

# Investment, employment and value-chain benefits

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*Workshop on ICT Indicators for Benchmarking  
Performance in Network and Services Development:  
New Delhi, 1-3 March, 2006*



LIRNEasia

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Learning Initiatives on Reforms for Network Economies

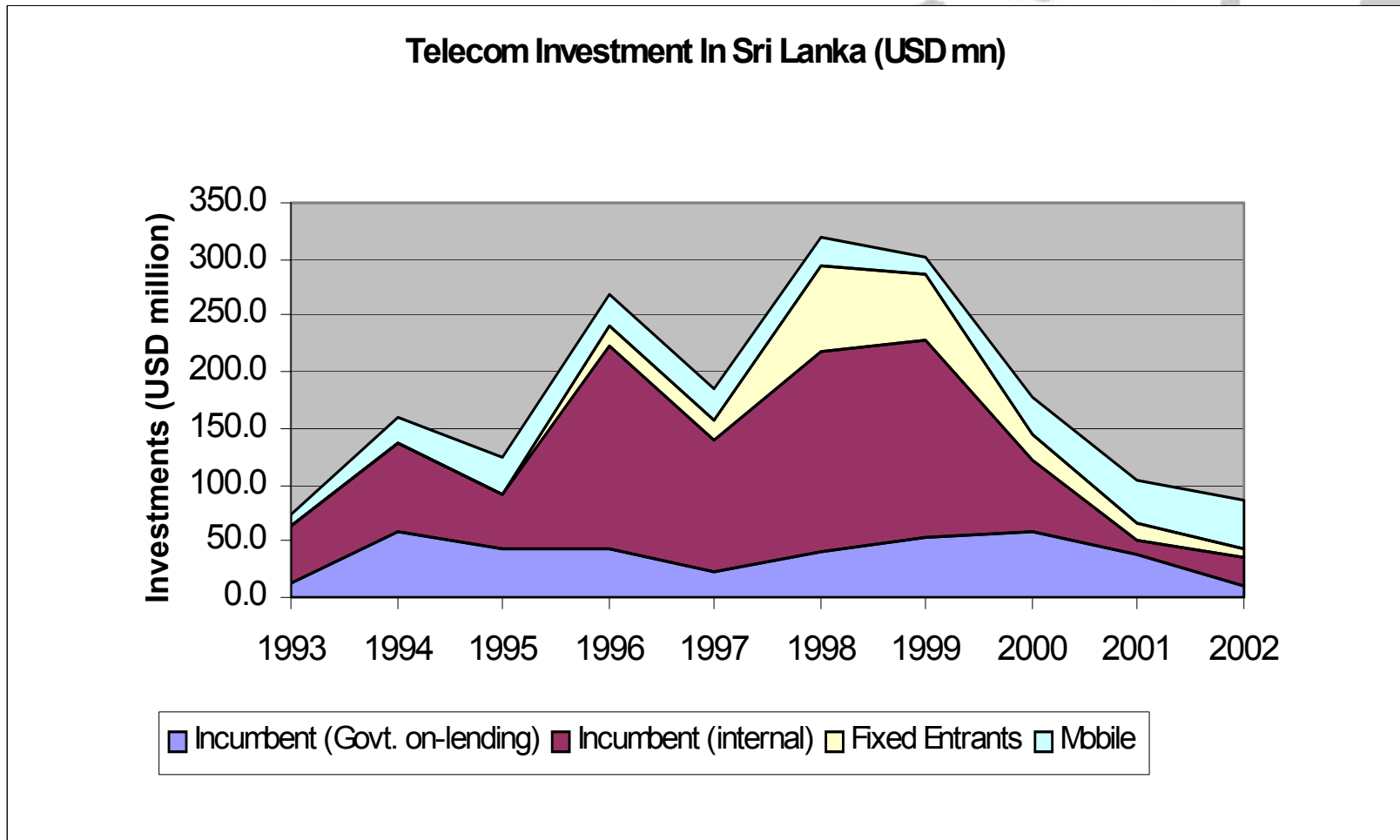
# Investment

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- ❑ Investment is a necessary condition for improvement of all aspects of telecom performance
  - Connectivity
  - Price
  - Quality
  - Choice
- ❑ Good indicator of health of sector
  - Something wrong when investment goes down



# Signs of trouble



# What is investment?

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- ❑ USD 225 million paid by NTT for 35% of Sri Lanka Telecom Limited and applied to reduction of commercial debt?
- ❑ Reinvestment (most of SLTL's investment in previous slide)?
- ❑ Telecom related and other?
  - "Used and useful" test in rate of return regulation in the US
  - Ring fencing
- ❑ If you reward increased investment, you may be creating anti-competitive barriers
  - "Gold-plated" LPG terminal in Sri Lanka



# Investment data

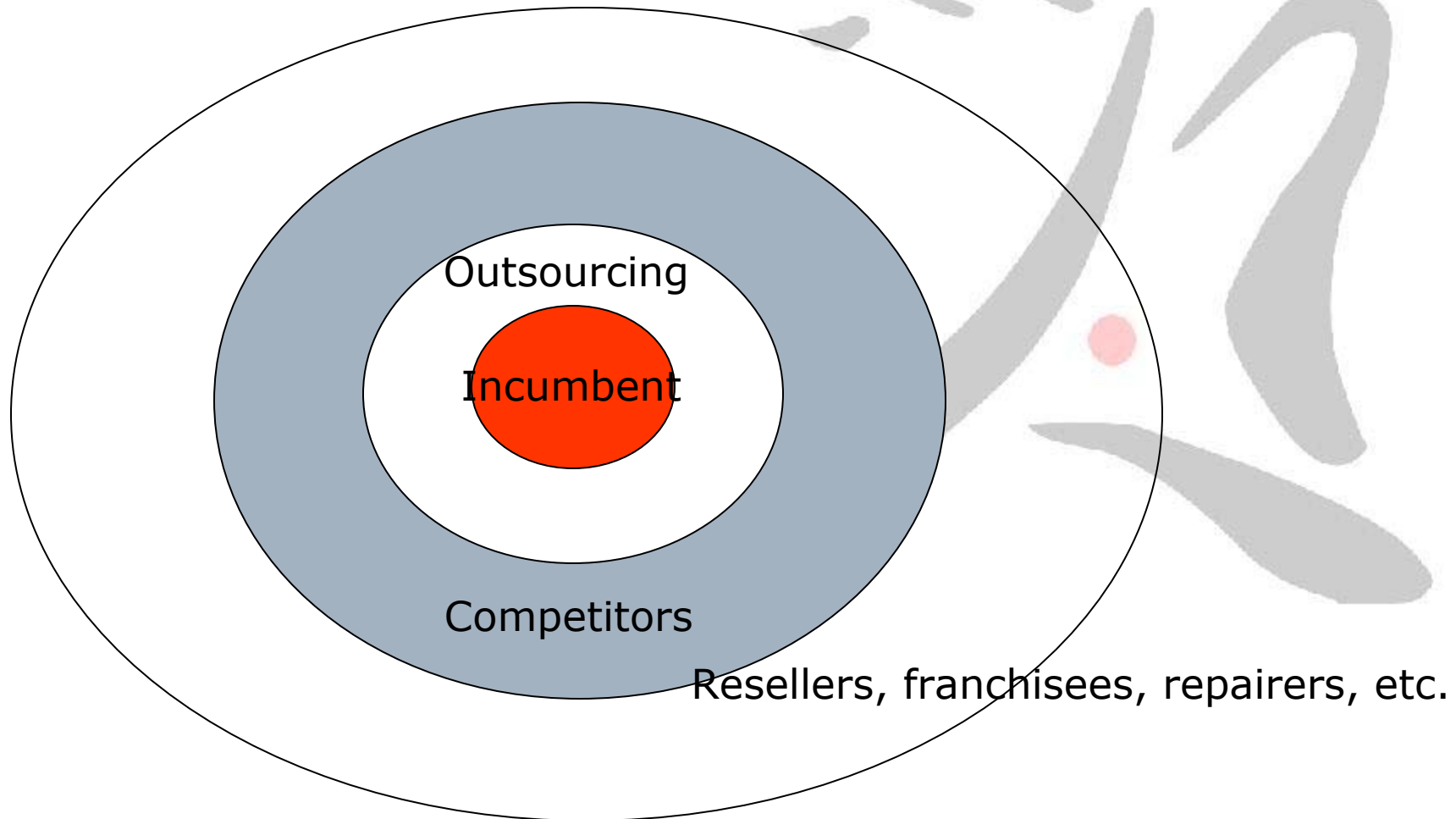
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- ❑ If FDI involved, Board of Investment (or equivalent) may be source
- ❑ If regulator levies fees based on investment, NR
- ❑ Confidentiality concerns
  - Even with regard to historical data
- ❑ Coordination among agencies
  - Sri Lanka: BOI, TRC and operator data differed



# Telecom sector employment

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# Employment data

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- ❑ Cost-benefit balance
- ❑ Assumptions
  - How many person days for telecom when a news vendor sells prepaid cards?
- ❑ Sample studies



# Policy significance of value chain framing

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- ❑ Liberalization can/will reduce certain “benefits”
  - Monopoly rents from monopolized markets
- ❑ If policymakers/stakeholders think in terms of value chain, greater support for reforms
- ❑ Service sector data notoriously difficult to gather
  - Especially when exports involved





# Value-chain benefits

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- ❑ What about employment created up the value chain?
  - Easy? Business Process Outsourcing
    - ❑ Less than 500 before 2003;  $2,500 < x < 7,000$  now in Sri Lanka
  - Harder? Off-shore banking
- ❑ NASSCOM generates employment data
  - ❑ Work ongoing in Sri Lanka
  - ❑ Competitive concerns
  - ❑ Churn



# Reduction of transaction costs with ICTs

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- Project likely to start in 2006 to study reduced transaction costs in agriculture
  - How to quantify?
    - Net costs, savings less ICT costs



# Revenue data from the value chain

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- ❑ Interest in discovering gross revenues in BPO industry
  - Policies to promote high value-added BPOs
- ❑ Disincentives to provide data
  - Unless tax and other benefits can be given
    - ❑ But careful about creating incentives to over-report
  - Or industry associations can intervene



# StatsCan approach

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- ❑ Heavy use of sample surveys
- ❑ Is this appropriate in developing countries?
- ❑ Data collection in poor-governance countries create (or are perceived as creating) different results



# Taxes

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- ❑ Need to collect information on taxes levied on the entire ICT sector, categorized according to type (license & spectrum fees, service & usage fees, etc.)
- ❑ Previous work: GSMA Tax Study
  - Argues that lowering taxes on mobile usage and handsets can increase usage which can lead to greater tax revenues for government



# Tax Revenues in India (Operators)

## Statement of Estimate of Government Levies from License Fee, Spectrum Fee and Service Tax on all Telecom Services

(Rs in Crores)

| 1       | 2             | 3                      | 4           | 5                 | 6                    | 7                  |
|---------|---------------|------------------------|-------------|-------------------|----------------------|--------------------|
| Year    | Gross Revenue | Adjusted Gross Revenue | License Fee | Service Tax 5-10% | Spectrum Charge 2-4% | Total Govt. Levies |
| 2002-03 | 48000         | 40800                  | 4080        | 2040              | 206                  | 6326               |
| 2003-04 | 61000         | 51850                  | 4770        | 4148              | 434                  | 9353               |
| 2004-05 | 80000         | 68000                  | 6256        | 6800              | 856                  | 13912              |
| 2005-06 | 100000        | 85000                  | 7820        | 8500              | 1530                 | 17850              |
| 2006-07 | 139000        | 118150                 | 10869.8     | 11815             | 2458                 | 25142              |
| 2007-08 | 169000        | 143650                 | 13215.8     | 14365             | 3275                 | 30856              |

