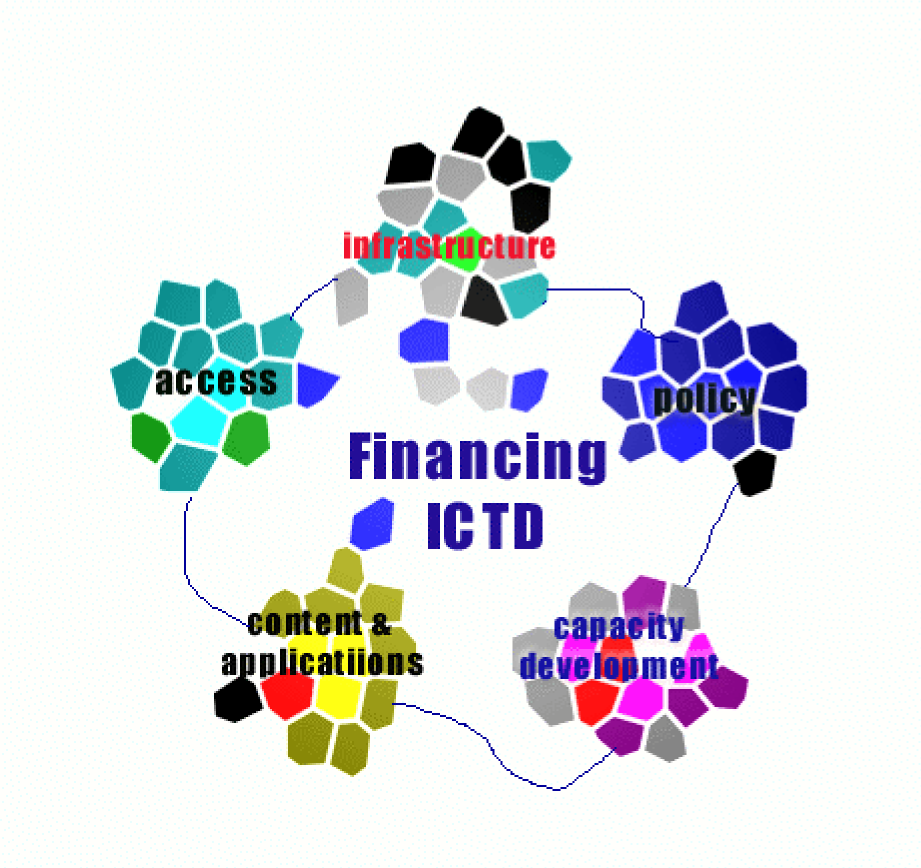
The Report of the Task Force on Financial Mechanisms for ICT for Development



- A review of trends and an analysis of gaps and promising practices

December 22, 2004

The World Summit on Information Society (WSIS), the first phase of which was concluded in Geneva in 2003, recommended that "while all existing financial mechanisms should be fully exploited to make available the benefits of information and communication technologies, a thorough review of their adequacy in meeting the challenges of ICT for development should be completed by the end of December 2004. This review shall be conducted by a Task Force under the auspices of the Secretary-General of the United Nations and submitted for consideration to the second phase of this summit." The Secretary-General asked UNDP to take the lead in setting up Task Force on Financial Mechanisms, in collaboration with the World Bank and the United Nations Department of Economic and Social Affairs and other key partners.

The following report does not necessarily reflect the views of United Nations, which should not be held responsible for its contents.

Table of Contents

Executive Summary

WSIS Context

The WSIS Plan of Action requested the Secretary General of the United Nations to create a Task Force to study the issue of financial mechanisms for ICT and present a report to facilitate the discussions on the subject in preparation for phase II of WSIS:

> "While all existing financial mechanisms should be fully exploited, a thorough review of their adequacy in meeting the challenges of ICT for development should be completed by the end of December 2004. This review shall be conducted by a Task Force under the auspices of the Secretary-General of the United Nations and submitted for consideration to the second phase of this summit. Based on the conclusion of the review, improvements and innovations of financing mechanisms will be considered including the effectiveness, the feasibility and the creation of a voluntary Digital Solidarity Fund, as mentioned in the Declaration of Principles."

The Secretary General asked the United Nations Development Programme (UNDP) to lead the Task Force on Financial Mechanisms in collaboration with the World Bank, UN DESA, and other key partners.

Over the course of the past several months, the Task Force has conducted extensive consultations, research, and reviews of information surrounding the role and effectiveness of financial mechanisms to support ICT for development. The data, analysis, and findings presented in the report represent the Task Force's best understanding of the broad and constantly changing scope of the ICT sector and the use of ICT in the developing world from a financing and development perspective. In the report of the Task Force, the main areas of concern have been clustered into five general categories which relate to the WSIS themes as follows:

TFFM Categories	***WSIS Themes***
Enabling Environment and Policies *security & ethical dimensions are not explictly discussed in the report	4 -Building Confidence & Security, 5 - Enabling Environment, and 9 - Ethical Dimensions of the Information Society
Infrastructure	1 - Information & Communication Infrastructure
Access	2 - Access to Information and Knowledge
Content and Applications	6 - ICT Applications in all Aspects of Life, 7 - Cultural and Linguistic Diversity, Local Content, and 8 - Media
Capacity development	3 - Capacity Building

Background

The financing of information and communications technologies for development (ICTD) needs to be placed in the context of the growing importance of ICT as a medium of communication and exchange that can contribute to a more inclusive global information society, and its role as a *development enabler* which can help to more effectively deliver the goals outlined in the Millennium Declaration. The achievement of these goals has become the focal point of subsequent policy and implementation initiatives by governments and international agencies around the world including most recently at WSIS-Geneva where the financing of ICTD was a central element of the discussion.

The potential to facilitate a broad-based deployment and use of ICT has been ratcheted up by technological transformations that have dramatically lowered the cost of goods and services and expanded the range of technology choices and development solutions. This in turn has stimulated the entry of new players, principally the private sector. The new technologies have also increased the opportunities for civil society, local communities and entrepreneurs to actively participate in the emerging social and economic processes.

Traditionally, in developing countries, ICT infrastructure financing came either from Government budgets, including revenues generated by the state post, telegraph and telephone authorities (PTT), or from donor and international financial institution (IFI) programs that supported major capital infrastructure investments. But the transforming effects of the technological forces have resulted in a major shift in the financial strategies and options among ICT stakeholders, towards a significantly greater reliance on private capital.

The changes in the roles of the different stakeholders and actors has also been accompanied by a sharply increased recognition of the critical importance of the enabling environment for ICTD to facilitate investment and allow actors including those at the bottom of the pyramid to participate in the new information society.

Furthermore, as the effective use of ICT is becoming increasingly central to the development process, developing countries are faced with a whole new set of financing requirements with few roadmaps from the past to draw on.

The rapid transformations in the technological and financing trends for ICTD are reflected in the analysis and findings of this report. The findings represent the key substantive results of the extensive research undertaken by the Task Force, as documented in the body of the main report and its supporting materials.

The basic objective of the Task Force has been to identify sustainable ways to ensure the continuation of current trends and innovative approaches to accelerate the use and availability of ICT resources to a wider range of developing countries and to a broader, sub-set of the population in individual countries.

Findings

Development Context and ICT Trends

1. **The global ICT sector is extremely dynamic and transformational; there is virtually no "status quo".**
   Technology and especially the new ICT are in a state of constant, rapid change. Technological change has dramatically lowered the cost of ICT goods and services and expanded the range of technology choices and solutions. It has also stimulated the entry of new players – principally the private sector - and increased the opportunities for communities and the private sector to provide a range of services to the bottom of the pyramid populations. Our effort to examine the financing options facing developing countries as they facilitate the growth in the use and deployment of ICT recognizes that this process of transformation is likely to continue and the existing set of conditions may only be indicative of the future.

2. **ICT are rapidly emerging as a vital factor in economic and social development to facilitate innovative and scalable solutions for achieving major development objectives.**
   The potential for ICTs to have a decisive impact on achieving fundamental development goals, including those articulated in the Millennium Declaration is increasingly recognized. Information and ICT-enabled services can serve to increase economic opportunities for the poor and disadvantaged, creating prospects for new jobs and small businesses along with increased knowledge to be applied in enhancing traditional livelihoods. Women stand to gain by being empowered through access to communication and learning networks. Health care systems can be vastly more effective. Learning can be enhanced and access to education made more equitable. Governments can provide more efficient and transparent services and respond to

public needs more directly. The media and citizens are also able to empower themselves and become key players in local and national governance issues.

Enabling Environment

3. **Experience shows that attracting investment in ICT depends crucially upon a supportive environment and a level playing field for business as a whole, and on an ICT policy and regulatory environment that encompasses open entry, fair competition and market-oriented regulation.**
The explosion of ICT sector investment in most developing countries correlates closely with an improved environment for private investment to take place and the transformation of formerly closed, monopoly ICT markets to allow competitive entry. Where Governments have actively pursued an open, equitable market environment, investors have generally welcomed the opportunity to compete. The introduction and strengthening of independent, neutral sector regulation has helped to reinforce investor confidence and market performance, while enhancing consumer benefits. [0,1,2]

4. **There is evidence to suggest that the broad-based deployment of ICT also depends on a supportive development policy environment for ICTD particularly the establishment of national e-strategies and the integration of ICT into poverty reduction and/or other national development strategies and the PRSP process.**
Over 90 developing countries have developed or are in the process of completing national ICTD strategies. These strategies, typically designed on a multi-stakeholder basis, have been important in establishing national ownership and in outlining a set of key priority areas for intervention. Many of these have also linked to priorities outlined in the national poverty reduction or other development strategies, the success of which critically depends upon effective information management tools and applications, communication, and coordination across all public agencies and programs. The process and content of the poverty reduction and other development strategies are also key for donors who align their aid and partnership strategies to the priorities outlined therein. [3,4]

5. **Policy and regulatory incentives and more open access policies are also needed if private investment, CSO and community networks are also found to be effective in expanding ICT access to high cost (predominantly rural) and low income populations to address the "bottom of the pyramid" populations.**
Addressing policy barriers, removing restrictions on competitive entry by ICT companies and local community network operators, and permitting the use of cost effective technologies (e.g. VOIP, and on unlicensed spectrum), and other innovative practices have been found to be helpful in moving the network frontier to address the needs of currently under-served populations. Continued cooperation between various development partners and stakeholders can also help in addressing the problems of providing rural access using new technological applications including wireless broadband devices, offering incentives to Internet cafes, phone shops and community communications networks. [5, 5a]

Financing ICT Infrastructure and Access

6. **Stimulated by the technological dynamism and profitability in the industry and opening up of market, since the early 1990s, the international private sector has quickly become the dominant player in infrastructure investment, and has catalyzed rapid growth of the sector in developing countries.**
The opening of markets and privatization of national telecommunications operators has led to an influx of tens of billions of US dollars into the ICT sector across many developing country markets, and has allowed access to fixed and mobile telephones, computers, the Internet, and other ICTs for over a billion people in the space of a decade and a half. Initially, the vast majority of this investment came from companies and institutional investors in the industrialized "North", pursuing expanded business and profit opportunities. The peak of "North-South" international investment in the ICT sector was around 1999-2000, following which the "crash" of the global telecom industry and of the "dot.com" boom resulted in significantly lower levels of new ICT investments in the developing world. This partly reflects the fact that many major investments (e.g., major operator privatizations and cell phone licenses) were already completed by 2000, combined with the drastically lower market capitalizations of major international technology companies and investment portfolios. Recent trends suggest that FDI is again increasing, and there remain numerous opportunities for foreign investors in developing country ICT *infrastructure* markets. [6]

7. **While private sector investment and financing in the ICT sector remains high as evidenced by the continuing and rapid roll-out in infrastructure, particularly in mobile telephony, there has been a shift in the nature of that investment towards domestic, regional, and south-south financing and investment.**
New investments by some of the major developing countries, such as Brazil, China, India, Malaysia and South Africa, and regional players combined with increasing reinvestment of existing operators, has continued to spur growth throughout the ICT sector, at rates that greatly exceed those in the developed world. Domestic companies, often financed by rapidly growing local financial and capital markets have been important in facilitating the growth of this sector in many countries. [7]

8. **New ICT investments in developing countries are also being stimulated by a variety of domestic financial mechanisms and multi-stakeholder partnerships, including pro-active and catalytic public sector financing and initiatives.**
Promising trends to build the domestic ICT sector in developing countries is also found to be dependent upon partnerships and cooperation between public, private, civil society organizations, community and financial stakeholders. These partnerships and investments have helped to mitigate risks, demonstrate market potential, enhance capacity, and stimulate demand for ICT. The support and development of local financial and capital markets, including capacity in new areas such as venture capital are also helping to spur entrepreneurship and innovation. [8,9]

9. **In the context of infrastructure financing, reflecting the growing importance of private sector investment, Multilateral Development Banks and International Donors re-directed public resources from direct financing to policy reforms and other mechanisms to support infrastructure development.**
Whereas public financing of basic infrastructure costs, particularly backbone telecommunications networks, was previously a dominant component of MDB and ODA support for ICT development, the trend toward private investment in this sector was viewed as greatly reducing the need for *direct* donor and IFI financing of such

government-owned infrastructure in the majority of developing countries. ODA and public investment on ICT infrastructure declined substantially since the late 1990s. The MDBs refocused the bulk of their public support on encouraging and implementing market-oriented policy reforms to help encourage new private investment. The MDBs and other donor-supported private financing vehicles (including a large group of bilateral institutions) also considerably expanded the level and scope of support for private infrastructure rollout.[1] Some bilateral donors and selected MDBs have also been exploring ways to enhance their support to developing countries in advancing their infrastructure development through taking pro-active roles to stimulate private investment through the use of creative financial mechanisms, incentives, and partnership initiatives to reduce risk and catalyze investment particularly in "backbones" which given their 'public-good' nature can facilitate the delivery of services and stimulate other private sector investment. [10,11]

10. National Universal Service/Access Fund and other mechanisms to lower costs of delivery to under-served markets and promote community access can play an important role in helping to address ICT access gaps, but require substantial institutional and implementation capacity to succeed. More than sixty countries have begun to establish Universal Access Funding mechanisms as a core component of their ICT development policies, to bring together financial resources in support of extending access beyond the market frontier. Successful models of UAFs introduced in Latin America and elsewhere have indicated that, when properly implemented in a *competitive* environment, these mechanisms can play a critical role in leveraging market forces to expand access to public telephone service, multi-purpose community telecenters, and other ICT facilities. Experience to date is mixed as this trend is very new in much of the developing world, and most countries are just beginning to address policy, regulatory, governance, institutional, and capacity issues required for successful management of these Funds. There are also possibilities for scaling up these funds through innovative financial mechanisms and schemes. Periodic assessment and evaluation of these mechanisms, together with other Universal Access development programs, can help define their future role in the sector within many countries. [12]

11. Regional cooperation, multi-stakeholder partnerships, and seed financing appear to be critical elements for addressing critical infrastructure gaps and can in turn help promote further development of national backbones and last mile solutions in countries where gaps persist.
In countries with relatively low population density and low per capita incomes (e.g. some of Africa's under-served sub-regions and Small Island States), financing constraints have become severe with neither the private nor the public sector being in a position to act alone. In these instances, regional infrastructures can also help serve national infrastructure in less developed regions, rural and under-served areas, and cost effectively leverage resources. In some cases additional partners can be brought into the process as well. Regional organizations and institutions can help facilitate cooperation and coordination and international financial institutions and donors can then play a vital role in seeding and facilitating the financing for such regional infrastructure projects. There is likely to then be increased market interest once the coordinated policy framework is in place. [13,14]

[1] Support for the private sector now represents 70% of the World Bank Group's portfolio in the ICT sector (through its private sector arm, IFC) and EBRD and EIB also provide support mainly to the private sector. This support in turn catalyzes private foreign and domestic investment by a factor of more than 5:1.

Content, ICTD Applications and Capacity Development

12. International Donors are seemingly redirecting their attention to both ICT policy and strategy development and mainstreaming of ICTD initiatives.
While it is difficult to get an exact measure, it appears that many donors have also begun to increasingly shift their ICT program support toward the deployment of ICT within mainstream development projects such as health, education, and poverty reduction, while continuing to promote infrastructure development through ICT policy and regulatory reform-often through the provision of technical assistance and donor trust funds. [15, 15a]

13. Current evidence indicates that ICTs that deliver relevant and valuable information applications, services and content are the most relevant to developing countries. The focus of these set of interventions is on ICT as a catalyst for both the achievement of development goals and the facilitation of access to knowledge and other global public goods.
The overwhelming emphasis of ICT development and financing debate has focused upon infrastructure investments. However, ICT facilities and networks are ultimately only as valuable as the information and knowledge that they deliver to end-users. While there are many signs that the marketplace will eventually provide a variety of content and applications that can appeal to diverse populations, this segment has developed far more slowly than the supply of infrastructure and equipment. It would benefit from increased attention and creative initiatives across the developing world including expanding the public domain to ensure that knowledge can be disseminated where it is needed most and through providing support to community and local private sector for the development of locally adapted content. Also critical is the development of content and applications relating to the mainstreaming of ICT in the various development sectors, particularly in health, education and poverty reduction. These sectors while in a position to benefit from the use of ICT do not typically have budgets that would permit them to make the upfront investments required to leverage the gains of ICT for development. [16, 16a]

14. Myriad ICTD initiatives and experiments are being financed by a wide spectrum of donors, NGOs, foundations, and international organizations; more may be better, but coordination and support for "scaling-up" strategies is urgently needed.
New and innovative projects are being launched every day, and there are numerous encouraging examples of how strategic integration of ICT elements in development agendas can enhance education, health care, governance, business and job development, women's opportunities, and crisis intervention. This trend of broad-based, local level experimentation should be encouraged, even though some initiatives will inevitably fail to meet the ultimate goals of sustainability, scalability, and replicability. Greater coordination of programs, experience, findings, and ICTD financing in general is needed particularly in the context of national poverty reduction and ICTD strategies, to maximize the potential impact of limited resources and accelerate development benefits and the global learning curve. Creating conditions that would facilitate more open access to low cost technologies and ICT networks can also help to make many of the community based approaches to the "last mile" more viable. [17]

15. The role of ICT in Government (and hence of Government in ICT) can be the lynchpin of successful "e-strategies"; enhanced international and domestic support for public sector ICT capabilities is thus a first-level priority.
Public budgets in developing countries, however, are far from adequate to support wide-scale implementation of integrated systems although in the long run, efficiency

gains should help offset the upfront costs of introducing new technologies. The international development community should thus actively consider the short- and long-term benefits to be gained from supporting selective public sector programs. Among the many target areas for ICT-based development interventions, the role of ICT in governance is arguably amongst the most crucial. In addition to the benefits of improved delivery of public and social services and increased participation, "e-governance" networks and facilities with multi-stakeholder partnership initiatives can help reinforce market opportunities, especially for start-up small and medium enterprises, as well as for service providers in remote locations while the proliferation of shared e-government programs and applications, stressing interoperability, sustainability and security, could help stimulate the development of domestic IT industries. [18]

16. Building human resource capacity (knowledge) at every level is a central requirement for achieving Information Society objectives.
By their nature, ICTs depend upon, and reinforce, the knowledge and intellectual skills of those who use them. In the long run, a virtuous cycle of learning, innovation, adaptation, and growth can derive from access to expanding levels of knowledge and information, and the tools to take advantage of them. But for the overwhelming majority of people in developing societies, there are steep entry barriers to enjoying most of the benefits of advanced ICTs. With strong public awareness, basic education, specialized training, and other capacity building measures, everyone from young students and private employees to public officials can become active participants in the Information Society. Without this commitment to fundamental human resource capacity, however, the return on investment in hardware and software risks could be limited and the pace at which the digital divide is narrowed could be decelerated. [19]

17. ICT-related capacity building needs in the public sector represent a high priority in all developing countries, and current financing levels have not been adequate to meet these needs.
The demands on Government budgets and personnel in any country are always difficult, but in an area as dynamic and technically complex as ICT, public agencies and officials in the developing world confront an exceptional challenge. Public agencies must understand and embrace ICTs themselves before they can effectively integrate them in the range of development and poverty reduction strategies. Any realistic plans to pursue Information Society goals through strategic ICT policies must recognize the primary need for intensive and ongoing capacity building measures across the spectrum of these key public sector functions. In this important area, current trends suggest that available funding fall short of what is needed. Governments themselves have little budget flexibility to pay the added costs for training and high-skills personnel arising from new ICT policies and initiatives. Although donors, foundations, and the development banks support a wide variety of training and knowledge transfer programs as part of their ICT-related assistance, to date these have generally been insufficient to sustain the necessary levels of permanent capacity enhancement. Substantial increases in financial resources would be necessary, in most administrations, to establish capacity building programs commensurate with the goals and needs of effective e-governance and ICT sector policies.[20]

Conclusions

The Task Force's conclusions, based on the extensive research, analysis and discussions undertaken by the Task Force members, are a response to the substantive issues that were identified by the World Summit. They are organized into four main categories, which include a range of suggested priorities, options, and considerations for the participants in the Tunis Phase to take into account during their deliberations.

C1. Concerning "fully exploiting" existing mechanisms:

The scope and diversity of the existing financial mechanisms to support ICTD investments is quite extensive, as documented by the Task Force report. Many of the mechanisms studied are not unique to ICTD and are also supporting other development areas and sectors. While quite extensive, it appears that nevertheless, most developing countries are not yet been able to leverage the full benefits of these existing mechanisms.

In the case of ICTD, most of the major financing mechanisms are primarily designed to promote the ongoing expansion of ICT infrastructure by assisting private companies to leverage public and private capital, to push back the access frontier and bring services to new customers. This is particularly true with respect to financing of "hard" infrastructure and access facilities to expand the availability and use of ICT among under-served, rural, lower income, and other marginalized populations. As barriers to such investments are eliminated, new entrepreneurs and additional funds are often quick to rush into newly opened markets. However, there are gaps, particularly where country risk (economic or political) is perceived to be unacceptably high and/or the enabling environment is weak. Investors may hesitate, and development financial institutions and donor support can assist by stepping in to provide technical support and financing to facilitate risk-sharing and stimulate additional financing and investment.

In the context of infrastructure development and enhanced access to ICT, national Governments and other stakeholders have many tools and opportunities available to them to enhance the attractiveness of their ICT markets for investors and financiers:

1. Continued promotion of a level playing field for ICT investments and regulatory policies that entice open access and fair competition for enhanced service provision, and new entrepreneurial investment in under-served areas.
2. Refinement and efficient implementation of targeted public finance mechanisms such as loan guarantees, Universal Access Funds, and partnership investments
3. Continued support and promotion of domestic, regional and South-South investment and increased sub-regional and regional cooperation to address current infrastructure and last mile gaps
4. Enabling tax, tariff, import, and business regulation policies designed to reduce risks and financial burdens for and provide incentives to ICT investors and financiers
5. Coordinated "e-governance" networking, service delivery, education and training, and procurement plans, which leverage ICT industry competition policies and private sector development to encourage new business opportunities

In the context of ICTD initiatives and mainstreaming, securing funding from available (primarily ODA) resources have proved to be a challenge for many stakeholders and developing country governments. First, ICTD is a relatively new area and "mainstreaming" capacities within the development sectors of ODA departments and developing country stakeholders are still evolving.

Secondly, stakeholders also often confronted by "process" challenges ranging from a lack of easily accessible information about available resources and mechanisms to tap, to high transaction and information gathering costs and time lags in finalizing requests for ODA support.

And finally, the list of "content" challenges include differing assessments of potential and risk, development priorities to be funded, and capacities to absorb, mainstream and effectively transition to self-financing, up-scaling and/or sustainability.

Possible actions include:

1. Specification of the key role of ICT in national poverty reduction strategies (PRS), as identified in Poverty Reduction Strategy Papers, which clarify the high priority placed on ICT projects among broad development goals
2. Elaboration of national "e-strategies" in conjunction with PRS/P priorities, designating the specific key areas of policy initiatives and investment needs, including coordination of cross-sectoral infrastructure and service development plans
3. Peer-partner reviews to assess blockages as well as to collectively identify priorities, design effective approaches to support mainstreaming and learn from participant and action-oriented research
4. Encouragement to pool proposals on similar themes or from same region to enhance synergies and learning and to reduce transaction costs
5. Ensuring that initiatives proposed for funding explicitly build capacity and ensure a concrete focus business/development models to maximize efficiency and scalability
6. Commissioning shared e-government application frameworks for common applications such as procurement, accounting, and tax administration which can be collected in a global or regional resource and used by most developing countries.

C2. Concerning the "adequacy" of existing mechanisms:

The above considerations address means by which existing sources of financing can be more successfully exploited. However, even where these initiatives are ambitiously pursued, there remains the question of whether the existing array of financial mechanisms is "adequate" to "meet the challenges of ICT for development".

As the Task Force Findings indicate, there are a number of areas in which current approaches to ICTD financing, by both the public and private sectors, have not devoted sufficient attention to date, and which represent fundamental challenges to the financial and development communities. These include:

1. ICT capacity-building programs, materials, tools, educational funding, and specialized training initiatives, especially for regulators and other public sector employees and organizations.
2. Communications access and connectivity for voice, mobile, and data services in remote rural areas, isolated islands, and other locations presenting unique technological and market challenges.
3. Regional backbone infrastructure to link networks across borders in economically disadvantaged regions requiring coordinated legal, regulatory, and financial frameworks and seed financing.

4. Broadband capacity to facilitate the delivery of services, catalyze investment and provide Internet access at affordable prices to both existing and new users.
5. Coordinated assistance for small islands and countries, in order to lower otherwise prohibitive transaction costs in access to international donor support.
6. ICT applications and content aimed at facilitating the integration of ICT into the implementation of development sector programmes particularly in health, education and poverty reduction. There is also a need to focus on applications and processes that can ensure development of content relevant to the needs of the developing world, including material in indigenous languages, information accessible to non-literate audiences, user-friendly and affordable software platforms and interactive applications, and diverse, locally produced multimedia content.

The reasons that existing mechanisms and traditional approaches may not be adequately oriented to address these emerging needs are several:

- Private sector investors and businesses are often reluctant to commit capital to projects with high risk/low return profiles.
- Donors have taken initiatives in many of these areas, but do not have sufficient resources to cover the broad scope of needs across the developing world.
- Development Banks have to date focused on supporting private sector initiatives and concerning public financing have concentrated mostly on policy reforms.
- Governments have very limited resources and multiple commitments, as well as inexperience with many of the key areas of need.

Many of these new areas of attention will depend greatly upon the active and creative participation of local entrepreneurs and SMEs, civil society, community groups, and others who are most intimately aware of the needs and opportunities of developing populations. This implies that a renewed emphasis on <u>domestic</u> modes of finance, including microfinance, venture capital, and small business development, must play a central role in filling many of the key gaps, particularly in such realms as content, applications, capacity building, and knowledge sharing, by stimulating and leveraging market demand together with public development initiatives.

At present, domestic financial mechanisms, and financial systems in general, in many developing countries are far behind industrialized and international institutions; their level of "adequacy" is partly a function of their degree of experience, which will increase with more time, effort, and resources. Many of these, from private domestic banks and lending funds to public financial instruments and procedures, have the potential to improve their operations and expand their scope of influence substantially.

Recently established Universal Access Funds and their equivalent, with proper political and organizational mandates, can play an important coordinating role for the channelling of both industry and outside funds toward a variety of complementary ICT development projects, and can also be scaled up through innovative financing instruments. All of these types of mechanisms offer the promise of shifting the emphasis of ICT finance and implementation increasingly toward local involvement, and deserve support and encouragement from the international community.

The issue of the "adequacy" of the existing financial mechanisms for ICTD should be seen in the context of available financing for the broader set of development agendas and goals. From one vantage point, it seems clear that ICT, although unique in itself, is not the only "sector" or area that requires the attention of donors, IFIs/MDBs and private investors. On the other hand, ICT's importance lies in the fact that it is an enabler of development and can contribute to meeting the broader set of development objectives. Its financing thus needs to be framed in the context of the Monterey Consensus and the Millennium Declaration that can be seen as overall drivers for development financing in the global and national contexts.

Financing of ICTD at the national level needs to be framed within the context of priorities for PRS and PRSP processes and with regard to the broader goal of achieving the goals outlined in the Millennium Declaration. National ownership and priorities highlighted through a process of multi-stakeholder involvement should determine the role that ICT can play in the overall process. Most developing countries are indeed supporting ICT as a tool that can not only enhance their role in the global economy but also help them achieve the MDGs. Appropriate ODA, IFI/MDB and private investment should be ready to help meet these goals.

C3. Concerning "improvements and innovations" to existing financing mechanisms:

As the Task Force report has documented, nearly every major financial institution, organization, company, and Government agency that deals with the ICT development sector is almost constantly in some stage of self-evaluation, reorientation, and exploration of new and improved modes of operation. It is difficult to pinpoint specific changes that any individual or group of mechanisms should urgently undertake, which those institutions themselves are not already actively considering to one degree or another.

On the other hand, the Task Force discussions have provided a unique forum for many of these stakeholders to exchange and propose ideas, both individually and collectively, for new initiatives and approaches that might be worthy of further consideration by the larger body of international ICTD players. While none of these options should be taken as officially evaluated or "endorsed" by the full Task Force or the affected participants, there has been at least significant discussion and open-minded consideration of a healthy range of prospects for enhancing the global ICTD financing dynamic.

These include, *inter alia*:

1. Coordination: Greater cross-sectoral and cross-institutional coordination of financing programs and ICT development initiatives would improve effectiveness and make better use of resources. It was generally agreed that the onus for coordinating inputs rests primarily with national Governments (coordinating at the national, regional, and international levels), which should identify priorities and ensure multi-sectoral participation in ICT programs through strategic planning. Donors and other financial institutions should, for their part, be prepared to work within these national frameworks on a complementary basis, while making renewed efforts to coordinate planning, implementation, and evaluation on an international and regional basis as well.
2. Multi-Stakeholder Partnerships: The emerging trend of multi-stakeholder initiatives to support ICT development and financing needs should continue and expand, to enhance overall program coordination and ensure that diverse views and experiences are brought together to address sector challenges. Some specific options for new multi-stakeholder approaches on an international or regional level could include:
    - Establishment of a "virtual" financing facility to leverage multiple sources in support of identified investment objectives in key locations (notably broadband, rural and regional projects, and capacity building);
    - Creation of a mechanism for coordinating research and analysis into enabling policy environments, to identify best practices and priority needs for shared action by financial actors;

- Development of a "rapid response" policy and regulatory support mechanism to intervene in support of short-term ICT sector policy initiatives;
- Coordinated programs by governments and major financial players to mitigate investment risks and transaction costs for operators entering less attractive rural and low income market segments; consideration of new paradigms for network and service development involving a separation of an 'open-access' backbone and diverse service provision
- Coordinated programs by governments of small countries and major financial players to address otherwise prohibitive transaction costs in access to international donor support;
- Collective initiatives to engage regional, inter-governmental organizations together with diverse financial institutions and investors to create incentives for building regional infrastructure capacity;
- Creation of jointly financed international and regional programs for public sector capacity building and e-government applications development, offering low cost tools and training options to government ICT policy and implementation officials.
- Public-public and public-private approaches to support the upfront investment, capacity development and mainstreaming costs to facilitate the effective integration of ICT in health, education and other development sectors to permit the more cost-effective and broader delivery of public services.
- Continued exploration by donors and MDBs of new modalities – including the consideration of re-engaging in infrastructure investments - through which they can provide financial support to well designed public sector ICT projects and programmes, particularly when they have the potential to leverage additional private resources.

3. <u>New emphasis on domestic finance</u>: Governments, bilateral donors, multilateral banks, as well as private sector contributors, can all help accelerate the growth of domestic financial mechanisms by providing more direct and creative support to local microfinance instruments, ICT small business incubators, public credit instruments, franchises, reverse auction mechanisms, community networking initiatives, and other innovations. Such approaches require a combination of outside seed funding assistance, technical expertise and best practice advice, risk mitigation, and commitments to support local entrepreneurs and investors, particularly in the start-up stages of new projects. The finance and development communities must recognize that failures are inevitable in these newly emerging markets, but that the lessons of these experiments, together with selected, well-documented successes, can yield long-term benefits and self-reinforcing growth throughout the developing world.
4. <u>Private sector support for locally relevant applications and content</u>: Commercial private sector companies could help jump-start wider demand for ICT services by supporting local producers, programmers, artists, and small businesses in the applications and content fields. Collective contributions to international and national competitions and awards, film festivals, foundations, and similar programs that encourage creative content development could go a long way toward expanding the diversity and appeal of ICT-delivered information sources.
5. <u>Strengthening capacities to enhance the potential of securing funds and utilising them effectively</u>
6. <u>Encouragement of increased voluntary, consumer-based contributions</u>: Many consumers in the wealthy countries of the world (including immigrant expatriates)

would be receptive to the introduction of new voluntary mechanisms for donating small contributions toward ICT-based development. New vehicles should be explored to facilitate such contributions on a simple, technology-driven basis, while ensuring that any funds collected are devoted directly to pertinent development needs, including support for creative applications and low-price access to services for the poor and access /service cooperatives owned by communities themselves.

In summing up, the Task Force found that there is both a strong development rationale as well as incentives for governments, private companies, civil society and international and other development organizations to work together on multiple levels to ensure the rapid and efficient mobilization of resources across the spectrum of existing and innovative financial mechanisms, to take maximum advantage of the potential of ICT to facilitate an inclusive society for all and the unique and golden opportunity to contribute to the achievement of critical objectives as outlined in the Millennium Declaration.

With a view to enhancing the achievement of the development agendas outlined in the Millennium Declaration, the digital solidarity agenda of WSIS, and related national development strategies, proposals have been made at the global, regional and national levels to increase the effectiveness of existing ICTD financing mechanisms and to raise additional resources through reaching out to new constituencies and/or more effectively leverage resources through putting in place a variety of cooperation and coordination mechanisms.

The Task Force's mandate was to look into existing mechanisms so as to facilitate a discussion at WSIS-Tunis on the question of financing including a consideration of new mechanisms such as the proposal to setup a voluntary Digital Solidarity Fund (DSF). Findings and a number of options based on an analysis of existing trends and proposals for improving the effectiveness of existing mechanisms have been outlined in the report.

A voluntary Digital Solidarity Fund (see http://www.dsf-fsn.org), announced at the time of WSIS, is described and presented in the report in the section on multi-stakeholder partnerships and emerging initiatives. Initial contributions to the fund were made by a number of local authorities such as cities, departments, provinces, regions, and provinces (Länder), in addition to contributions from some nation states. Endorsements have continued, including most recently from the Francophonie. The involvement of local authorities and actors in this effort was seen as a potentially innovative dimension of the DSF initiative, since it could encourage interactive collaboration between cities and municipal governments, including between local authorities of different developing countries, as well as provide a platform and opportunities for other types of North-South and South-South cooperation. However, since this mechanism is yet to be operational and its more concrete goals and objectives are still evolving, the Task Force felt that it was not in a position to assess its role among the various ICT financial mechanisms.