Strengthening Local Digital Ecosystems in Africa

Industry, Innovation, Infrastructure and Financing for Sustainable Development

FOOD FOR THOUGHT PAPER

Background and objectives

On October 20, 2023, the Italian Ministry of Foreign Affairs and International Cooperation, the Italian Agency for Development Cooperation, and the United Nations Development Programme (UNDP), gathered more than 100 representatives and experts from the Italian government, global and regional organizations, and major civil society organizations for a workshop in Rome, Italy under the theme 'digital for development'. Against the backdrop of the Italian Digital for Development Strategy being formulated and Italy's G7 Presidency in 2024, the workshop provided an opportunity for reflections on the gaps and challenges from a global policy perspective, in addition to a collection of inputs on future programmatic priorities. The following is a summary of the topics discussed and key takeaways, which will inform the planning of the upcoming Italy-Africa Summit and G7 Digital Agenda.

Contextualizing Africa's digital development challenges

Throughout the ongoing digital revolution, Africa has made tremendous progress and achieved impressive technological growth. The group discussed several challenges in building inclusive, human-centric digital economies across African countries:

1) Infrastructure
    As many as 700 million Africans are not yet connected to the electrical grid. Closing an infrastructure gap of this size is a huge challenge as it requires billions of dollars annually according to the African Development Bank. But it is also a critical step that could result in enormous digital development opportunities especially when accompanied by investments to ensure connectivity between countries. According to World Bank data, a 10 percent increase in broadband penetration in Africa for example could increase GDP per capita by around 2.5 percent.

2) Digital skilling
    Connectivity is meaningful only when people are equipped with digital skills. There is a need to build digital capacity in both the general population and public administration in Africa, which tends to be less digitally-savvy than the private sector. Nowadays, changes in technological advancements tend to be fast. Therefore, for low and lower-middle income countries to reap meaningful benefits from new technologies, investments in training (especially with a focus on youth) are a higher priority than expenses in devices. With the right skills, individuals can also access greater employment opportunities, both domestically and in cases of legal migration.

3) Diversity and the digital divide
    Africa consists of 54 countries, each characterized by different levels of development, unique challenges, geographical disparities, varying degrees of political stability, as well as different cultural and educational landscapes. At present, four countries receive the bulk of private capital on digital. Besides a digital divide between countries, gaps also exist across communities and demographics. Crafting tailored solutions is therefore necessary for addressing these diverse needs and closing the digital divides.

Policy recommendations

Given Africa's context and challenges, the following were proposed as potential policy responses as Italy determines its future programmatic priorities on digital for development:

1) Invest in infrastructure and digital skills in parallel
Infrastructure and digital skills are both prerequisites to meaningful connectivity and can drive a virtuous circle of digital inclusion. Investing in both simultaneously will ensure that Africans are able to access the internet and use it in ways that improve the quality of their lives. As digital technologies evolve rapidly, ongoing reskilling programmes should also be considered.

2) Strengthen governance and the use of a human-centric approach
Digital for development is ultimately about benefiting people. People must be placed at the center of digital transformation, instead of solely focusing on technologies. Establishing good governance and accountability mechanisms can minimize risks and maximize impact on people. Engaging civil society can help encourage stakeholders to adopt a human-centric approach.

3) Empower African countries as co-creators of solutions
Developing effective strategies to tackle African challenges requires engaging local communities. Instead of seeing African countries as recipients of assistance, shifting to a partnership mindset that treats them as co-creators will set up the condition for success and impact. Investors, development partners, and governments should tap into homegrown solutions in Africa, that are tailor-made to local needs, including collaborating with local individuals and youth through civil society organizations. As Africa aims to become an innovator instead of a manufacturer, it will require greater support on research and development from the international community.

4) Formulate inclusive digital and financial policies
To ensure that digital transformations in Africa are equitable and beneficial for all segments of society, it is important to formulate and implement inclusive digital policies. Evidence (e.g., Igniting SDG Progress Through Digital Financial Inclusion) shows that inclusive digital financial services can enable 13 of the Sustainable Development Goals. Traditionally underserved segments often find financial services inaccessible due to high costs and geographical barriers. Inclusive digital and financial policies, such as promoting interoperable digital payment systems while creating a more competitive business environment, can disrupt bank oligopolies and encourage innovators to enter the market. This will lower cost and improve access to financial services for low-income individuals. Thus, well-designed policies will ensure that digital advancement drives social and economic inclusion, fostering equitable development across the continent.

5) Link the digital and green transitions
Digital and climate are interconnected. Some opportunities that can advance both agendas simultaneously include building green telecom infrastructure that can achieve both connectivity and decarbonization, and investing in digital carbon trading platforms for the private sector. Initial returns might be lower, but private investors can mitigate the risks through soft loans or guarantees.

6) Enhance industrial and financial competitiveness through digital
The launch of the *African Continental Free Trade Area (AfCFTA)* opens new possibilities and further accelerates industrialization in the region. As a global industrial powerhouse, Italy can link its digitalization strategy to industrialization and enhance the competitiveness of its enterprises through digital, e.g., leveraging AI to minimize supply chain disruptions. Since digital transitions can be costly for private companies, consideration should be given to the

adoption of fiscal measures such as tax credits, lower interest rates, and Certificate of Deposit programmes for small and medium enterprises (SMEs). These policies could substantially contribute to fostering competition among financial service providers to improve choices and quality, as well as lower costs for all consumers, including those living in poverty.

Italy's operational steps forward

Given the policy recommendations, the following were proposed as concrete operational steps for Italy moving forward:

1) <u>EU Digital 4 Development Hub</u>
   With the signature of a multi-partner contribution agreement, Italy finalized its participation to the *EU Digital 4 Development Hub* to foster inclusion, sustainability and green digital transformation in partner countries. Based on its longstanding expertise in digital development cooperation and jointly with its industrial base, Italy will contribute, in a Team Europe spirit including strong participation of the private sector, to multi-stakeholder efforts aiming at developing a human-centric approach to digital transformation at the global level. More specifically, Italy will focus its participation on Africa, by increasing coordination, facilitating multi-stakeholder dialogues, sharing digital expertise, and boosting investments.

2) <u>Digital as a cross-cutting issue</u>
   The Development Cooperation Planning document 2024-2026 will focus on digital transformation in developing countries with a cross-cutting approach. The Italian Development Cooperation Agency will promote digitalization as an accelerator of sustainable development in countries of intervention particularly in Africa, through tight and inclusive partnerships among institutions, research, finance and business. This regards food security, education and the health sectors particularly. Given the current digital divide, a focus on the role of digital technology in enhancing access and quality, particularly in remote and underserved areas, will be considered a priority. In addition, an emphasis will be placed on ensuring that digital solutions are culturally sensitive and appropriate for different African contexts.

3) <u>Italian Digital for Development Strategy</u>
   Italy will draft the Italian Digital for Development Strategy, with the aim to produce practical guidelines to foster the digital engagement of Italy's development cooperation in Africa.

4) <u>Scale programmes across the African continent, addressing diverse needs</u>
   Given the disparate developmental trajectories within the continent, more consideration should be given to scaling digital transformation programmes to all African countries instead of focusing on just a few. This requires adopting a comprehensive approach, fostering multi-stakeholder dialogues to identify opportunities to scale and ensure inclusivity, as well as tailoring solutions to the unique contexts of individual countries. This involves designing and implementing digital solutions that are effective not only in the short term but can also be sustained and scaled up over time. These will be adaptable to the evolving needs and challenges. Emphasizing renewable energy sources in digital infrastructure, developing adaptable digital education programmes, and ensuring the scalability of digital health solutions to reach larger populations are vital components of this approach. These efforts should align with the broader goals of economic, social, and environmental sustainability, ensuring that digital advancement contributes positively to the holistic development of African nations.

Road to G7 Presidency 2024

The Italian G7 Presidency will dedicate particular attention to the areas of development and digital, with a geographical focus on Africa. A Development Ministerial will take place in the fall of 2024 and a Digital Ministerial in March 2024.

Two main topics were discussed during the session:
1) Building on the work of prior G7 presidencies' relating to digital and Africa
   Previous commitments were made on related topics, e.g., the G7-Africa partnership from France's Presidency in 2019. These commitments are the basis for review of progress and gaps and to identify areas where new commitments are required. Italy will build on the Japanese Presidency's efforts and successes in 2023, such as establishing governance and regulations to promote the responsible use of technologies including AI, and facilitating secure digital public infrastructure.

2) Digital in the Industrial Sector
   The Ministry of Enterprises and Made in Italy (MIMIT) will be leading a ministerial conference in March 2024 on digital. There is interest in tackling the global supply issue of critical raw materials, chips, and semiconductors, helping private companies improve their competitiveness through embracing digital innovations, and reviewing regulatory needs including the transfer of intellectual property. In the G7 Digital Development priority, the focus is on strengthening local digital ecosystems to ensure that access to AI is equitable, inclusive, and responsible, with a strong focus on Africa in 2024. The key areas of the AI Hub for Sustainable Development under exploration include democratizing computing power, open and secure data infrastructure and models, and capacities in order to advance AI for Sustainable Development.

Given the cross-cutting nature of digital both as an infrastructure and as an enabler for sustainable development, other suggestions included either focusing on digital under the Partnership for Global Infrastructure and Investment, leveraging digital for gender equality and economic empowerment, or for promoting sustainable livelihoods.

Conclusion
The next era of development will be fueled by countries' digital transitions. Italy's 2024 G7 Presidency will take place during a challenging geopolitical moment, but it could also be leveraged to mobilize commitments and actions from global and local stakeholders. While drafting a Digital Development Strategy, Italy will consider existing efforts such as the European Union's key priorities and Africa's digital strategies to ensure coherence and complementarity with the broader picture. It is hoped that the momentum sparked by the workshop's discussions can be sustained, with the expectation that participating organizations will remain in ongoing communication to delve deeper and drive action on the various topics discussed.

Ministry of Foreign Affairs and International Cooperation

UNDP

ITALIAN AGENCY FOR DEVELOPMENT COOPERATION