

Key Messages

EMnet Working Group

Digital Transformation in Emerging Markets

Virtual meeting | 26 May 2021

Is digital transformation really happening?

The Working Group on Digital Transformation of the OECD Emerging Markets Network (EMnet) held a virtual meeting on 26 May 2021, to discuss the potential of digital transformation across emerging markets. The digital transformation, accelerated by the COVID-19 crisis, has the potential to radically change business in emerging markets. It can boost productivity, transform regional value chains, underpin the transition to industry 4.0 and improve public services. However, cross-sector, collaborative efforts are still needed to develop digital inclusion strategies that address connectivity issues, improve internet access and affordability and close digital gaps.

Discussions in the plenary and thematic breakout sessions centred around two questions:

- *With significant investment in digital foreseen as part of recovery efforts, how can emerging markets ensure digital transformation delivers on its promise?*
- *How can businesses support digital transformation in strategic sectors of the economy?*

The COVID-19 pandemic has resulted in a surge in digital services, including essential public services – from healthcare to education – and an acceleration of already existing trends towards digital adoption across emerging markets. In **Africa**, 72% of the population uses mobile phones regularly, with the highest number in North Africa (82%) and the lowest in Central Africa (63%) amounting to a total of 300 million mobile money accounts, the world's highest number.¹ In **Latin America**, smartphone adoption continues to rise rapidly with 72% of total connections in 2020, expected to reach an adoption rate of 80% by 2025.² Still, most analysis point to a USD 150-200 billion investment needed to bridge connectivity gaps.³ In **Asia**, estimates show that just in a year, from 2019 to 2020, the number of e-commerce users increased by 37 million in ASEAN, 71 million in China and 50 million in India.⁴ As the digital economy continues to grow rapidly, digital transformation presents significant opportunities to drive a transition towards Industry 4.0.

Challenges remain to realising the full potential of digital transformation, particularly in emerging markets. Important gaps in infrastructure and access persist. Across emerging markets, connectivity and access also varies significantly with persistent disparities between regions and socioeconomic groups. Only around 26% of rural population in **Africa** have Internet access, compared to 47% of its urban inhabitants.⁵ In some **Latin American countries**, four times more people in cities use Internet than in rural areas.⁶ In **Asia**, while Viet Nam, the Philippines and Indonesia reached Internet penetration rates of up to 65% in 2019, a large percentage of the population in Lao PDR, Cambodia and Myanmar lagged behind with penetration rates of

¹ [AUC/OECD \(2021\), Africa's Development Dynamics 2021: Digital Transformation for Quality Jobs](#), AUC, Addis Ababa/OECD Publishing, Paris.

² [GSMA \(2020\), The Mobile Economy Latin America 2020](#), GSMA Intelligence, London.

³ [Cet.la \(2019\). Nuevo Marco Regulatorio para la Convergencia. Report prepared by Analysis Mason.](#)

⁴ [García Zaballos, A., Iglesias, E. & Adamowicz, A. \(2019\), The Impact of Digital Infrastructure on the Sustainable Development Goals A Study for Selected Latin American and Caribbean Countries](#). Washington DC: The Inter-American Development Bank.

⁵ [OECD \(2021\), Economic Outlook for Southeast Asia, China and India 2021: Reallocating Resources for Digitalisation](#), OECD Publishing, Paris.

⁶ [AUC/OECD \(2021\), Africa's Development Dynamics 2021: Digital Transformation for Quality Jobs](#), AUC, Addis Ababa/OECD Publishing, Paris.

⁶ [OECD et al. \(2020\), Latin American Economic Outlook 2020: Digital Transformation for Building Back Better](#), OECD Publishing, Paris.

50% or lower.⁷ Ensuring an affordable price for Internet services will be essential to close the digital gap as only 17% of the population in **Africa** can afford 1 Gigabyte of data, 37% in **LAC** and 47% in **Asia**.⁸ Additionally, an important gender divide still holds back women's participation in the digital economy, as 327 million fewer women than men have smartphone access to mobile Internet.⁹ The COVID-19 crisis has underscored the urgency for bridging these digital divides and reinforced the need for a more inclusive approach to digital transformation. Inclusive strategies and policies, including well-focused and data-driven demand subsidies through the Universal Service Funds (USFs) will help vulnerable population have access.

Although the extension and quality of services have improved in recent years thanks to investments made, the recent OECD Digital Economy Outlook 2020¹⁰ highlights an important gap between OECD and non-OECD member countries in fixed and mobile broadband subscriptions. OECD countries enjoy roughly twice the level of mobile Internet subscriptions and 3 times the fixed broadband subscriptions compared to non-OECD countries. For digital transformation to really happen across emerging economies, reliable connectivity is required. The recently adopted [OECD Recommendation on Broadband Connectivity](#) provides key recommendations for policy makers and regulatory authorities to unleash the full potential of connectivity. Its five key pillars include: 1) Fostering competition, investment, and innovation in broadband development; 2) Measures to eliminate digital divides and reduce barriers to broadband deployment; 3) Measures to ensure resilient, reliable, secure, and high-capacity networks; 4) Minimising negative environmental impacts of communication networks; and 5) Regularly assessing broadband markets.

In Asia, China's long-standing government investment in technology infrastructure – from data service centres and AI technology to Big Data and 5G connectivity – showcases the competitive advantage of ICT investment, placing digital technology at the centre of the country's economic recovery. Lessons from China's digital economy development can support progress across the region and other emerging economies, adapting strategies to local circumstances. In **Africa**, there is great potential for AI to be rolled out by national champions and lead to the creation of a local AI production ecosystem that can ultimately position itself as an attractive partner for global digital giants willing to further develop the African market. Examples of efforts to make this a reality include Kenya's [Blockchain & AI Taskforce](#) launched in 2018. In **Latin America**, countries have implemented policies to promote investment during the pandemic which could usefully be maintained, including: reduction of taxes, pay schemes for universal service programmes and standardisation of regulations for deployment of networks at different levels of government.

Digital trade is driving lower costs, faster delivery, greater choice and enabling small businesses. However, digital trade rules and regulations remain fragmented across borders and regulatory divergences can result in additional costs for firms, notably for MSMEs – backbone of most economies – least able to cope with regulation patchwork.¹¹ Digital barriers are increasing as noted in the *OECD Digital Services Trade Restrictiveness Index*¹² becoming hurdles for e-commerce, connectivity and digital trade. Given the backdrop, on-going discussions at a multilateral level such as the [WTO Joint Statement Initiative](#) to harmonise e-commerce as well as other plurilateral agreements like the [Digital Economic Partnership Agreement](#) (DEPA) from several APEC economies remain critical to drive an ambitious rule-setting agenda. Multilateral initiatives such as the [Global Partnership on Artificial Intelligence](#) (GPAI), established through the G7, show what can be achieved if stakeholders work together from an early stage to maximise the potential benefits of existing and emerging technologies.

⁷ OECD (2021), *Economic Outlook for Southeast Asia, China and India 2021: Reallocating Resources for Digitalisation*, OECD Publishing, Paris.

⁸ AUC/OECD (2021), *Africa's Development Dynamics 2021: Digital Transformation for Quality Jobs*, AUC, Addis Ababa/OECD Publishing, Paris.

⁹ OECD (2018), *Bridging the Digital Divide: Include, Upskill, Innovate*, OECD Publishing, Paris.

¹⁰ OECD (2020), *OECD Digital Economy Outlook 2020*, OECD Publishing, Paris.

¹¹ OECD (2020), *Leveraging Digital Trade to Fight the Consequences of COVID-19*, OECD Publishing, Paris.

¹² https://stats.oecd.org/Index.aspx?DataSetCode=STRI_DIGITAL

Private sector insights

*As governments look to encourage economic recovery, they have the unique opportunity to **promote investment in connectivity and inclusive enabling policies**, supported by private-public dialogue. The pandemic has been an accelerator for public-private partnerships (PPPs) to promote an inclusive digital transformation. Successful partnerships and initiatives in the digital space can be deepened and replicated across emerging markets, working in close co-operation with key stakeholders.*

*Greater public-private and cross-sectoral collaboration is required to: (i) encourage **investment** in connectivity and digital transformation across all sectors; (ii) develop **smart regulation**; (iii) facilitate a **multi-stakeholder approach** including small-suppliers and bottom-of-the-pyramid integration, and (iii) boost the **digital skills** needed to upgrade the workforce creating opportunities across the entire economy; and (iv) build **trust** in digital technologies, acting upstream to enhance data access and sharing, address concerns around privacy, security and cybercrime, and promote digital trade.*

Multilateral collaboration, including through regional development banks and multilateral organisations, will be a key enabler of progress across these elements critical to digital transformation.

Participants in the EMnet's [Working Group on Digital Transformation in Emerging Markets](#) agreed on the key role of digital transformation in ensuring a resilient and inclusive recovery and pointed to its significant potential for increasing longer-term productivity and competitiveness across emerging markets.

Companies emphasised the need for adequate ICT infrastructure, to achieve reliable and quality connectivity. **Further development of digital infrastructure is key to increasing competitiveness** and governments that invest in quality digital infrastructure and increase speed and capacity of connectivity for all will be at a competitive advantage. Participants stressed investment in connectivity cannot be undertaken by the private sector or public sector alone. Co-ordination is needed to promote investment in digital infrastructure and the sharing of network and infrastructure to expand coverage and ensure inclusive reliable access for all. At local level, for instance, a platform approach, building on common infrastructure can generate significant benefits in ICT service offerings from an economic and environmental perspective. Governments should consider new business models and collaborative contracting frameworks that allow for collaboration across the private sector and with the public sector in delivering infrastructure solutions. To unlock further investment in digital connectivity, **participants agreed it is necessary to adopt transversal policies and maintain permanent communication with the entire ecosystem**. This includes support for innovation and entrepreneurship and encouragement for cross-sectoral investment in digital. Supportive policies include: (i) sharing infrastructure and encouraging synergies to increase efficiency and repurpose existing infrastructure (e.g. PowerGrid and light poles); (ii) ensuring scalability and encouraging open standards to avoid lock-in effects; and (iii) looking “beyond connectivity”, for example through the use of digital data captured in public environment for the development of services.

Crucially, **there is a need for a long term, pragmatic and stable vision and framework to encourage cross-sectoral digital transformation**. Level playing field, legal certainty, and effective competition, including in tender processes, independent regulatory bodies and fair taxation are key to underpinning a collaborative approach and creating an enabling environment to attract private investment and develop a domestic offering of digital services. Interregional and multilateral agreements on investment and network deployment can provide legal certainty, as can agreements to foster independence of regulatory bodies. Multilateral initiatives such as the [WTO Investment Facilitation for Development](#) set common recommendations for governments to align their policies to improve investment facilitation. **Policies must offer future-proof solutions** and systems and equipment should be ready for future upgrades to allow for evolving infrastructure requirements.

Participants agreed that **closing the digital gaps should be at the core of better, smart regulation** whether across regions, business sectors and socioeconomic levels in emerging markets, including rural-urban, education and gender disparities. The private sector looks to bridge these divides by implementing digitally inclusive strategies leveraging their business models (e.g. Microsoft's [AI for Accessibility](#)), and through public-private and multi-stakeholder collaborations. Examples include Bancolombia, enabling digital capabilities for financial inclusion in the distribution of government subsidies, or [Mastercard collaborations with UNICEF](#) or [IFC](#). The private sector can create **inclusive on-ramps** to the digital economy, for example through hybrid business models and a commitment to Base-Of-Pyramid offerings. For example, Walmart's operations blend e-commerce and digitally enabled physical retail, and then leverage the business's pre-existing, trusted relationships with underserved communities to support the transition to the digital economy. Cost solutions and scalability are critical to inclusion strategies, with interoperability as an enabler. To ensure that digital transformation does not create barriers to employment opportunities, reskilling the workforce in both low and high-tech skills is a priority across emerging economies. Companies are creating digital skills programmes (e.g. [Microsoft](#), [AWS](#)) as well as training programmes in digitally enabled sectors (e.g. [Schneider Electric](#)), and partnering with academia (e.g. [OCP Group](#) in Morocco, [Enel innovation hubs](#)) to upskill local workforces with digital skills. To take public-private collaboration on digital inclusion further, companies stress the need for inclusive stakeholder analysis and an ecosystem approach, understanding end-user expectations and broader policy objectives before matching solutions. **Digital solutions that promote transparency across public services are also supportive of rule of law**, a key integration challenge in emerging markets. The "Digital Tools for Rule of Law & Recovery" (DT4RR) agenda, developed by Walmart in partnership with LAC actors including the Organization of American States and the Americas Business Dialogue, supports the introduction of key digital tools into government to enhance regulatory systems such as tax administration, customs, procurement, and licensing/permitting.

Multilateral collaboration on key aspects such as interoperability and global digital trade will be required to unleash the potential of digital transformation, and to avoid depriving countries, particularly emerging markets, of export-led growth. Policies and regulations on data management, including for flows across borders,¹³ fast payments, trade facilitation, and digital services are more critical than ever, for businesses, to trade online and access new markets and for end-consumers to enjoy the benefits of digital trade in security. Unilateral rules and actions by single governments in this space can create barriers to growth. Conversely, policies in support of digital trade and in particular multilateral and bilateral trade agreements that cater for the challenges raised by new cross-border digital business models, including for example in e-commerce, can support both the economic recovery across emerging markets and greater opportunities for micro, small and medium enterprises. Cybersecurity is a key area for international collaboration and participants emphasised the need for an environment of trust. Trust will be required not just among ecosystem players, including within supply chains, but also with end-users. This will require a multi-stakeholder approach, to share experiences and best policy practices. The African Union Commission is supporting member states in designing and building a Pan-African Statistics system necessary for socio-economic planning.

There is a key role for multilateral organisations, international financial institutions and regional development banks in promoting connectivity and digital transformation projects across both the public and private sector. For example, the African Union Commission is partnering with the private sector to implement Digital Transformation Strategy within the period 2020-2030, and supporting platforms to provide interconnected systems to deliver quality made-in-Africa goods and services within the AfCFTA (e.g. [A-eTrade Group](#)) or [connectivity investments by IDB, CAF and IFC](#) in LAC.

¹³ [Casalini, F., López González, J. and Nemoto, T. \(2021\), Mapping commonalities in regulatory approaches to cross-border data transfers, OECD Trade Policy Papers, No. 248, OECD Publishing, Paris.](#)

Next steps and upcoming events

The EMnet Secretariat will work with its members to take forward these key messages, which will inform OECD Development Centre publications and shape EMnet's activities going forward. Companies with an interest in contributing their perspectives and case studies are invited to [contact the EMnet Secretariat](#).

The **Working Group on Digital Transformation in Emerging Markets** is part of a series of three thematic Working Groups, on Business and Sustainability and Green Economy in emerging markets.

Upcoming events include EMnet's **Working Group on Green Economy in Emerging Markets (September, 2021)** and **EMnet Global Meeting on Business in Emerging Markets (November, 2021)**.

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