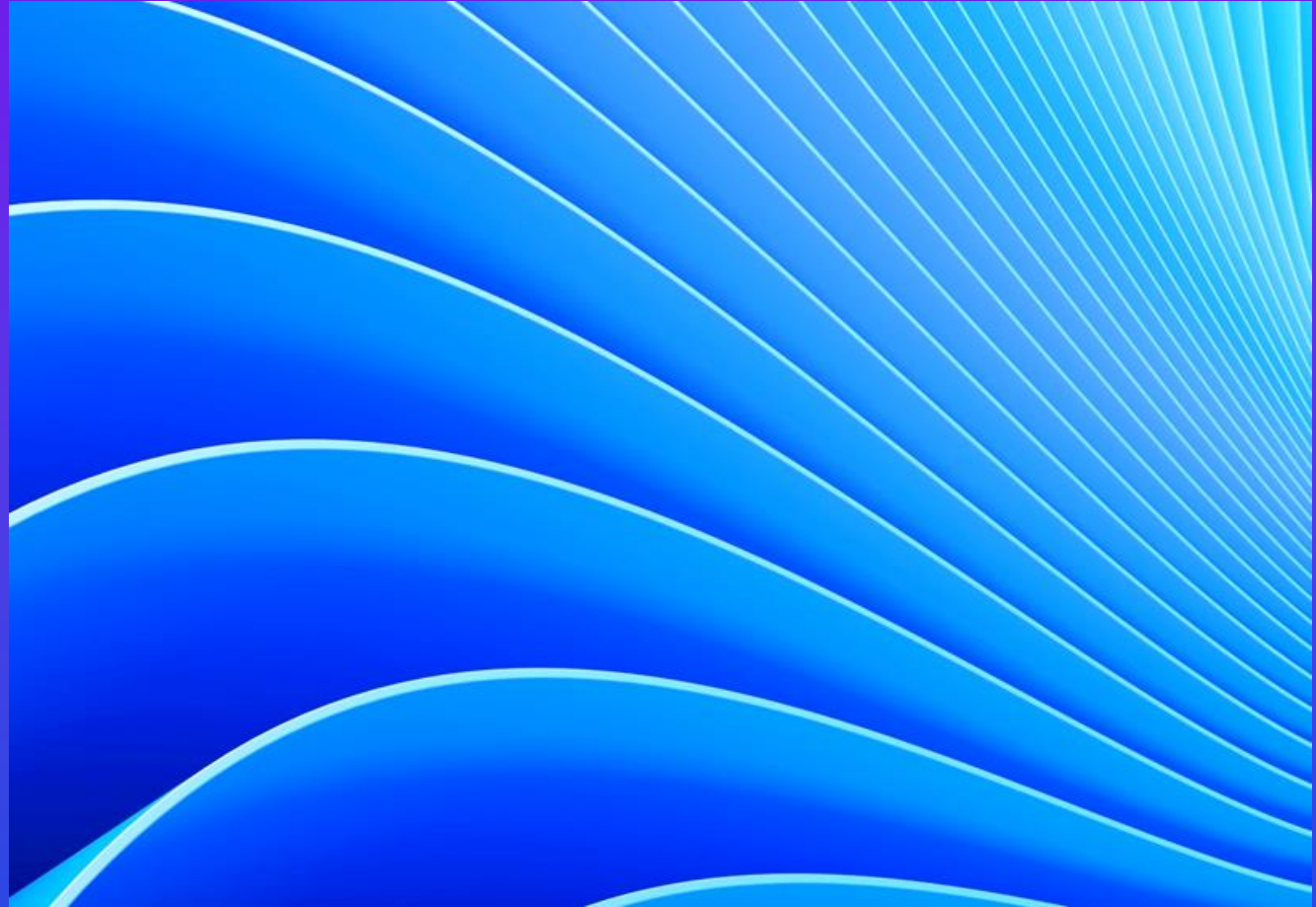




E-commerce in Central Asia

Strategy & Operations Group
KPMG Caspian

—
July 2022



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00

Foreword



Foreword

E-commerce has become a unique tool which contributes to the economic development of countries by creating jobs, driving entrepreneurship, supporting small and medium businesses, decreasing disproportion among regions and making online shopping widely accessible, convenient and safe. In developed countries, up to 5% of GDP is generated by B2B and B2C e-commerce.

In the current research we have analyzed the current state of e-commerce in 4 countries of Central Asia – **Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan**. For Kazakhstan and Uzbekistan markets we have provided our forecasts on the further growth of the sector by 2025.

In the Central Asia region Kazakhstan is a leader in e-commerce development with almost **10% of e-commerce penetration**. By 2025, according to our forecast, e-commerce turnover of the country might reach **5 bn USD**.

Uzbekistan is a new star market, which has been receiving a huge attention lately, supported by a forecasted **CAGR of 40% for 2022-2026**.

Kyrgyzstan and Tajikistan are considered as emerging markets with limited potential due to various reasons, but the main constraint for e-commerce development is the low digital connectivity in the countries.

Overall the region has a big potential not only for internal economic purposes, but also for **exporting activities**. In the region craftsmanship is widely spread. With proper support from the governments, local businesses can be present on international e-commerce platforms which are available for potential customers from overseas and start exporting their products.

However, the **current situation in the region** might have **negative impact** on the e-commerce development, and hence, its **consequences** shall be **carefully considered** by all players and **envisaged in their business and operating models and strategies**.

“E-commerce can boost economic activities and significantly impact the social environment of a country provided that entry barriers are fallen and supporting measures are undertaken”



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Current situation in the region might slow down the forecasted e-commerce development pace

Factors impacting e-commerce

01

Sustained high inflation

Resulting in increase in base interest rates which might limit the possibilities of players to invest themselves or to attract investments, which is critical for e-commerce since it requires constant development

02

Increase in energy prices

Transportation around the world is becoming more expensive leading to higher prices of the goods

03

Disruptions in global supply chains

Carriers are forced to change traditional routes and raise the cost of services

04

Rising food prices

This will also negatively affect the purchasing power of customers and their desire to make purchases, leading to decrease in average checks

05

The emotional state

Uncertainty and tense situation in the region cause stress among the population changing their shopping behavior

It is clear that the industry landscape will not be the same, and waiting for the situation to stabilize is not a solution.

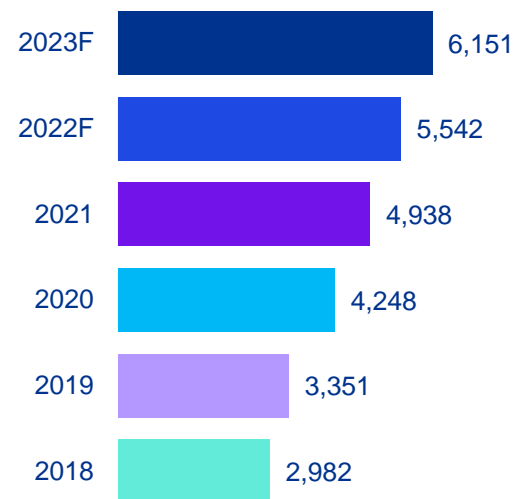
Players need not only to quickly adapt to new realities, but to form new “modus operandi” in order to maintain their positions. While some opportunities for players may be reduced, there will be new opportunities. The latter is especially relevant for the countries of Central Asia, where new trade relations are being actively formed.

01

**Global
perspective on
e-commerce**

By 2023 global e-commerce turnover is expected to reach USD 6 trillion with 22% share in total retail sales

E-commerce sales, bn USD



Source: Statista.com

20%

E-commerce share in total retail sales worldwide

Sources: KPMG analysis, Statista.com

E-commerce has been changing traditional ways of trading around the world over the past 20 years, making online shopping accessible, convenient and safe for customers, and promoting entrepreneurship by giving a level playing field for new businesses.

COVID-19 has fueled the growth of the sector, launching a new round of opportunity and development. Thus, the global volume of e-commerce in 2021 grew by almost 50% compared to 2019 with the e-commerce share in total retail sales soared to 20%.

By 2023 global e-commerce turnover is expected to reach USD 6 trillion with 22% share in total retail sales worldwide.

Such growth and popularity of e-commerce can be explained by the advantages and benefits which it brings to all market players.

Transparency

Affects underground economy and ensures transparency

Global presence

Brands can easily sell to customers worldwide

Efficiency

Impacts business costs, productivity and innovation

Boosting the economy

Supports local businesses, creates jobs, encourages entrepreneurship

Global trends in e-commerce



Purchase of essential goods online is increasing

More consumers than ever before are buying **essential items** online

Marketplaces are increasing essential item sales, e.g. **Alibaba** doubled its stake in grocery retailer



Personalization

80% of shoppers are more likely to buy from a company that provide **personalized offers**



Omnichannel shopping is on the rise

60% to 70% of consumers across categories shopping **both in store and online**

Amazon tripled its number of US grocery pickup locations and saw a 200% increase in online grocery sales



Customer-centric models

Leading companies across industries transforms their operations **from product-centric to client-centric** models, e.g. Amazon, Apple, Starbucks, etc.

Sources: KPMG analysis, Forrester Report Prepared For Brenda Hill With KPMG International Cooperative



E-commerce players worldwide drive growth through services

Players are increasingly investing in loyalty programs, digital advertising services and faster delivery times



Loyalty programs

Loyalty programs drive sales:

- Alibaba's most valued customers have a high membership score and spend more than \$14,000 per year.
- Amazon grew its Prime membership by 50% in just over a year, from 100 mln global users in June 2019 to 150 mln in October 2020. Its Prime Day 2020 sales increased by nearly 60% compared with a year earlier.



Digital advertising services

Digital advertising services generate more revenues:

- In the first nine months of 2020, Amazon's fastest revenue growth came from its online advertising services, which grew by more than 40%.
- Etsy's new advertising service, Offsite Ads, automatically promotes sellers' listings on multiple internet platforms and only charges Etsy sellers when a shopper clicks on an advertisement and makes a purchase. Although Etsy allows most sellers to opt out of this service, it requires its top sellers to take part.



Faster delivery times

Players improve their delivery times:

- For faster delivery in the US, Amazon plans to deliver 85% of its parcels through its own ecosystem over the next 18 months, compared to 2015 when UPS, USPS, and FedEx delivered 97% of Amazon's packages.
- In Europe, Alibaba-owned logistics company Cainiao launched an international air freight route in August 2020 to speed up average delivery times between China and Southern Europe.
- In Poland, Allegro plans to invest over €200 mln to expand its network of collection points and add delivery tracking and the automated processing of returns.

Sources: KPMG analysis, Forrester Report Prepared For Brenda Hill With KPMG International Cooperative



02

**E-commerce
overview in
Central Asia**

Central Asia is receiving attention as an emerging market with high potential for growth and opportunities

75 mln

Total population in the region

27 y. o.

Average age of the population in the region

300 \$

Average monthly nominal wage in the region

60%

Average Internet penetration rate for the region

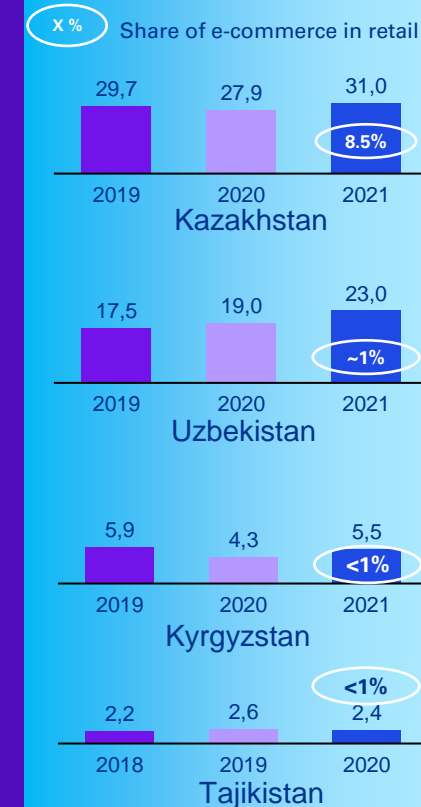
The Central Asia region (CA) comprises the countries of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, with total population of 75 million people. With its geopolitically and strategically important location between Asia, Europe and the Middle East, Central Asia is receiving attention as an emerging market with high potential for growth and opportunities.

Kazakhstan is the leader in the region in e-commerce development, with almost 10% of e-commerce share in overall retail. Both local and international e-commerce players are driving the market growth by providing high quality digital shopping experiences (next-day delivery, pick-up points, smart lockers, personalization, loyalty programs, etc.).

Second goes Uzbekistan with USD 23 bn in retail turnover. Such players as Wildberries, KazanExpress have entered the market in the beginning of 2022 attracted by the huge untapped market of 34 mln people and the big potential fueled by the improving Internet, smartphone penetration and overall economic and political situation.

Along the Central Asian countries, Kyrgyzstan and Tajikistan are the last ones on the rate list, with the lowest e-commerce penetration, which is mainly due to limited digital connectivity.

Retail turnover, bn USD



Sources: KPMG analysis, World Bank, National statistics of the selected countries

Trends among existing e-commerce leaders in Central Asia

Existing e-commerce players mainly in Kazakhstan and Uzbekistan are constantly improving their services in order to create high entry barriers for new players



Ecosystems

Players tend to develop necessary supporting e-commerce services, such as logistics', payments' system, in-house, hence, building own ecosystems



Personalization

Based on historical purchasing patterns, wish lists and additional channels, players personalize communication with clients



Fitting option at pick-up points

Considering moderate trust level in the region, players offer free fitting options for customers to try or investigate product through equipped pick-up points



Fast delivery

Delivery time shortened as 1-5 day delivery within major targeted destinations



BNPL

Players launch Buy Now, Pay Later instrument which provides convenience to customers by mitigating the need for making entire payment at the time of the purchase



Payment variety

Players offer a wide range of desired payment mechanisms, e.g. cash on delivery, online payments, etc.



Warranty

Players are improving the return policies, making them more convenient and easier, so that increases customers' trust and loyalty



Gamification

Implementing gaming-related concepts, such as rewards, into a non-game concept trend

Sources: KPMG analysis

2.1

**Country
overview:
Kazakhstan**

Kazakhstan is a e-commerce leader in the region with almost 10% share of e-commerce in overall retail

19 mln

Total population of Kazakhstan

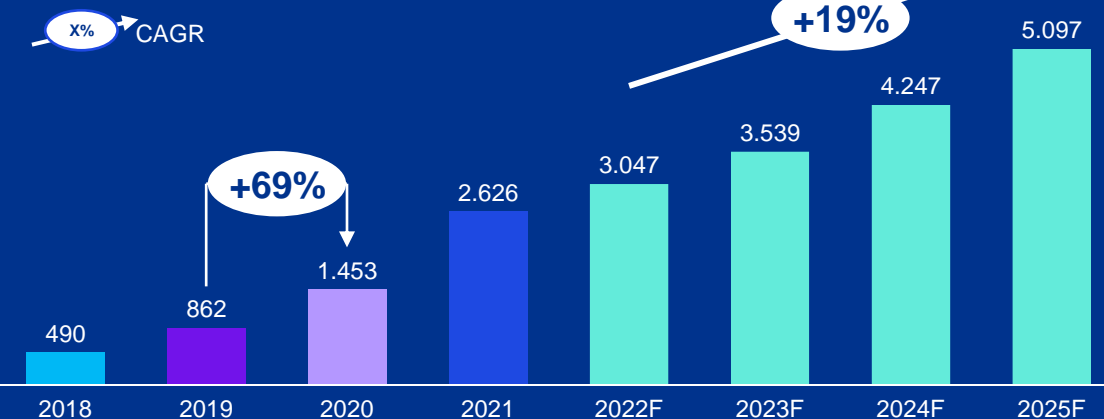


Share of Internet users in the total population aged 6-74 years

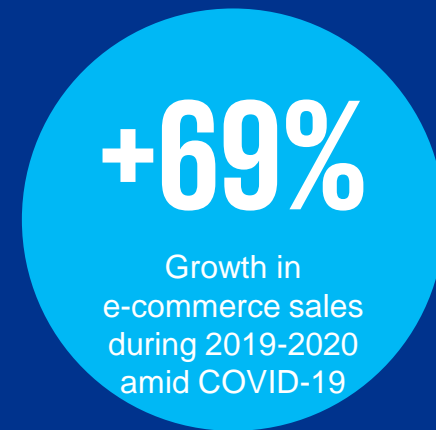


Share of non-cash transactions

E-commerce turnover, USD mln *



COVID-19 gave another **momentum** for the e-commerce market in Kazakhstan which has been **vigorously developing** for the last years, engaging more and more customers and making digital shopping common for everyone in the country. To prove, the overall **volume of e-commerce market grew by 69%** in 2020 compared to the same period of 2019. The **main drivers** of the growth remain a relatively high speed, affordable Internet, high smartphone penetration and developed banking system. All mentioned enables Kazakhstan to reach **~10% share of e-commerce** in total retail sales and become a leader in e-commerce development in Central Asia. **Top 3** e-commerce companies operating in the market are AliExpress, Kaspi.kz and Wildberries. The presence of other strong brands such as Ozon, ZoodMall, and big banking players with own platforms such as Halyk Market, Jusan Market, Forte Market, etc. form the competitive land forcing players to constantly expand and improve their services.



Notes: (*) KPMG applied its own methodology to build the market volume model and evaluate the forecast
Sources: KPMG analysis, Euromonitor, National bank of Kazakhstan, ITU



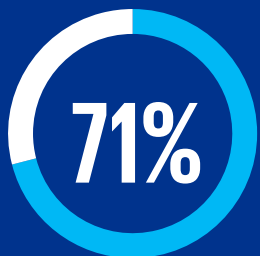
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**Country
overview:
Uzbekistan**

Uzbekistan is a promising market which is on its way for the future hypergrowth

34 mln

Total population of Uzbekistan

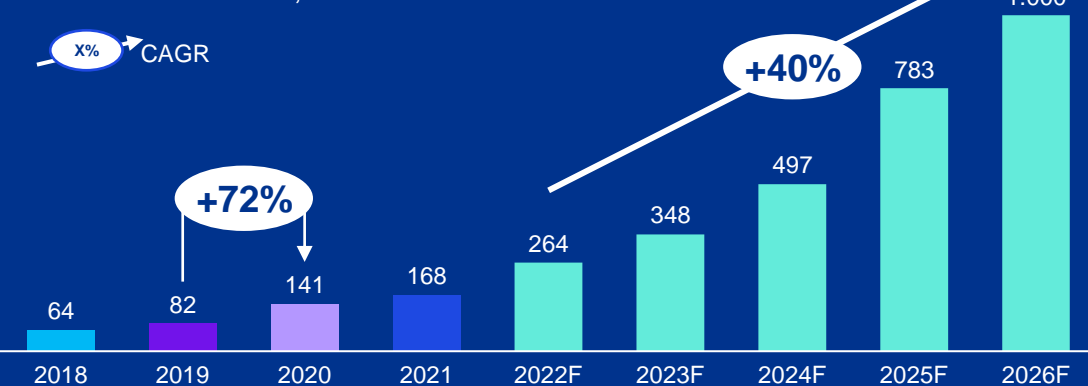


Share of Internet penetration (2020)

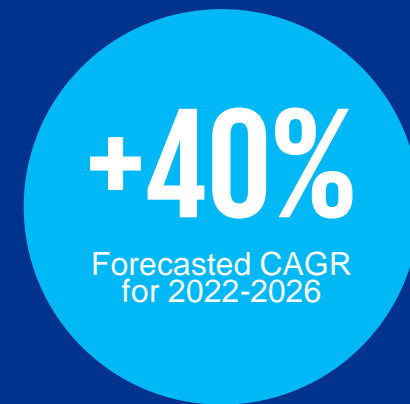
22.5 mln

Remote banking users

E-commerce turnover, USD mln *



COVID-19 has not dramatically affected the e-commerce market volume of Uzbekistan which has been deliberately growing for the last years and amounted to USD 168 mln in 2021. However, the market is expected to **grow notably** in the forthcoming years, namely at a **CAGR of 40% to USD 1,000 mln in 2026**. Such growth is accelerated by the **enhancement of key e-commerce drivers** and enablers which earlier were underdeveloped such as Internet (incl. 4G) availability, its speed and accessibility, smartphone penetration and mobile banking. The **predominantly** (48% of young generation at age of 15 to 45) **young population** with the median age of 28 years is a crucial factor for further e-commerce development. In order to support the e-commerce players, the government has introduced a special tax incentive, e.g. it charges **only 2% tax from online revenue**, compared to 4% rate for traditional commerce. As for the players, large international e-commerce platforms, such as Wildberries, ZoodMall, etc., are already operating in the country along with local players forming a competitive land.



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Notes: (*) KPMG applied its own methodology to build the market volume model and evaluate the forecast

Sources: KPMG analysis, Euromonitor, National bank of Uzbekistan, ITU

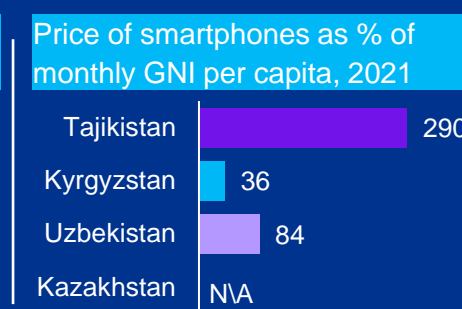
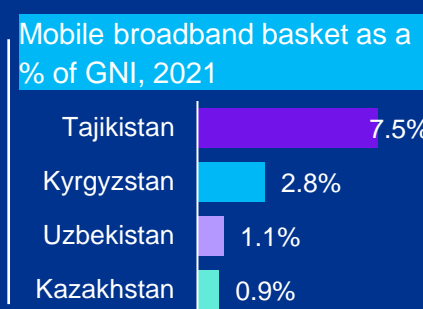
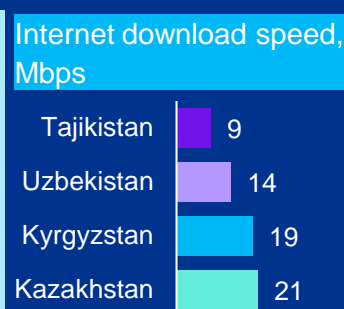
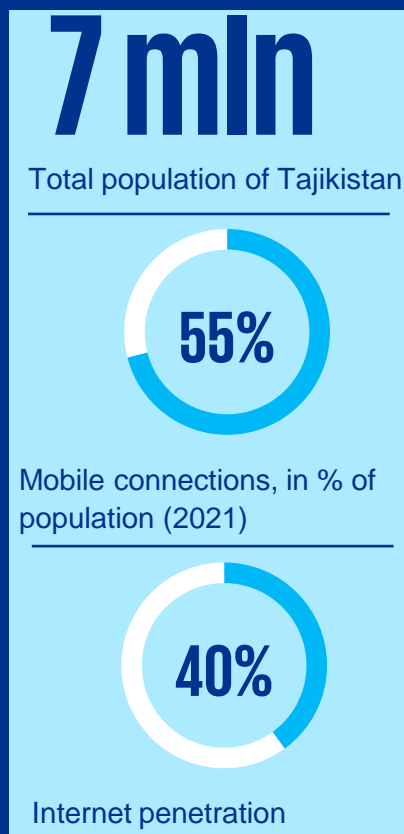
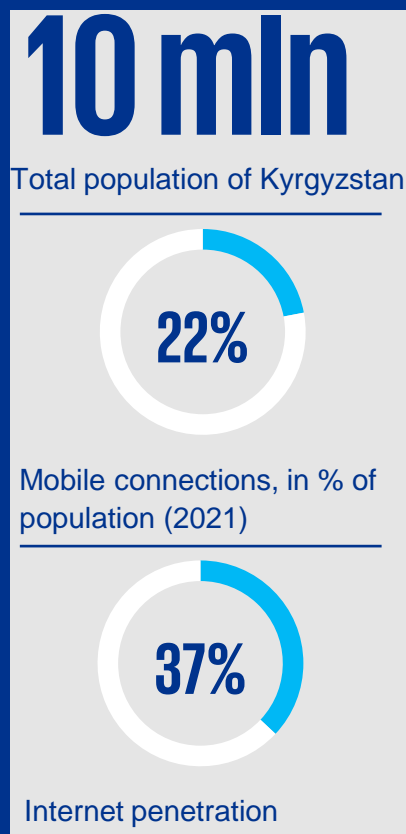


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2.3

**Country overview:
Kyrgyzstan and
Tajikistan**

E-commerce development in Tajikistan and Kyrgyzstan is insufficient and costly mainly due to the low digital connectivity outside of major cities



E-commerce market both in **Kyrgyzstan and Tajikistan** is at an early stage of the development and remains almost negligible in terms of its volumes. One of the key reasons for that is **low digital connectivity** in both countries, with the overall internet penetration of 37% and 40% in Tajikistan and Kyrgyzstan, respectively. As for the Internet speed and accessibility, Tajikistan is falling behind with the parameters 9 Mbps and 7.5% for the 1.5 Gb package as a % of GNI per capita, the highest figure in the region, proving that the Internet is not widely accessible and affordable, whether Kyrgyzstan has better performance indicators as 19 Mbps internet speed and 2.8% for the 1.5 Gb package as a % of GNI per capita. On top of that, a low smartphone penetration associated with the lower affordability also puts a constraint on the e-commerce development. The above said form significant barriers for the e-commerce development. The governments of Tajikistan and Kyrgyzstan with the support of International Organizations initiated development activities in the sphere of e-commerce to increase awareness among local citizens and businessmen. However, the necessary ICT infrastructure shall be further developed. As for current players, group of local startups has emerged in e-commerce area over the past decade, including players in Tajikistan such as **Alif Shop, Somon.tj**; and in Kyrgyzstan such as **Kivano, Svetofor, etc.**

Sources: KPMG analysis, ITU, National statistics of the countries

03

Challenges in the region for e-commerce development

Existing challenges and risks identified for e-commerce development in the region

Kazakhstan

- Customs-related inefficiencies
- High costs associated with transport & logistics
- Limited capacity of the current transport & logistics' infrastructure
- Limited interest in e-commerce outside of major cities
- Cybersecurity risks
- Currency risks
- Data protection risks

Kyrgyzstan

- Low internet penetration
- Limited market potential with limited maturity and competition
- Unstructured government and regulatory strategy on e-commerce
- Shortage of e-commerce professionals
- Cybersecurity risks
- Currency risks

Uzbekistan

- Customs-related inefficiencies
- Limited availability of parcel delivery services, delivery service providers
- Limited number of mature merchants willing to work officially
- Shortage of e-commerce professionals
- Buying and selling culture: lack of trust in cashless transactions
- Low level of confidence in online sellers
- Cybersecurity risks
- Currency risks

Tajikistan

- Limited ICT infrastructure
- Low smartphone penetration
- Monopoly of state owned telecom providers leading to expensive 3G/4G internet
- Limited market with limited maturity
- Low paying capacity of residential consumers
- High poverty rate (26.5%)
- Cybersecurity risks
- Currency risks
- Legal framework with barriers to digitalization



04

Way forward

E-commerce has a huge potential to boost the economy of the Central Asian countries provided necessary landscape is created

Legal policy and other supporting initiatives

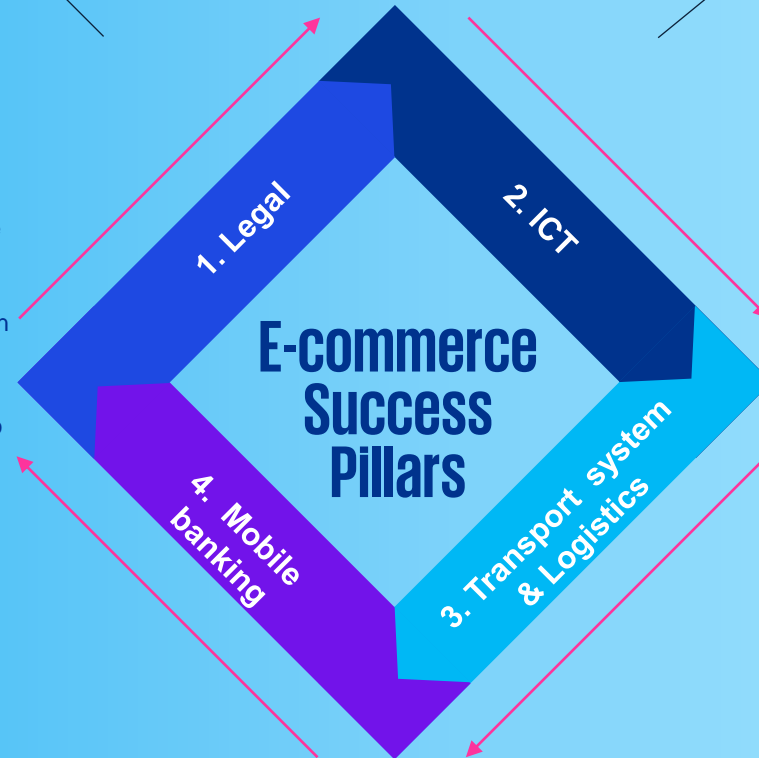


- Measures that promote the enhancement of information technologies and access to advanced networks might be considered.
- Governments are recommended to push the institutional and policy environment to be more responsive and to fast changing e-commerce sector. For instance, e-commerce will generate pressures to reduce differences in regulatory standards for newly tradable products.
- The correlation between income and access to the Internet means that policies to ensure access for lower income groups may be needed.

Development of mobile banking



- Conducting online payments using a mobile banking is important for online shopping, hence, banks shall provide seamless banking services and maintain high customer trust.



ICT capacity development

- Governments are recommended to promote / subsidize the development of ICT technologies.
- Telco companies are recommended practice the enlargement of the expansion of network connectivity outside of the major cities to decrease the percentage of the unconnected and avoid network overcrowding.
- Enhancing cybersecurity and data protection capacity of the country is another crucial point for e-commerce development.



Transport system & Logistics

- Development of urban freight logistics as well as the connection between urban and rural areas, and between warehouse/consolidation centres and consumption centres is required for e-commerce development.
- Enhancing the transit regimes for better corridor efficiency could also help reduce transport costs along the supply chain and speed up delivery.
- The overall connection between Central Asian countries by the transit routes needs to be diversified for the provision of greater digital resilience and more capacity.



05

Contacts

The research has been carried by Strategy & Operations team, KPMG Caspian

Strategy & Operations group provides a wide range consulting services, incl. strategic sessions, market assessments, formulation of strategy and development of business as well as operating models.



KPMG Caspian includes offices in Kazakhstan, Uzbekistan, Kyrgyzstan, Azerbaijan, Georgia and Armenia.



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