Strategies to Attract FDI in Telecommunications

Meeting of Experts on "FDI, Technology & Competitiveness"
8-9 March 2007
UNCTAD, Geneva, Switzerland

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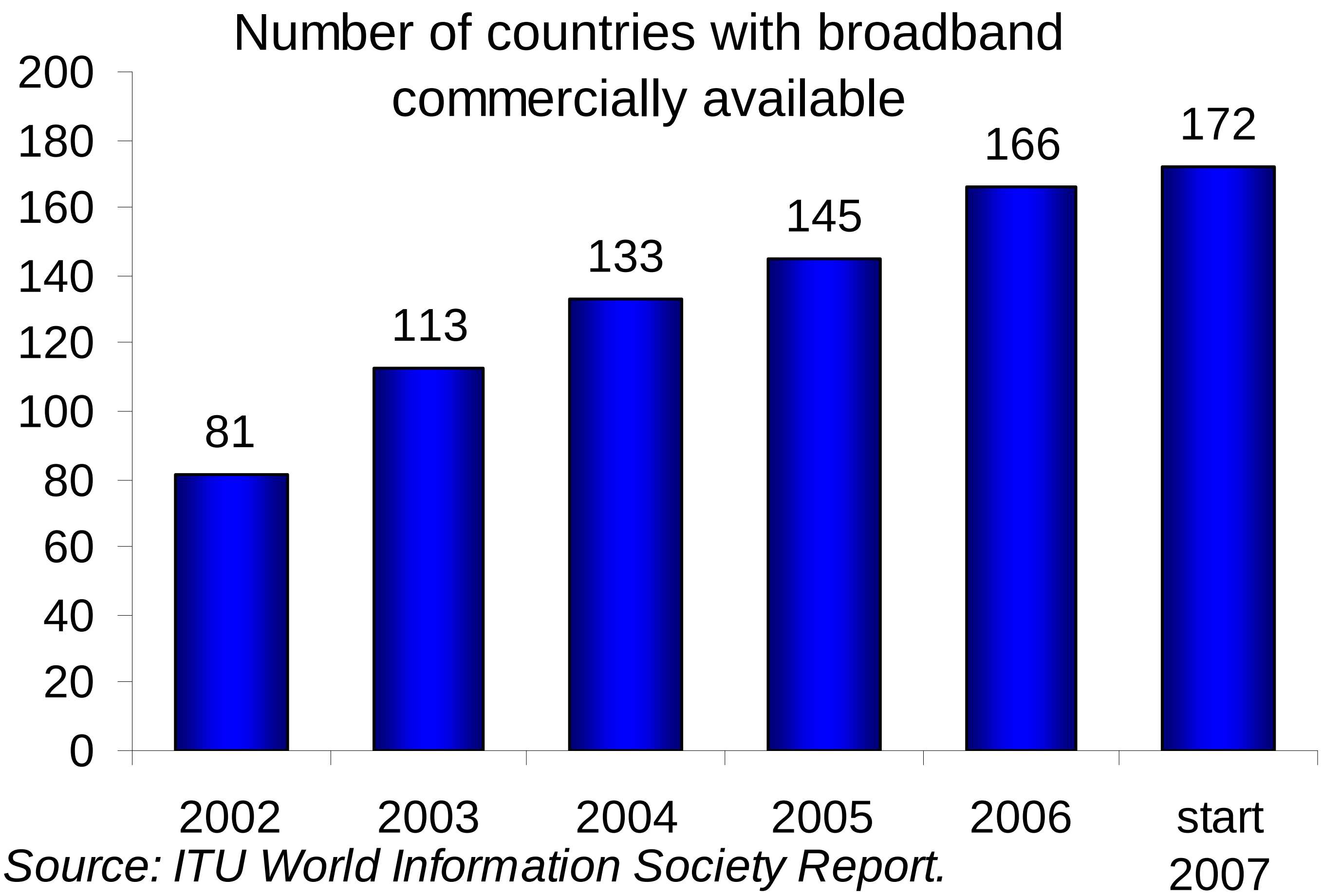
Agenda

1. The problem: the digital divide for business infrastructure
2. Regulatory reforms
3. Specific tax incentives
4. Conclusions

1.1 Digital Divide: Broadband For Business

Source: ITU

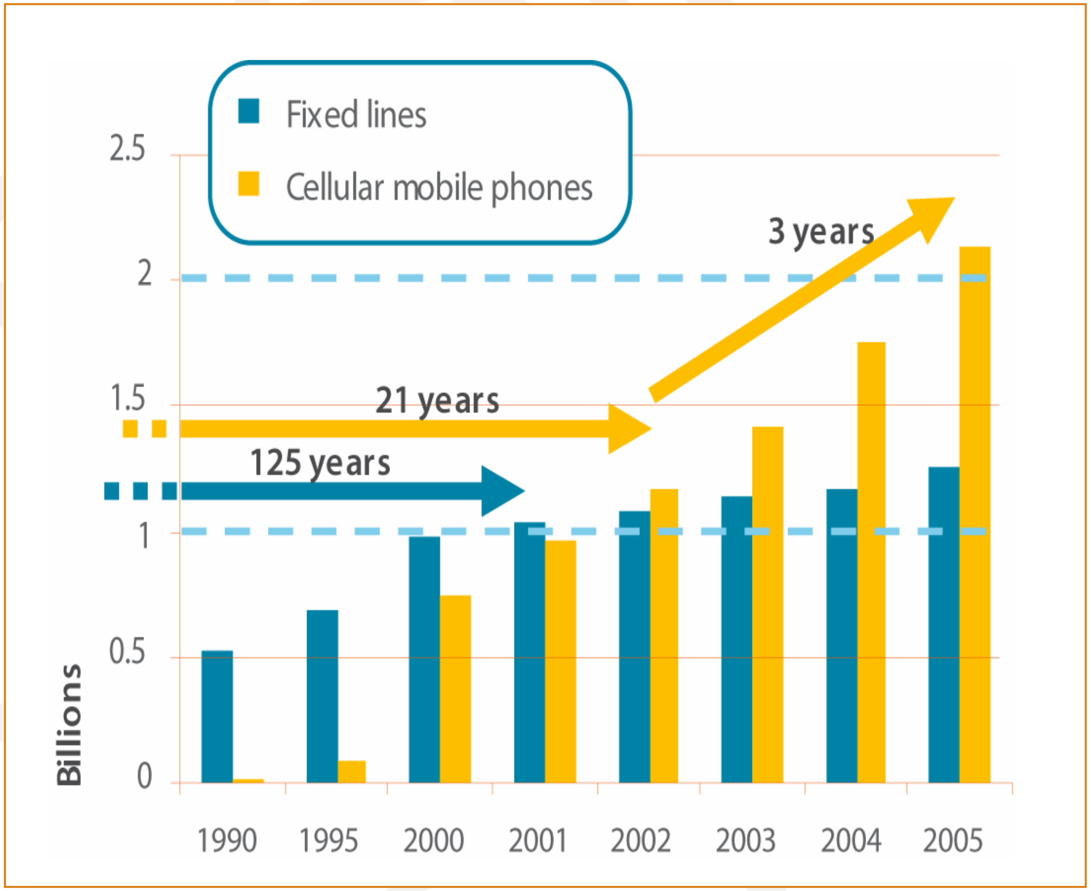


Source: ITU World Information Society Report.

1.2 Ever more rapid adoption

Passing the 1 billion and 2 billion user milestones

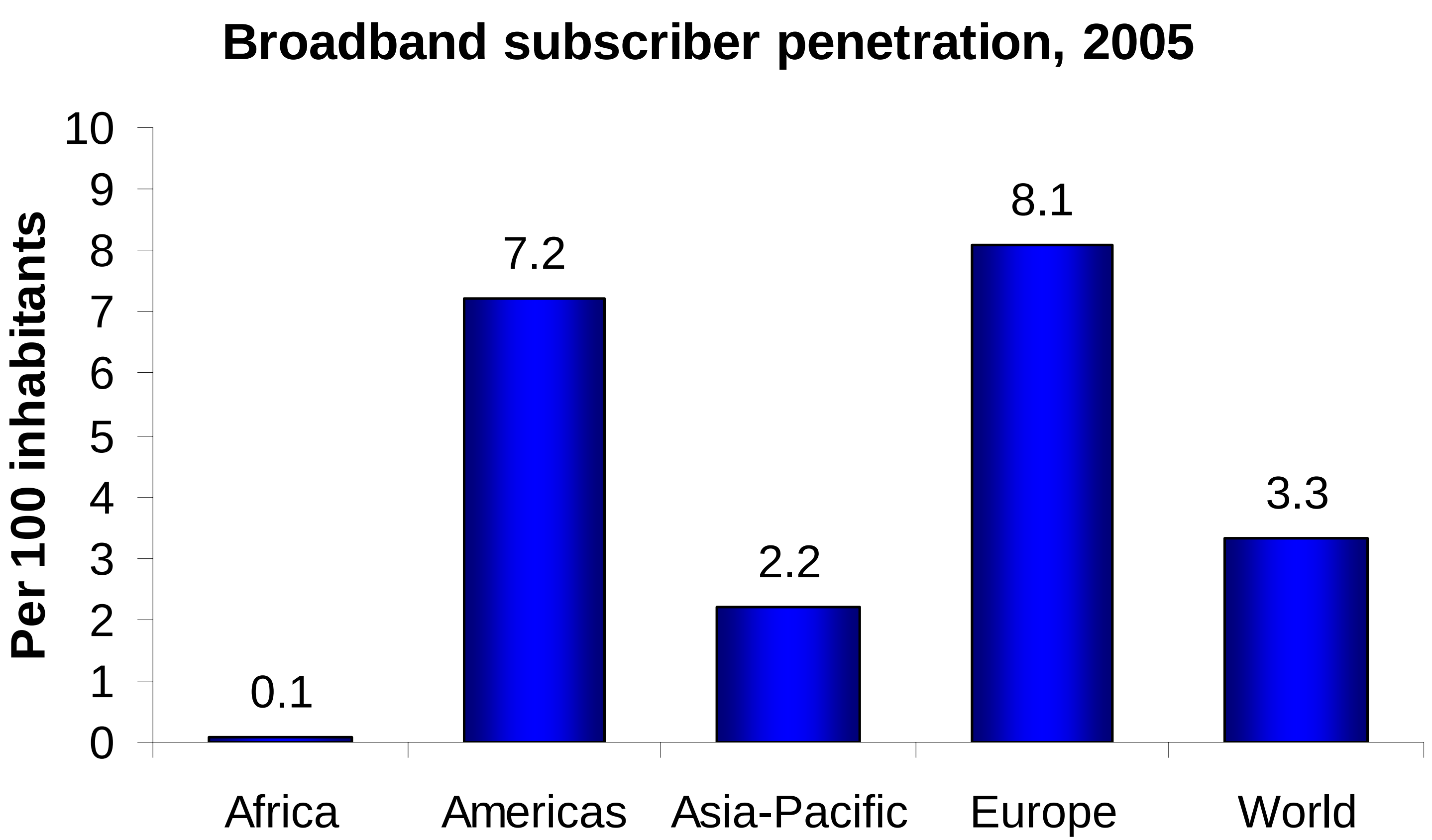
Source: ITU



Source: ITU Information Society Statistics

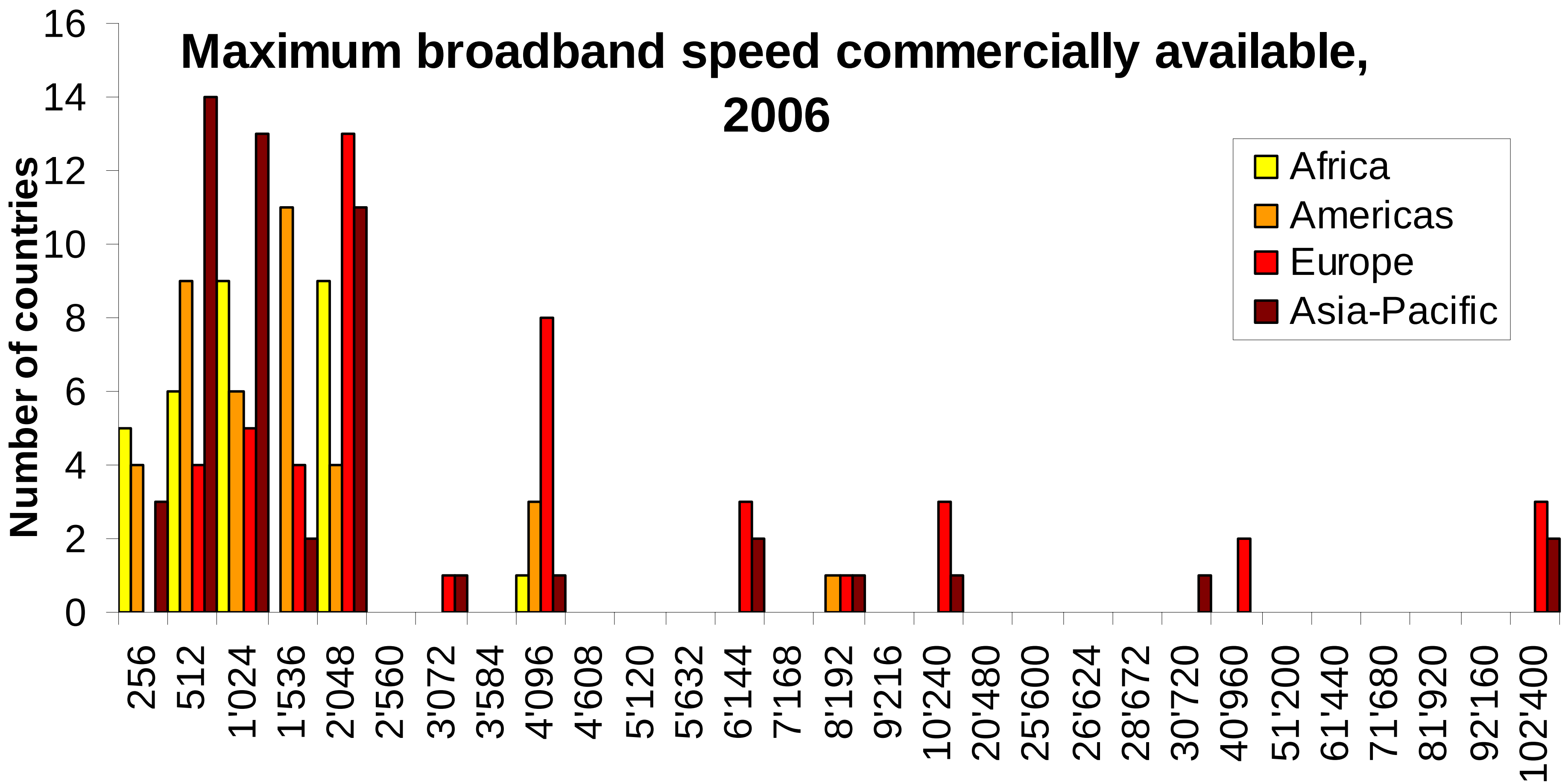
But what does the digital divide mean for firms and business infrastructure for competitiveness?

1.3 Limited infrastructure…



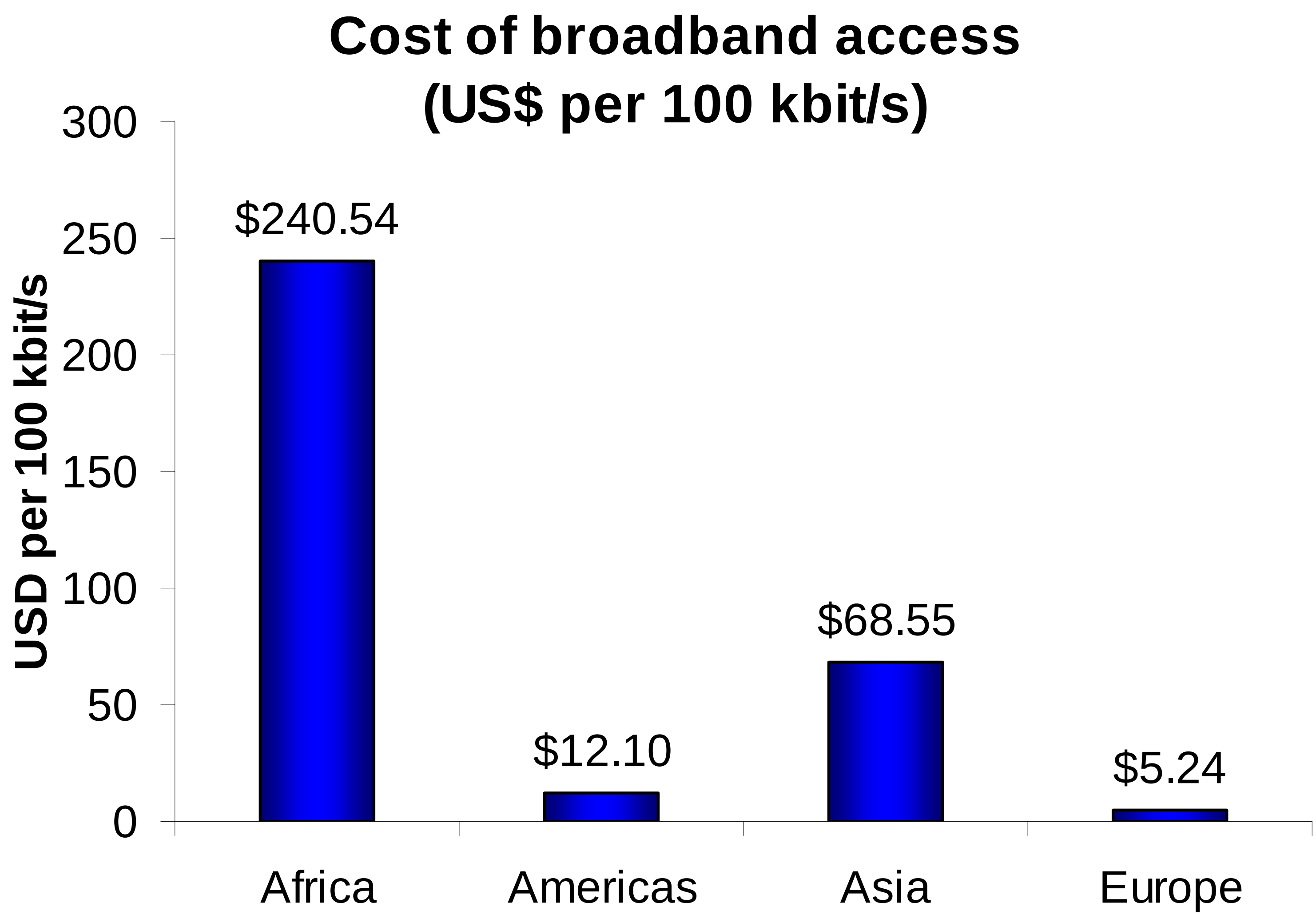
Source: ITU

1.4 …at lower speeds…



Source: ITU

1.5 ...but higher cost



Source: ITU

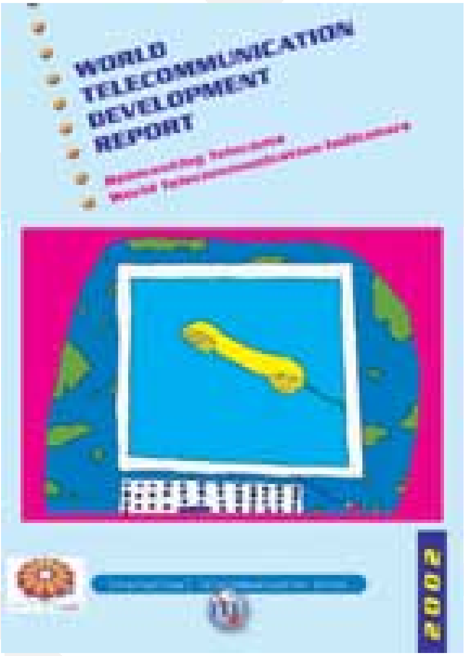
What are countries doing to promote better, new and more widely available infrastructure at lower prices?

Promoting Investment in Telecoms

2. **Regulatory reforms** - Privatisation and competition to establish a sound *enabling environment*
3. **Specific incentives to boost investment** (domestic & foreign) - tax incentives.

2.1 Regulatory reform in telecommunications

Trends in Regulatory Reform



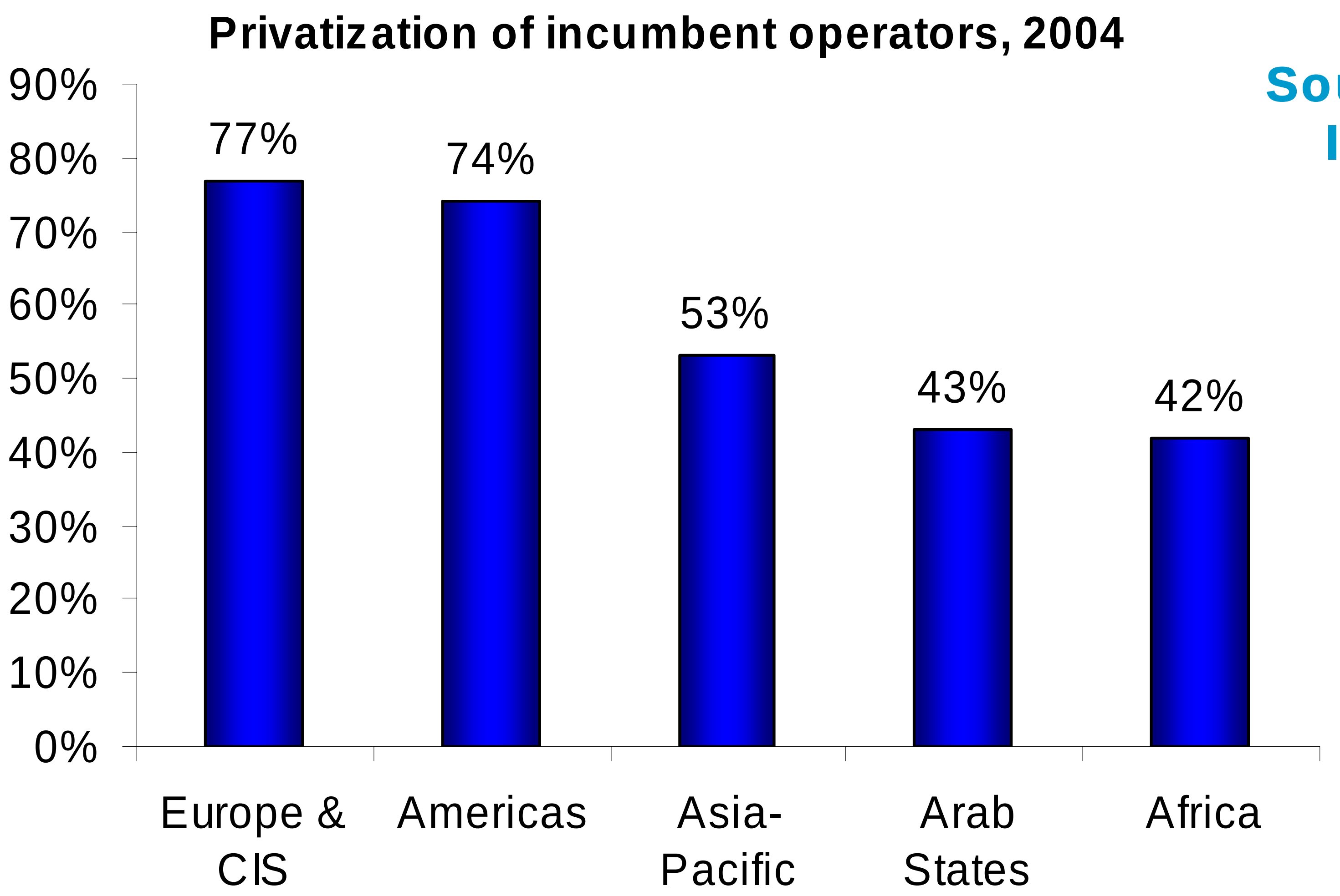
World Telecommunication Development Reports

www.itu.int/publications/

2.2 World Telecommunication Development Report 2002

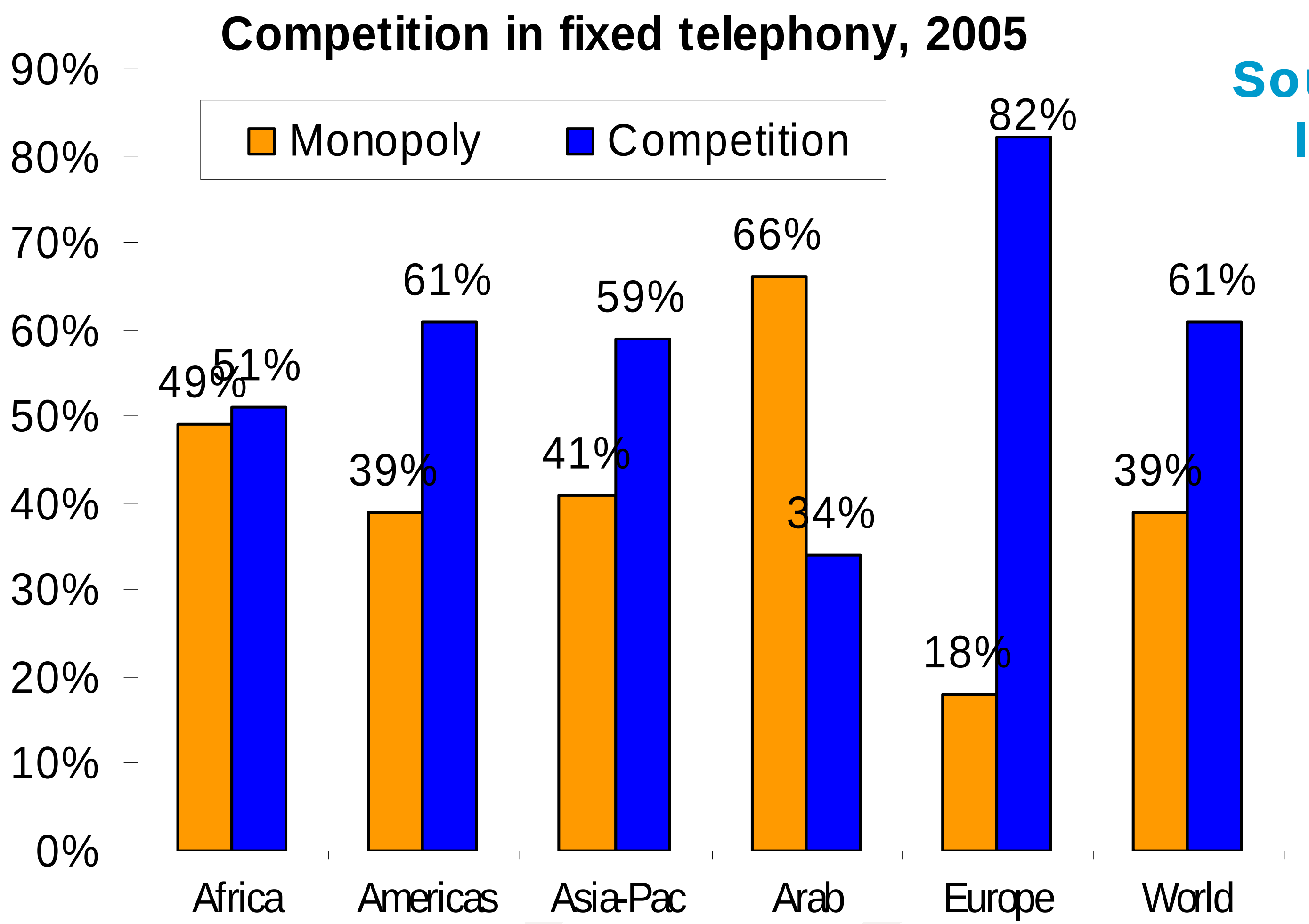
- Privatisation is beneficial, privatisation+competition is better;
- The more competitive, the better *open comp'n > duopoly > monopoly*;
- The earlier, the better;
- Regulators need adequate powers and should be as independent as possible.

2.3 Privatization, 2004



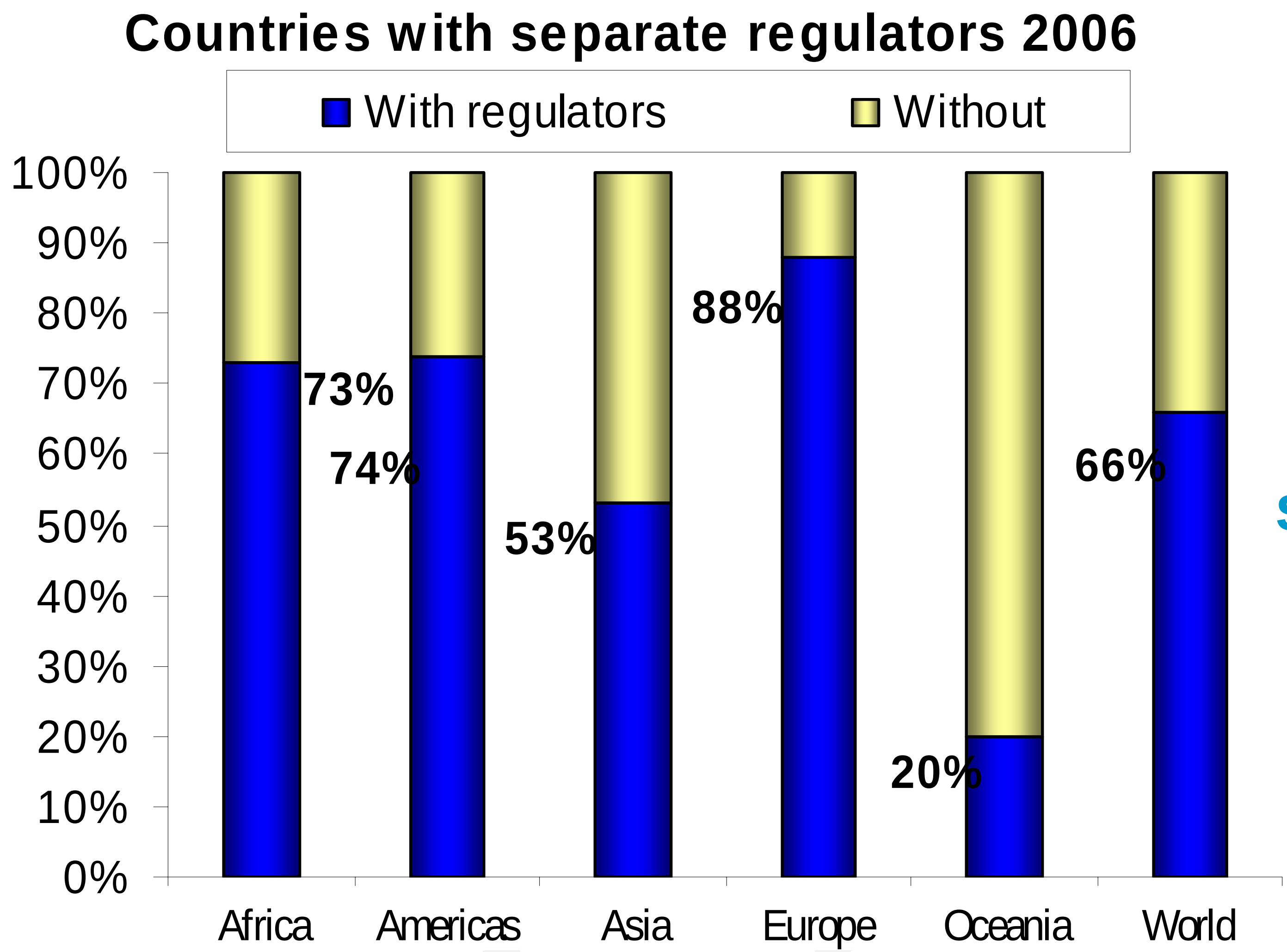
Source: ITU

2.4 Competition, 2005



Source: ITU

2.5 Regulation, 2006



Source: ITU

3. Specific measures to attract FDI

1. Corporation tax exemptions
2. Tax holidays
3. Accelerated depreciation write-offs
4. Investment Tax Credits

IP strategies tend to focus on MNCs, but SMEs may gain more from tax incentives (Coyne, 1994)

3.1. Corporation tax exemptions

- Below 30-35% to have any impact
- Effective tax rate is what counts
- Moves to flat-rate tax - “any investment is good investment”
- Specific by sector: key signalling role

BUT

- May result in a “race-to-the-bottom”
- Impact on revenue based on elasticity

3.2. Tax Holidays

Duration	Selected countries
None	Botswana, Lesotho, Mexico, Peru, Rwanda
1-5 years	Ethiopia, S. Korea, Nigeria, Philippines, Sri Lanka, Tanzania
6-10 years	Ghana, Kenya, Mauritius, Nepal Singapore, Uganda, Uzbekistan
15-20 years	Brazil, Ecuador, Egypt

3.3. Accelerated Depreciation

Maximum	Selected countries
None	Nigeria, Philippines.
Usually on a sliding scale e.g. Botswana	Buildings – 2.5% Office equipment – 10-15% Plant & buildings – 25%
Max. 10%	Ecuador
Max. 20%	Egypt, Ghana, Peru, Uganda
Max. 25%	Lesotho, Nepal
50%-100%	Rwanda, Tanzania

3.4. Investment Tax Credits

Range	Selected countries
None	Botswana, Brazil, Egypt, Ghana, Kenya, Lesotho, Nepal, Peru, Rwanda, Sri Lanka, Tanzania, Uganda
6-10%	Rep. of Korea
5-20%	Nigeria
19-25%	Mexico
3-50%	Singapore
75-100%	Philippines

4. Conclusions

- Privatisation and competition can help attract FDI and promote telecom.
- Tailored tax incentives can help attract investment, but questions re how they are being used and their effectiveness
- Priorities ICT infrastructure for business quite different from universal service – *where do the priorities lie*?
- → ICTs more available – new divide in speed/quality of business infrastructure

Thank you very much for your attention

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