



Policy Brief: How can donors help developing countries engage with the global data economy?

Executive Summary

Donors are designing programmes to support digital economic development in fast-changing and complex environments with little foundational research to rely on. This brief recommends the use of political economy analysis (PEA) to navigate the unique sensitivities that exist in every country around the economic exploitation of data. Otherwise, donors risk straying into sensitive political territories like online information control or national state cybersecurity, or exacerbating harmful economic monopolies.

Key recommendations

- Donors should recognise the unique confluence of interests and sensitivities around digital economic development related to data governance.
- Donors designing programmes to support digital economic growth should prioritise the use of 'political economy analysis' throughout the programme cycle to mitigate potential harms.
- A 'political economy analysis' for digital economy programmes should capture stakeholder interests and institutions beyond the economic sector.

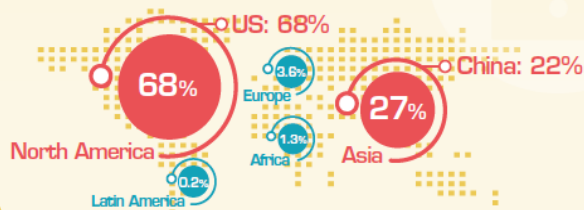
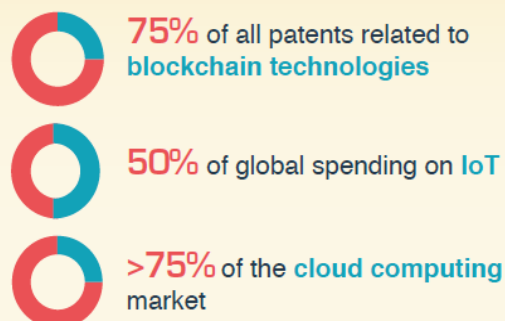
Challenges and opportunities in the global digital economy

The adoption of digital technologies is driving economic growth worldwide, with some estimating that the global digital economy will make up 25% of the world's GDP by 2025 [1]. However, wealth creation in the digital economy is highly concentrated in a small number of companies and countries (fig.1).

If the Sustainable Development Goals (SDGs) on work, innovation and the economy are to be met, the global community needs to help developing countries maximise the potential of digital technologies for inclusive and sustainable growth. Inaction risks widening already existing global inequalities in the growing digital economy.

Geography of the digital economy is highly concentrated in two countries

● United States and China ● Rest of the world



Still huge digital divides



Half of the world remains offline



In LDCs only 1 in 5 people are online



Gender gap is the widest in the poorest economies

Fig 1. Source: UNCTAD, (2019) *Digital economy report: Value creation and capture: implications for developing countries*.

Donors are now supporting digital economic growth in developing countries

Many donors are starting to respond to these challenges with a wide variety of programmes to support digital economic development. Some focus on developing human resources to create a digitally skilled labour force and a culture of digital entrepreneurship. Others facilitate financing for expanding ICT infrastructure for broadband connectivity or provide technical support for developing digital ID systems [2].

Like any systemic change, there are potential downside risks to digital economic development that donors should recognise and mitigate against in their programme design and implementation. These include the erosion of traditional retail sectors, the wholesale loss of jobs, and online transaction fraud.

But even more than that, digital economic development carries a unique type of risk that goes beyond those normally associated with largescale economic transformations.

At the heart of every digital economy is the collection, use and analysis of digital data from personal, business and social online activities. This means that programmes to support digital economic development have potential human rights and national security implications in addition to economic ones.

Political Economy Analysis is needed for donor programmes

When designing other types of international development programmes, many donors now use a set of analytical questions collectively known as 'Political Economy Analysis' (PEA).

This ensures that programmes are well adapted to their context by detailing the interests and incentives of local powerholders, as well as more foundational factors like national historical trajectories, geopolitical relationships, and both formal and informal institutions.

As donors are always under pressure to show results and value for the money disbursed, PEA helps to identify specific opportunities for policy adoption or reform, and to use their limited resources strategically. The use of PEAs became more widespread in reaction to previous failures where donors tried to transplant technically sound or “rational” policies to support developmental change only to see them stall and disappear.

The broad complex of economic, security and human rights interests involved in data governance makes the use of PEA in digital economy programmes more important than ever.

The risks of not using PEA for digital economy programmes

Without the use of a PEA, digital economy programmes risk having potentially harmful side-effects, or encroaching on sensitive domestic political matters.

Case Study:

Research on the political economy of data governance regulation in Indonesia found that:

A bill that was originally intended to regulate data use in e-commerce eventually became an elite tool to protect against online defamation as the bill’s drafts moved through the Ministry of Communication, the legislature and were implemented in the judicial system. The lesson here is that the interests and institutions involved in data regulation for e-commerce can overlap with online information control for political purposes.

Other findings showed how regulation and institution-building to reduce online transaction fraud became mired in political and military elite struggles that spilled out to the control of online information during an election campaign. Security measures for online transactions can also quickly stray into the sensitive territory of national state cybersecurity.

The same research detailed the international and national rhetorical and policy processes which intensify the inherent network effects of digital platforms to produce local and global monopolies in the digital economy. In the absence of objective empirical research, international policy advice on cross-border data flows is currently based on the priorities of the richer nations, informed by the interests of the globally dominant tech companies.

Donor support for the digital economies of developing countries is much needed. However, in order to avoid contributing to economic concentration, state use of digital technologies to control their populations, or straying into highly sensitive domestic political matters, donors should prioritise the use of PEA throughout the programme cycle. Box One below suggests some features of a PEA for digital economy programmes.



A Political Economy Analysis (PEA) for Digital Economy Programmes

Donor programmes to support digital economic development need a PEA which looks beyond the economy.

- A much broader range of stakeholders should be considered beyond those immediately relevant to the digital economy - including civil society organisations working on privacy and surveillance; military defending national security; in addition to domestic and international business. Such a wide range of stakeholders can result in new and unexpected coalitions of interest on particular issues.
- Institutions involved in regulating the digital economy also go beyond those focused on the economy. As information has become an economic resource, regulating the digital economy often falls within the remit of highly politicised Ministries of Communication and Information whose culture revolves around online censorship.

The dynamism of the digital economy sector means that a PEA should be an ongoing process rather than a single up-front assessment

The Research

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References

[1] Huawei & Oxford Economics (2017). Digital Spillover. Measuring the true impact of the Digital Economy. Shenzhen: Huawei Technologies. It should be noted that measuring the value of the digital economy is difficult and contested.

[2] UNCTAD, “Donor support to the Digital Economy in Developing Countries”, UNCTAD Technical Notes on ICT for Development No. 13 (United Nations publication, TN/ UNCTAD/ICT4D/13, March 2019).