is a public-private partnership turning on the social impact bond model, whereby private foundations and social impact investors make the initial investment and get compensated by donor governments and development agencies if certain metrics are hit, at a rate that is higher than their cost of capital.

This model incentivizes private investors to invest in high-impact projects to support ecommerce development — and upon success, say, average of 30 percent improvement on all metrics by all companies and 50 percent improvement on half of the metrics within a year among 50 percent of participating companies – secure financial, economic, and social return. Also the trainers can be incentivized – for example, donors and the participating platform(s) could agree to give a bonus to outperforming trainers.

This model also ensures iterative improvement. All parties have an interest in analyzing each project's impact rigorously, and improving the next time. Everyone wins: merchants get more sales, governments get more exports, investors get a return, donors get impact, and ecommerce platforms get more clients in hard-to-reach markets.

Ensuring SMEs are incentivized to perform is important and can be done, for example, with prizes for the companies that have the highest aggregate score across the metrics.

The downside can be that investors might be reluctant to engage alone, especially if the performance metrics are not clear and donors can renege on their initial commitment. As such, donors should put aside in an escrow the capital that the investors will get if the key metrics are hit. Given investors would likely want to see the model play out before jumping in, the first private investor who invests in the first project should get a premium on the return.

This model is also highly conducive to producing triple bottom line returns: investors want a financial return, while donors provide them with a financial return in exchange for economic and social returns.

2. **Public-Private Fund**

Another model is more conventional: a pool of capital supplied by donors and private sector platforms that is invested in high-ROI projects on a rolling basis. This model works very much like an impact fund or venture capital fund: projects and participants are vetted against key metrics, and the service provider (trainer) and the companies can be incentivized to perform. To make the model sustainable, the platform partners could be asked to reinvest - for example, each platform could be required to reinvest 1 percent of the revenue it gains for the merchants introduced to them via the project for the first 2 years.

The upside of this model is simplicity. The downside of this model is that there is not the same urgency to perform as in the social impact bond model, unless the donor is under political pressure at home to show high ROI on projects involving taxpayer money.

3. **Syndicate of Private Funds**

The third model is led by impact funds and other investment vehicles. Under this model, governments identify and vet the participating companies, the investors or a syndicate vet them as well and select the trainers, and investors get paid a share of the export revenues generated from the project – from money the platforms make. Making the trainees revenue-share is complicated: it is hard to keep track of hundreds of companies and their earnings, let alone diligence each candidate as a potential investment target, and companies will also have an incentive to hide their revenues.

This model is much like a VC of an incubator. It ensures diversification for the investors, reiterative learning or what works, and incentives to fuel companies' performance.

The private investors would likely ideally be a syndicate of funds that are looking for a triple bottom line. However, the social and economic returns may not drive all investors – thus only the highest-performing companies would be invited to participate, much like a VC that invests in only 1-2% of companies sourced. To incentivize private investors to get in the game and to also invest in the riskier, smaller companies, donors could co-invest and/or provide guarantees of up to 50%.

Table 1 – Models for Financing the Global Fund for Ecommerce

Model	PPP: Social impact bond	Public-private fund	Private investors
Initial investor	Private, such as an impact fund	Donors and platforms	Private, such as an impact fund
Monetization model	Once performance metrics hit, donor(s) buys the project from the private investor at a premium and above the investor's cost of capital	Either grant-based, or some profit-sharing with platforms	Profit-sharing with platforms
Role for the export promotion agency	Source and group companies, train on some aspects of exporting, help monitor performance	Source and group companies, train on some aspects of exporting, help monitor performance	Source and group companies, train on some aspects of exporting, help monitor performance
Role for platform(s)	Pay 10-20% of training	Pay 10-20% of training	Pay 10-20% of training
Role for SMEs	Pay application fee of $200	Pay application fee of $200	Pay application fee of $200
Pros	High urgency for delivering triple bottom line - financial, economic, and social returns	Responsiveness and stability: a ready pool of callable or committed capital	High urgency to generate returns (i.e., ecommerce exports)
Downsides	Getting the first investors to join and buy into the targets as doable; having sufficient commitments upfront rather than project-to-project	Lack of similar urgency to perform as in the other models	Lack of social and economic returns - incentive to select financially best-performing companies
How to mitigate	First-mover investors likely need to be induced with high returns	Incentivize SMEs and trainers to perform via prizes, bonuses	Public sector will likely need to subsidize riskier, smaller companies.

Fund Management Team

Through the initiative, developing country governments and industry associations would systematically identify groups of merchants that want to learn to leverage ecommerce and

understand their specific needs. The fund would respond by creating a custom capacity-building program with the right team of trainers.

Naysayers may say that ecommerce companies would provide training without outside subsidies to get more clients, and investors should mount programs of this nature on their own. This however has not happened even in big markets – some nudge, organization and seed funding are required for ecommerce capacity-building to take off.

This also means that the Global Fund for Ecommerce requires an executive team that coordinates project flow with the export promotion agencies; vets the companies that are selected, verifying export promotion agencies' due diligence; administers the pool of trainers; keeps track of the metrics and identifies best practices; brings the funders around the table and irons out any differences among them. This team could be very lean, 1-2 full-time people and 1-2 part-time, and funded or seconded by a donor at perhaps $400,000 per year with travel and overhead. After year 1, the cost can be covered with returns from the projects.

Performance metrics are critical to ensure improvements and catch companies that are underperforming. The metrics can be takes each 6 months; however, also real-time data ca be used, for example with a software that tracks every company's online sales and destinations. Combined with an AI application, these data can also yield ample insights as to why one company or project outperforms while another underperforms.

IV. Conclusion

Ecommerce and online payments are historic tools of trade and development: they enable entrepreneurs to get into business and access world markets at a lower cost than ever before. Yet for business owners not steeped in technology, these tools can initially be intimidating. Until now, there hasn't been a coherent vision on ways to take merchants to the ecommerce era. A Global Fund for Ecommerce would be a key way toward that goal, by enabling and incentivizing ecommerce platforms, payment providers and other commerce companies to train merchants in developing countries on ways to apply ecommerce and the associated technologies

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