Microsoft

Private Sector Perspectives

Areas for Transformative Partnerships in Least Developed Countries

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Introduction

In the lead-up to the 5th United Nations Conference on Least Developed Countries (LDC5) in Doha, Qatar, in March 2023, Microsoft, as co-chair of the conference's Private Sector Forum, brought together private sector partners, actors on the ground, and relevant local organizations to better understand existing opportunities for investment—and barriers to it—in Least Developed Countries (LDCs). These discussions have yielded new and effective commitments from private sector entities to invest in LDCs, clear areas for partnership and engagement to advance development and private sector activity in LDCs, and a set of policy recommendations to promote investment and innovation.

The recent adoption in New York of the LDC5 Doha Programme of Action (DPoA) codifies the discussions and goals developed thus far to support LDCs from both the public and private sectors. We see an opportunity to build on this work and to continue our partnership with the United Nations (UN) to expand its private sector reach and to identify innovative solutions to some of the most pressing problems laid out in the DPoA. Robust private sector engagement will be vital to accomplishing the DPoA's goals and to achieving new investment and development across LDCs. Additionally, as private sector actors, we recognize that the COVID-19 pandemic and the conflict in Ukraine have significant impacts on LDC economies—from declines in tourism revenue to a steep rise in food prices. The private sector has an important role in supporting LDCs that are facing and recovering from these economic challenges.

In partnership with private sector companies working across the sectors of connectivity, climate, energy, agriculture, and tourism, we identified five cross-cutting themes critical to both fostering investment and meeting critical development targets: skilling, connectivity, blended finance, multistakeholder partnerships, and good governance. Private sector actors, working closely with LDC governments, multilateral partners, and civil society, have a unique opportunity to put their expertise, technology, and voice to work across these themes to drive meaningful outcomes. These themes also intersect with inclusive growth, climate change mitigation, and better preparations for the effects of climate change, which are expected to significantly impact LDCs.

Key takeaways include:

- Public-private partnerships (PPPs) that foster innovation and promote workforce reskilling.
- The role of the private sector in providing affordable access to the internet in LDCs, in addition to the policy steps that governments and regulators can take to incentivize investment in the infrastructure backbone and in last-mile connectivity.
- Challenges to enabling full accessibility to the internet in LDCs. Takeaways also included strategies for ensuring that citizens accessing the internet have the computing devices and digital skills to reap its benefits. Additionally, they covered the role of multistakeholder- and partnership-based approaches to foster meaningful connection and skilling opportunities.
- Implementation of a regulatory landscape that transparently enables private sector investment and growth.
- Sustainable and affordable financing for all sectors in LDCs through scaled use of blended finance instruments and coordinated insurance.

- Commitments to upholding good governance policies and enforceability of transparency.
- Multistakeholder coordination to ensure that investments are systemic and scalable across industries and sectors.

This paper outlines the main challenges in the areas of connectivity, blended finance, skilling, multistakeholder partnerships, and good governance in LDCs. It also covers opportunities for private sector investment and partnership. Additionally, we provide recommendations to governments on what is needed to drive increased private sector investment in LDCs.

Skilling

Challenges

Increasing employment and expanding opportunities in formal employment are key priorities in LDCs, given an LDC youth unemployment rate of 9.5 percent.[1] The private sector is uniquely positioned to support LDCs by skilling workforces and by providing insight into the training required in a future workforce, including digital skilling. Most of the world's 2 billion people who participate in the informal economy can be found in LDCs, but LDC communities are the most digitally excluded population in the world. Approximately 20 percent of this population uses the internet, and only 10 percent uses any type of e-commerce or e-government service. Further, 70 percent of the population living in LDCs is under the age of 14, meaning that they will be a significant share of the global workforce by 2030.[2]

Across sectors, workers equipped with digital skills are in demand. LDCs will benefit from the development of a skilled workforce and will need to partner closely with the private sector to do so. The implementation of skilling changes and upgrades will require a sizeable investment from the private sector, which needs to be willing to extensively train prospective employees and to retrain current ones. Similarly, the public sector must undertake a comprehensive review of existing skills and trade training programs. Educators, training providers, and employers too often work in silos, creating a disconnect between labor market needs and job seekers in LDCs. It is critical that these groups and others collaborate to determine necessary policy changes to upskill workforces and to ensure that education and vocational programs are designed with a clear understanding of current and future labor market demands.

Opportunities

Building a competitive workforce that is equipped with the skills needed for digital expansion in LDCs is critical to their economic development and the creation of value-added industry. The private sector can play a significant role in narrowing the digital equity gaps by more strategically partnering with international development organizations and LDC governments to enable digital services that empower citizens and civil servants. Tourism also provides a common opportunity for all LDCs because of its proven ability to create large numbers of jobs, in addition to its opportunities for women across the workforce.

Investing in skilling for micro, small, and medium-sized enterprises (MSMEs) is another way to meaningfully drive impact. MSMEs are important contributors to job creation and global economic development. They represent about 90 percent of businesses and more than 50 percent of employment worldwide, and formal SMEs contribute up to 40 percent of national income (GDP) and create 7 out of 10 jobs in emerging economies.[3]

Climate change is similarly poised to dramatically impact traditional industries in LDCs, such as farming and tourism, requiring the next generation of the labor force to be adaptable. As

1 Fred Economic Data. "Youth Unemployment Rate for Least Developed Countries." February 16, 2022. https://fred.stlouisfed.org/series/SLUEM1524ZSLDC

2 International Labour Organization. "Data: Free and open access to labour statistics." 2022. https://ilostat.ilo.org/data/

3 The World Bank. "World Bank Open Data." 2022. https://data.worldbank.org/

with most issues, dynamic public-private partnerships are needed to accomplish these goals. In partnership with the International Organisation of Employers (IOE), global nongovernmental organization (NGO) Synapse and Microsoft aim to provide digital and tech productivity skills to the IOE's federation of business owners in LDCs. This project, which will be piloted in Senegal and Lesotho before expanding to other countries or regions, is an example of the expertise that the private sector can use to support skilling in LDCs.

In the area of skilling, the private sector should capitalize on opportunities such as:

- Building public-private partnerships to drive workforce skilling efforts together.
- Delivering skilling programs to increase the impact of expanded digital access. This includes digital literacy and productivity courses for micro-entrepreneurs, entrepreneurs, and SME owners.
- Creating new skill sets in sustainable and climate-friendly travel and tourism, especially among young people.

Recommendations for LDCs

Governments play a significant role in determining priority sectors for skilling. We recommend that LDC governments consider the following policy and regulatory recommendations:

- Analyze and make changes to existing skills training programs, including apprenticeships and traineeships, to help ensure alignment with potential private sector projects and other private sector opportunities with expanded digital access.
- Partner with private sector entities to establish new training modules for specific sectors.
- Empower local communities by enabling offline services, such as educational programs, as a stepping stone for online access.
- Partner with social media and e-commerce platforms to train entrepreneurs on how these platforms can extend the reach of their enterprises.
- Support the development of skills advisory groups that can provide employers with training materials and programming.

Connectivity

Challenges

Connectivity is by no means a luxury in 2022—it is a critical tool to achieve all UN Sustainable Development Goals (SDGs), since it enables people to experience and participate in the economic benefits of the digital economy.

The COVID-19 pandemic has highlighted the importance of reliable connectivity mechanisms and their potential to sustain families, communities, and businesses through online working, e-learning, e-commerce, and online health services, among others. It has also enabled governments to reach critical at-risk populations with the stimulus support that they need to survive the pandemic-related economic headwinds.

Opportunities

The benefits of digital connectivity cannot be fully harnessed without the right mix of digital skills, broadband infrastructure and tools, and enabling policy environments. Beyond COVID-19, helping to ensure that all LDCs have access to the internet and to intra-country communications infrastructure can accelerate their development and can open avenues for further private sector investment that were not possible in the past.

The World Economic Forum (WEF) Global Future Council on the New Agenda for Fragility and Resilience examines these issues in its guidelines for complementary action in fragile contexts. The organization specifically suggests that products and services should be designed in locally relevant and accessible ways, taking into account effects on communities and the needs of the most marginalized. Designing services and products that are locally relevant and accessible through iterative processes which invite local leaders to participate in decision-making and implementation will also minimize risks related to low user adoption and poor user experience, both of which are key barriers to development. Similarly:

- Stakeholders should identify whether there are existing private sector solutions that can be scaled before investing in new solutions.
- Infrastructure should be built to be interoperable and repurposable across programs and sectors.
- Data security should be prioritized.
- Digital tools should be made as accessible as possible to marginalized populations.

In the area of connectivity, the private sector should capitalize on opportunities such as:

- Exploring innovative approaches to affordability and financing to extend inexpensive access to the internet.
- Considering solutions to lower transit and transmission pricing for landlocked and small island states in terms of aggregated need and future volume pricing.
- Making the most of the role of multistakeholder- and partnership-based approaches to foster meaningful connectivity, such as the ITU Partner2Connect Digital Coalition.

- Supporting the development of dynamic spectrum to create an environment larger than the few companies that have bought a license of the spectrum. Dynamic spectrum allows for new competitors to enter the market and for the application of new, affordable technologies that can bring down the cost of connectivity for the population.
- Expanding public-private partnerships that encourage private sector development of new digital infrastructure and tools, such as the Mastercard Community Pass program, which supplies digital banking infrastructure to remote and underdeveloped locales.

Recommendations for LDCs

Governments have a role to play in expanding connectivity. We recommend that LDC governments consider the following policy and regulatory recommendations:

- Ensure that meaningful universal connectivity is a priority at the highest levels of government.
- Guarantee that the rights of people—especially the most vulnerable—are protected when they are online.
- Support the continued development of accessibility in technology to ensure equal access for all persons.
- Foster competition and expand affordable access to the internet, including both backhaul infrastructure and innovative technology-neutral solutions for last-mile connectivity.
- Make more efficient use of spectrum by enabling dynamic access to unused spectrum while protecting incumbents to enable innovative technologies that can provide more affordable access to the internet in unserved areas (including rural areas).
- Incentivize investment in affordable technology solutions by deploying a range of innovative technologies and investing in targeted approaches to deliver broadband internet.
- Remove policy barriers, like stringent data localization rules and excessive right-of-way tax regimes, thus incentivizing investments from global technology players while also ensuring that citizens in LDCs receive the economic benefits which accompany unfettered access to the global internet—all while minimizing risk of corruption.
- Ensure adequate net neutrality protections are put in place to support the open playing field needed for innovation.
- Set bold and measurable targets to extend internet access across all public education institutions.
- Deploy blended finance models to meet missing middle needs of internet service providers (ISPs) in emerging markets.
- Engage the private sector through dialogues with businesses associations to help ensure that their views and innovative ideas are incorporated into relevant policy changes.

Blended finance

Challenges

COVID-19 has had a devastating impact on LDCs. In 2022, the World Bank estimated that countries supported by the International Development Association (IDA) owe USD35 billion in debt services to their official bilateral and private sector creditors. This estimate increases to USD46 billion if climate-friendly actions are considered.[4] Given ongoing economic stresses exacerbated by the pandemic, concerted efforts are needed to mobilize additional resources and to expand innovative financing models that can enable robust and resilient economic recovery in LDCs.

Many potential funders are put off by the high investment risks in LDCs, and many businesses lack the ability to access funds when they do exist because they cannot access banking services. This is a particular problem in the energy sector. Energy access in LDCs faces a persistent and enormous financing gap, meaning that the energy transition in developing countries and regions will require large-scale financing. New financing models can be accessed to fill this gap, and blended finance will be an essential tool to managing the large financial burden that LDCs face in transitioning to sustainable energy sources. LDCs also often struggle to mobilize local capital to finance sustainable infrastructure or, more broadly, to create sustainable revenue streams for public-private partnerships. These financing issues similarly crop up in other industries and priority areas, such as climate mitigation, agriculture, and tourism promotion.

Opportunities

The blended finance model creates an opportunity to increase the size and breadth of investment in LDCs by combining public or donor funds with private investment and advisement to reduce risk and increase impact. Constructing diversified portfolios and using public or donated funds as insurance can provide private investors with greater confidence in their returns. Blended finance models run through local small and medium enterprise financiers, such as local banks, can also help spread investments across multiple sectors while ensuring that the recipient companies are investment ready.

New blended finance opportunities should be developed with support from the private and public sectors and other relevant stakeholders that consider the unique contexts of different countries and regions. An approach that works with private donors alongside government and philanthropic contributions could create sustainable business models for high-impact PPPs. Similarly, impact-oriented financial guarantee vehicles can enhance high-impact investments in sustainable infrastructure by creating opportunities for institutional investors, like insurance companies or local pension funds, to invest. This not only mobilizes capital currently sitting on the sidelines but also removes the currency risk that adds frustration to so many high-impact opportunities.

There are positive examples of effective blended finance approaches across different sectors. The Transform Health Fund is an example of a high-impact investment fund for transformative healthcare solutions in Africa that make the most of blended finance. The USD100 million fund is sponsored by the Health Finance Coalition, which includes major global health funders,

[4] The World Bank. "World Bank Open Data." 2022. https://data.worldbank.org/

like the Global Fund, the World Bank Global Financing Facility, the Bill & Melinda Gates Foundation, The Rockefeller Foundation, and the United States Agency for International Development (USAID), in addition to several corporate partners. In the energy sector, The Rockefeller Foundation Global Energy Alliance for People and Planet is also demonstrating the effectiveness of this model in accelerating and scaling equitable energy transitions in low- and middle-income countries and regions.

In the area of blended finance, the private sector should capitalize on opportunities such as:

- The ongoing partnership between Microsoft and the International Peace Institute (IPI) in Kenya, intended to beta test which processes are currently working on the ground and to assess whether these solutions can be used to close the digital divide in other countries and regions.
- Using blended finance partnerships that combine public funds, government structures, and private resources, like Zambia's national digital banking inclusion efforts, to bring mobile banking to a broader population.

Recommendations for LDCs

Governments have a role to play in advancing blended finance solutions to critical development challenges. We recommend that LDC governments consider the following policy and regulatory recommendations:

- Mobilize new financing models to reach the unconnected by fostering innovative and sustainable financing, including blended finance models and multistakeholder partnerships. Financing efforts must address skills, utility, and affordability and must target key groups, including women and MSMEs.
- Complete holistic reviews of regulations and financial policies that may inhibit the deployment of new blended financing opportunities. This can remove barriers to access and add incentives for private sector involvement.
- Identify critical needs that can be most effectively met through blended finance.
- Ensure transparency of financing and ownership to guard against foreign direct investment in telecommunications infrastructure through non-transparent vehicles.

Multistakeholder partnerships

Challenges

Public-private partnerships and multistakeholder partnerships are often employed to improve the quality and economic efficiency of public services, using market-based solutions. They have become increasingly critical in LDCs since these governments often lack adequate funds to develop and maintain public services, let alone foster the innovation needed for real economic development and sustained growth. LDCs need to work with a variety of stakeholders to ensure that the right regulatory mechanisms are in place to account for the growth that will come from successful partnerships. It is also important to acknowledge, however, that not every issue has a multistakeholder solution and that some problems are better left to governments or to private interests that are clearly free of conflicts of interest.

Opportunities

Multistakeholder partnerships provide an opportunity for corporations to make the most of their operational capacity, domain expertise, data resources, multinational reach, and financial resources to solve complex issues. Such partnerships have been particularly effective in confronting cross-border issues that have outsized impacts on private sector entities and in cases where public and private partners can coalesce around a clearly defined issue.

To design effective multistakeholder partnerships, private sector actors will have to identify the specific resources that they can provide and how they can best structure their contributions to fit specifically defined issues. Participants should also work to determine where partnerships with other companies are appropriate to increase private sector contribution, in addition to carefully selecting public partners with the political will to move projects forward.

In the area of multistakeholder partnerships, the private sector should capitalize on opportunities such as:

- Working with public-private partnerships to drive low-cost production and assembly of smart devices.
- Building on training programs, like the joint Microsoft-LinkedIn-GitHub global skills training initiative, which has reached 30 million people.
- Engaging with civil society organizations to boost capacity and to target investments where they are most needed, such as the work of Global Energy Alliance for People and Planet to expand energy access while reducing carbon emissions.
- Partnering with leading private and public sector organizations that are advancing the UN SDGs through public-private engagement, such as the UN Sustainable Energy for All (SEforALL) program, which has innovated the use of trackable commitments by the private sector.
- Supporting education and training initiatives in the tourism industry that incorporate SDG and Paris Climate Agreement targets.

Recommendations for LDCs

To support the development and implementation of effective multistakeholder partnerships, we recommend that LDC governments consider the following policy and regulatory recommendations:

- Set ambitious and measurable targets to help ensure successful public-private partnerships.
- Foster collaboration among multilateral financial institutions (including development banks), civil society, and large and small private sector actors.
- Consider creating risk pools, and encourage more private sector investment to diversify investment risk.
- Clearly identify completed successful and unsuccessful multistakeholder partnerships to learn the strengths and weaknesses of various projects and to support the development of country-specific best practices.
- Demonstrate how multistakeholder partnerships could increase business opportunities and fulfill global responsibilities for partners.

Good governance

Challenges

Nonfinancial risks, including governance and corruption risks, continue to pose a threat to investors and development in LDCs. Promoting good governance practices is important to building stable investment environments. Maintaining good governance policies is a challenge to be met by both public and private sector entities. Unfortunately, many solutions suffer from a lack of access to timely and adequate financial resources that can provide critical good governance resources in protracted crises.

Effective responses must consider local capacities to scale and speed responses in crisis situations, but many providers fail to provide helpful and relevant user experiences and, as a result, their solutions suffer from low adoption. Digital resources stand to be immensely useful in hard-to-reach areas but are often underused.

Opportunities

Although the public sector retains the burden of policymaking and enforcement, the private sector can encourage the development of coherent and maintainable regulations that incentivize compliance and support private sector investment in the country or region. The private sector can also lend technological innovations to drive transparency and other good governance initiatives. These innovations can increase effectiveness by working directly with communities to help ensure that their needs are at the center of regulatory changes, new investments, and disaster responses. Long-term financing and business agreements between private sector entities, NGOs, and local governments can ensure the continued and efficient operation of aid providers through unexpected economic, social, and environmental crises. They can also help develop local capacities over time that more effectively absorb new methods for confronting problems.

Additional financing can be ensured by reimagining private sector interventions in fragile or risky markets as investable constructs that clearly lay out the request, return on investment, and exit strategy and by coordinating with partner organizations to reduce redundancies and to stretch investments further. Similarly, investments in long-term, flexible digital infrastructure can provide multiple critical services at a lower cost while creating more potential upside for investors.

In the area of good governance, the private sector should capitalize on opportunities such as:

- Working with technology to support government transparency initiatives.
- Working alongside public sector stakeholders to create response tools and templates to help LDCs confront unexpected crises, like the UN-sponsored Vanuatu Business Resilience Council did during the COVID-19 outbreak. These tools helped LDCs coordinate their own response to the pandemic, such as Rwanda's robust public health response and mitigation measures.

Recommendations for LDCs

Governments are at the forefront of promoting good governance practices that are supportive of an open investment environment. To drive good governance outcomes, we recommend that LDC governments consider the following policy and regulatory recommendations:

- Taxes, licensing, and customs regulations should not be so burdensome as to impair economic growth and progress. Governments need to enforce good governance and anti-corruption measures to facilitate imports of equipment and investments from global companies.
- Increase enforcement of new and existing anti-corruption measures to facilitate imports and investments from foreign companies.
- Transparently improve enforcement of the rule of law, particularly around contract law and land registry and ownership.
- Improve the regulatory environment to allow for expanded basic human services online, such as education and health care.
- Ensure proper coordination between government departments to promote infrastructure and technology innovation and to facilitate the importing of required equipment.
- Implement policies and processes that uphold privacy protections, including those related to access to personal data.
- Encourage liberalization of aviation markets to increase the flow of sustainable tourism, with its trade and job creation benefits.

The path forward

Over the next year, in the lead-up to Doha in March 2023, Microsoft will join with global, local, and regional businesses, governments, and relevant organizations to develop and execute multistakeholder projects aimed at advancing the themes laid out in this paper to ultimately realize sustainable economic development in LDCs. To kick off this work, Microsoft will undertake several projects to catalyze action and to draw best practices throughout the year for multistakeholder partnerships in LDCs. It will do this while leveraging existing forums, such as the UN High-level Political Forum (HLPF), UN General Assembly (UNGA), and regional WEFs to convene partners around these topics.

Regarding skilling, we will partner with the IOE to provide digital skilling to micro-entrepreneurs, entrepreneurs, and SME owners in pilot programs in Senegal and Lesotho with the aim of scaling across more of IOE's federation of employers in LDCs. As for connectivity, Microsoft will join multistakeholder partnerships to catalyze digital transformation. For example, in partnership with USAID, Microsoft will expand connectivity projects that enhance gender equity to two LDCs this year. Our work also includes partnering with the IPI to launch working groups that address operational obstacles to advancing connectivity. The IPI will first focus on Kenya to identify scalable best practices for developing countries and LDCs, in addition to expanding and deepening our own research at Microsoft on how rural populations globally can achieve meaningful connectivity. On blended finance, Microsoft has partnered with Foreign Policy to release a white paper on the role that blended finance plays in supporting sustainable economic growth across LDCs to advance the conversation on strategies to close the financing gap, scale project finance, and expand economic opportunity across LDCs.

Taken together, these initial projects represent an exciting next step in the efforts of Microsoft and multistakeholder groups to advance digital transformation and sustainable economic development in LDCs. We hope that these initial projects catalyze action and inspire others to consider the opportunities for private sector initiatives identified in this paper. Microsoft is committed to engaging with key partners to build meaningful coalitions in the lead-up to LDC5 and beyond.

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