

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

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## EXECUTIVE SUMMARY



# INFORMATION ECONOMY REPORT 2011

*ICTs as an Enabler for Private Sector Development*



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The *Information Economy Report 2011* demonstrates that effective use of information and communication technologies (ICTs) in both the private and the public sector can significantly contribute to and accelerate progress in private sector development (PSD).

Governments and their development partners should take a holistic and comprehensive approach to leveraging ICTs in PSD, although a review of PSD strategies indicates that this is often not the practice. Similarly, donor strategies often refer to the use of ICTs in PSD in a peripheral manner only, if at all. On its own, new technology will have limited effects on PSD. However, when carefully integrated into policies and processes, ICTs can reduce business costs, promote transparent, rules-based systems, and improve communication between the public and private sector. Governments need to work with the private sector to create an investment climate and a business environment that encourage the use of ICTs within private firms as well as in government. The potential of ICTs can then be realized, through adequate infrastructure and skills, and a commitment by governments to making markets work effectively. In some areas, there is already considerable experience and evidence to guide policy initiatives. In other areas, where opportunities for ICTs to contribute to PSD have emerged only in the past few years (as in the case of mobile money services), more analysis and testing of different business models is needed to assess potential and identify best practices.

Enterprises face many challenges which reflect the need to make markets work better, to make internal management and production systems more efficient, to facilitate improved access to information, knowledge, financial services and other resources, and to make business environments more transparent and enabling. The effective use of ICTs can help to improve all of these areas and thereby pave the way for more enterprise creation and expansion. The *Information Economy Report 2011* identifies four facets of the ICT-PSD interface, which serve as a basis for its policy recommendations.

Firstly, the quality of the ICT infrastructure is an increasingly vital determinant of the overall investment climate of a country. Governments and their development partners need to ensure that the ICT infrastructure

meets the needs of different kinds of enterprises, from micro- and small enterprises (MSEs) to larger, transnational corporations. Leveraging the opportunities created by mobile telephony and its related services and applications is particularly important for smaller enterprises in low-income countries. Mobile broadband will require more attention in the coming years as a new way for the private sector in developing countries to leverage the Internet. In order to speed up the roll-out of mobile broadband, Governments need to allocate spectrum, and license operators to provide the service. Indeed, at the end of 2010, some 50 developing and transition economies were yet to launch mobile broadband services.

Secondly, enterprises must be able to make the best use possible of ICTs, as they positively affect productivity in both large and small enterprises. Different kinds of ICTs help enterprises to manage their resources more efficiently, access the information needed for better business decision-making, reduce transaction costs, and enhance their ability to bring products and services to customers. Governments should play a key role in enhancing business use of ICTs in PSD by – for example – ensuring that relevant ICT tools and services are available and affordable, and providing a legal and regulatory framework that supports the uptake and productive use of ICTs.

Thirdly, supporting the ICT sector itself is important. The production of ICT goods and services is providing new opportunities for private firms to start up and grow, create jobs, and spur innovation, thereby contributing to overall economic growth. Governments can create an enabling framework for the ICT sector to expand by liberalizing the sector, enhancing competition in all segments, providing adequate regulations, increasing trust in the use of ICT services, providing training in ICT skills, nurturing ICT enterprises through incubation and by establishing technology parks, and using public procurement to create demand among local ICT enterprises.

Fourthly, Governments and other institutions can apply ICTs to make PSD interventions more effective – both in business environment reforms, and in the provision of business development, business information and financial services. ICTs can reduce the cost of delivering such services, extend their reach, and improve

the functioning of markets. The *Information Economy Report 2011* gives some examples: agricultural extension services, providing business development training material online, establishing business helplines, crowd-sourcing to detect and fight pests and diseases, and ICT-related initiatives aimed at helping small-scale producers to meet certification standards and acquire the skills needed to boost exports. To be successful, ICT-PSD solutions need to factor in both user needs (in terms of what information and other inputs are needed), and possible constraints (e.g. illiteracy, aversion to using new tools, scarce electricity, and unaffordable user charges and prices). Involving the private sector in designing and providing training and advisory services can help ensure that the services offered are demand-driven. At the same time, more research and rigorous impact assessments are needed in order to identify best practices in this area.

The introduction of new mobile money systems is one of the most promising opportunities for leveraging ICTs for PSD. Mobile money systems have provided increased access to finance for MSEs, which have traditionally had greater difficulty than larger enterprises in benefiting from existing financial services. The systems allow for real-time transfer and receipt of small amounts of funds at low cost, and can also reduce the costs of processing and administering small loans, thereby alleviating a significant disincentive for lenders to extend credit to micro- and small enterprises. At the same time, they raise important policy issues and challenges for Governments, and deserve attention from policymakers and the research community in order to ensure positive outcomes.

It is still too soon to fully assess the impact of mobile money solutions on access by MSEs to financial services. Uptake will accelerate as more enterprises become active users of the systems, and when services are well adapted to their needs. Key policy areas requiring consideration are the institutional and regulatory framework, user issues, crime and security considerations, and infrastructure. Many Governments will have to pioneer new legislation and regulations, and the international community should actively support the development of sound regulatory frameworks and relevant institutions, as well as supporting the exchange of practice and expertise.

Another distinct area of PSD that can be better addressed by the use of ICTs is women's entrepreneurship. While ICTs do little to redress underlying societal structures and economic systems that hamper oppor-

tunities for women entrepreneurs, they may be used to overcome some of the challenges that women face, including access to finance, limited skills and training, lack of time due to family commitments, and limited physical mobility. Initiatives and training programmes must be developed bearing in mind these constraints, and with the active participation of the women entrepreneurs that they are to assist.

Finally, the *Information Economy Report 2011* makes a series of policy recommendations:

- (a) *Promote affordable access to relevant ICTs*, taking into consideration what improvements in the ICT infrastructure are required to support private sector activities.
  - (b) *Enhance investment in, and the use of ICTs by, private firms* to reduce the costs of business transactions, improve business management, and enhance the capacity to get goods and services to the market.
  - (c) *Include ICT modules in business skills training programmes*. Such training may range from providing advice on using mobile phones as a business tool to more advanced training in using technologies and applications to improve operational management, customer relationship management or resource planning.
  - (d) *Adopt regulatory frameworks that help to enhance confidence in the use of new technology or new applications of known technology*. In many countries, adequate legal and regulatory frameworks are still needed in order to fully realize the potential of electronic transactions.
  - (e) *Facilitate the expansion of the ICT sector*. Governments should consider how best to tap into new opportunities presented by the production of ICT goods and services. Governments could facilitate ICT growth and employment creation through policy that is aimed at improving the availability of skills, stimulating demand for ICT uptake among local firms, providing appropriate ICT infrastructure and regulatory frameworks, promoting and clustering entrepreneurship and innovations through incubation and ICT parks, and using government procurement.
  - (f) *Make ICT use an integral part of business environment reforms*. When applied effectively, ICT-based solutions have reduced the time and cost of registering companies and obtaining licences, and have increased government
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revenue and transparency. A simplified company registration process may also encourage informal enterprises to formalize – another key PSD objective. ICTs have been able to connect formal and informal businesses to market opportunities, and it should also be possible to connect them to government programmes and services.

- (g) *Leverage different ICT tools in the delivery of business development and information services.* Better use of ICTs could extend the reach of BDS to new and growing enterprises, by overcoming the tyranny of distance and reducing the cost of service delivery.
- (h) *Leverage mobile money services to create more inclusive financial markets.* Mobile money services hold great promise in reducing the costs of providing financial services, especially to MSEs. The international community should support the development of regulatory frameworks and institutions.
- (i) *Recognize the ICT potential in existing or new initiatives to support women entrepreneurs.* More programme and policy attention should be given to the use of ICTs in addressing the specific needs of women entrepreneurs.
- (j) *Better reflect ICTs in donor PSD strategies.* Strategies should address the ICT-PSD interface in a comprehensive way and explicitly recognize the importance of multi-level use of ICTs.
- (k) *Develop guidelines for donors.* In collaboration with UNCTAD and other relevant organizations, the Donor Committee for Enterprise Development could develop guidelines for donor and development agencies, and their programmatic partners, on how to best integrate ICTs into PSD strategies. Such guidelines would help to establish a bridge between donor assistance related to PSD and donor assistance related to ICT for development.
- (l) *Make interventions more demand-driven, and leverage partnerships.* To enhance ICTs' contribution to PSD, policies must be designed and implemented with a solid understanding of the specific needs and situation of diverse enterprises. The input and engagement of enterprises in programme design and implementation should be sought. Such a demand-driven approach will require effective

partnerships between Governments, donors, the private sector and civil society.

- (m) *Devote adequate resources to the measurement of ICT use and impact assessments.* There is an absence of systematic, evidence-based impact evaluation regarding the use of ICTs to promote PSD, resulting in reliance on anecdotal evidence. There is a need for reliable and internationally comparable statistics related to both enterprise and government use of ICTs, and for more comprehensive project and policy evaluations based on empirical evidence conducted through independent research.

A vibrant private sector contributes to building the foundations in an economy to generate the resources needed to address the Millennium Development Goals. It is time for Governments and their development partners to start integrating ICT solutions in a systematic and comprehensive way when designing and implementing interventions aimed at nurturing the private sector. It is hoped that the analysis and recommendations presented in the *Information Economy Report 2011* will provide valuable input into this process.



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