

Reforming mobile sector taxation in the Democratic Republic of the Congo: Enabling economic growth through a supportive tax system

Mobile telephone services play an increasingly important role in supporting and delivering development, economic growth and social inclusion.

In the Democratic Republic of the Congo (DRC), the mobile market has expanded rapidly over the past decade and there is significant scope to further increase penetration. Despite this strong growth the DRC still ranks below a number of regional peers when it comes to connectivity



The lack of affordability of mobile services is constraining the potential for further growth due to high levels of taxation in comparison to other sectors and regional benchmarks. Furthermore, the low affordability of internet-enabled mobile services and handsets, and the challenging economics of providing networks in rural areas acts as a barrier to the roll out and adoption of 3G and 4G technologies.

The Congolese mobile market presents significant scope for further growth...



68%

...but affordability of mobile services constrains mobile adoption...

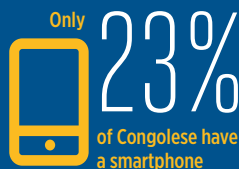
The total cost of a **500MB** basket represents **68%** of the monthly income of the poorest **40%** of Congolese (2016)

*This is higher than the affordability threshold of **5%** recommended by the UN Broadband Commission for Sustainable Development and the **2%** target for 2025*

5% --- 2%

...and is a barrier to investment and technology migration

3G penetration (connections)



Taxes contribute significantly to the affordability barrier and limit investments in 3G/4G

Tax contribution of the mobile sector as a proportion of total mobile market revenue (2016):



This is high compared to Nigeria (**9%**), South Africa (**20%**) and Rwanda (**21%**)

Through policy reform, the government of the DRC has the opportunity to simplify and rebalance mobile sector taxation, leading to increased productivity across the economy, as well as increased digital and financial inclusion

Unless stated otherwise, data is from 2017

Economic impacts of tax reform

The GSMA has commissioned EY to estimate the impacts of three potential tax reforms on the mobile sector and the wider Congolese economy, using a model of the Congolese mobile sector and a Computable General Equilibrium (CGE) model of the economy. The summary table below provides an overview of the main results.

Estimated impacts of tax reductions over a five-year period (2019-2023)

	Price of services	Additional investment in the economy	Total new unique subscribers	GDP growth	Total new jobs	Annual gain in tax revenue by 2023
Reduction of excise duty on mobile services from 10% to 3%	-5.1%	+\$119m	+2.8m	+\$276m	+25,800	+\$21m
Reduction of the numbering tax, from \$0.45 per number to \$0.225 per number	-1.5%	+\$34m	+0.8m	+\$79m	+7,500	+\$6m
Elimination of the 3% tax on mobile money turnover	-0.1%	+\$5m	+122,000 new mobile money subscribers	+\$15m	+1,400	+\$2.7m

WHAT IS THE IMPACT ON GOVERNMENT REVENUES?

These tax reforms are self-financing

The Government may face an initial cost in the first year following the reform, but tax reforms would boost productivity, leading to higher GDP and taxation revenue in the medium-term.

Over a five-year period, the cumulative fiscal gain would be

- **\$31m** from the reduction of excise duty on mobile services from 10% to 3%;
- **\$12m** from the reduction of the numbering tax, from \$0.45 per number to \$0.225 per number; and
- **\$8.5m** from the elimination of the 3% tax on mobile money turnover.



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