Mainstreaming ICT for Development: The Key Role of the Private Sector

Peter H. Hellmonds

(on behalf of Thomas Ganswindt)

Thank you, Mr. Chairman.

It's a pleasure to be here today, and the subject of this panel is of great interest to me. For the sake of clarity, I'd like to reiterate the issues on the agenda of this panel and formulate them as questions.

- **First**: **What can be done** to promote ICTs where the **market fails**?
- Second and **more specifically**: **What should multilateral organizations do** to promote ICTs and private sector involvement?
- And **finally**: **What is a feasible roadmap** for creating conditions that encourage pri-

vate sector involvement in the mainstreaming of ICTs?

Let me briefly address these questions one by one.

1. Promoting ICTs where the market fails

I understand that the **definition** of **market failure** is colored by the school of thought. Whether **neo-classical** or **Keynesian**, whether **public choice**, **neo-liberal** or **Marxist**, the definition of market failure will vary. But perhaps we can agree on the following general definition:

A "market failure" is a case in which a market fails to efficiently provide or allocate goods and services.

Sometimes, the term "**market failure**" is applied to a **situation** in which market forces produce an **outcome** that is **not** in the perceived "**public interest**." Some of those who subscribe to this "**public interest definition**" then go on and prescribe **government action** to rectify the situation.

But I challenge you to give me **one example** where it is really the **market** that fails to provide ICT goods and services efficiently.

- For **example**, while it may be **socially desirable** to equip schools with computers, it is **not accurate to say** that the **market has failed** if schools are chronically underfunded and therefore cannot buy computers.

In **more general** terms, **if** a society considers a specific market outcome **desirable** and the market does not provide this outcome on its own, then one should not cry "**market failure**" and ask for the **government** to step in. It would be **much more helpful** to find the **specific cause** of the undesirable outcome and to **tackle that** specific cause.

Let's say the price for a very specific, very important product is too high, and average people can't afford it. There could be any number of reasons for this.

- The **reason** could be **lack of competition**. Maybe one vendor dominates the market. The **remedy** here could be to **liberalize the**

market and **remove barriers to market entry**.

- Another **reason** could be that the **import tax** on inputs for the product is too high, so it becomes more expensive. Here the **remedy** would be to **lower the import tax**.

There could any number of other reasons why specific socially desirable outcomes are not produced by the market, but more often than not, the **reason is not market failure** but the **role of government** in shaping the market.

Clearly, it is **government's responsibility** to **make sure** that its **medicine does not kill the patient**.

The **question** is: **What medicine is safe** for governments to use? The **answer** is: Medicine that **improves the investment climate**.

<u>This leads to the second question:</u>

2. What should multilateral organizations do to promote ICTs and private sector involvement?

The recent **World Development Report 2005** highlights what needs to be done to improve the investment climate.

The World Bank surveyed **26,000 companies in 53 countries** in their **Investment Climate Surveys** and benchmarked **regulatory regimes** in more than **130 countries**. Here's a list of the **greatest barriers** to a healthy investment climate:

- **Policy uncertainty**
- **Macroeconomic instability**
- **Arbitrary regulation**
- **Unreliable infrastructure**
- **Contract enforcement difficulties**
- **Crime and corruption**

Investment decisions in the private sector are always based on **expectations** of **future** profits. Each one of these barriers increases the **risk factor**. And the private sector applies a **high risk margin** to its **return on investment** where these barriers exist. The undesirable outcome is that investments fail to get approval. And, this is an outcome that is not in the public interest.

Of the barriers mentioned above, **51%** of the perceived risks are associated with **two factors** alone: **policy uncertainty** and **macroeconomic instability**. Another **39%** of the perceived risks relate to **taxation**, **regulation** and **corruption**.

So it is generally **not a lack of money**, **but an abundance of risk** that prevents investment. The best **multilateral organizations** can do to promote investment in ICTs is to **work with governments** to **improve the investment climate**. No medicine should worsen the investment climate.

What are some of the **characteristics** of a healthy investment climate?

- **Policy certainty** — long-term stability and predictability
- **Rule and enforcement of law**
- **Independent regulatory authorities**
- **Protection of property rights**
- **Macroeconomic stability, and**
- an **environment** that **encourages fair competition**

Finally:

3. What is a feasible roadmap for creating conditions that encourage private sector involvement in the mainstreaming of ICTs?

You may have wondered why I did not say anything more specific about the role of the multilateral organizations. The reason is that I believe the best thing both the bilateral and the multilateral organizations can do is to promote a healthy investment climate, as I just pointed out.

Without trying to preempt the outcome of this discussion, I would posit that we need to look at the **speed at which innovation takes place** in the ICT sector and the **speed in the process of development assistance**.

- **Innovation** in ICT is **measured in months**, sometimes in **weeks**. The **development assistance process** of both multilateral and bilateral organizations, however, is **measured in years or decades**. There is clearly a **disconnect** between these two worlds.
- And there is **another disconnect**, and that is how investment in technology is perceived. Today's ICTs are highly complex,

especially those related to infrastructure. **You don't just buy them off the shelf** and then use them. They have to be **maintained** and **serviced**. Even the most basic Internet portal requires a lot of maintenance.

How, then, should **multilateral organizations** involve the private sector in **public private partnerships?** Here I have one main **recommendation**:

Don't tie projects and procurement for projects to specific technologies. This makes the procurement process extremely cumbersome, and by the time the procurement order is approved, the **technology is obsolete**. Instead, let the private sector handle ICTs. Involve the private sector by **specifying key performance indicators** (through service level agreements). Let me give you some examples:

In **health care**

- **Increase the number** of women who receive prenatal consulting over the Internet

In **education**:

- **Improve average student exam score** after using an e-learning product

In **government**:

- **Reduce time needed** to register a business by X days

- **Increase number of citizens** filing taxes via the Internet by X percent.

If we let the **private sector** do what it does best — **innovate and compete**, and if we let **government** do what it does best — **provide political stability**, then I believe the outcome will be ultimately be positive for society as a whole.

Thank you.