Towards a 'Digital Bangladesh': supporting mobile affordability and investment

Realigning mobile-specific taxes to standard rates would help to boost mobile ownership and enhance investment in mobile networks.

The Government's *Vision 2021* strategy sets out the ambition for Bangladesh to become a middle-income country by 2021. Further, its 'Digital Bangladesh' plan recognises the tremendous potential of ICT to drive the economic growth and social progress needed to achieve this goal.

Mobile is Bangladesh's biggest communications and ICT platform: 66 million Bangladeshis have individual access to a mobile, and 90% of all internet access is via mobile. Yet, while 99% of the country is covered by 2G networks, 92 million Bangladeshis do not subscribe to a mobile service at all, and only 4.5% of the population is connected to a 3G network. In a country where only 6.3% of the population has access to the internet, broadening access via mobile is critical. Improving mobile affordability and extending networks will help achieve this.

To achieve a Digital Bangladesh and the country's *Vision 2021* goals, more people need to be connected, and further investment in mobile broadband networks is required.

A recent study conducted for the GSMA by Deloitte[1], a world-leading professional services firm, has looked in detail at how the tax system could be reformed to make mobile affordable for the average Bangladeshi and promote investment in new 3G and, in the future, 4G mobile broadband networks. The study shows that:

- Reducing mobile-specific taxes would help to boost mobile ownership. 17.6% of the cost of owning and using a mobile phone in Bangladesh is due to taxation, raising barriers to affordability.

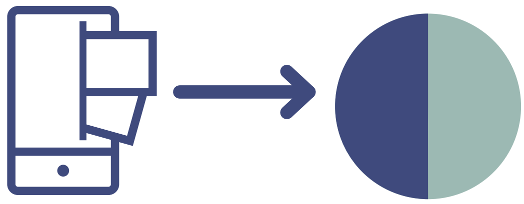
For many Bangladeshis, the cost of mobile devices and services is a barrier to mobile ownership. The cost of a smartphone is similar to a month's wages for a large proportion of the population.

- Studies by the GSMA and the World Bank have estimated that even a 1% increase in mobile phone subscriptions boosts GDP growth by 0.28 percentage points[2]. The World Bank has found that a 10% increase in broadband penetration can accelerate GDP growth by 1.38 percentage points[3].

- For every new job created in the Bangladeshi mobile sector, 11 are generated in the wider economy[5].

- In Bangladesh, the average revenue from each user is one of the lowest in the world, and the second lowest in the region. Singling out the mobile sector for higher tax rates than other sectors adds to the cost of investment in a market where returns are already low.

For every taka received by mobile operators, nearly half is spent on taxes and fees, rather than being invested in crucial infrastructure roll-out and upgrades[4].



The mobile industry and the government both recognise that the sector makes an important contribution to Bangladeshi tax revenue. However, the short-term benefits of imposing higher taxes on mobile must be balanced against the long-term economic growth that mobile can deliver. Reducing mobile taxes would boost mobile usage and drive the economic growth envisioned in Vision 2021. By increasing access and economic activity, mobile tax reductions would be offset by a net increase in tax revenue by 2020 through a broadening of the tax base. Deloitte's report finds that, relative to current trends:

- Abolishing the SIM card sales tax has the potential to increase the number of mobile connections by 3.7 million (including 1.6 million mobile broadband users), lift 615,000 Bangladeshis out of poverty, create 50,000 new jobs and generate US$2.3 billion in additional GDP by 2020. Over the same period, the Government could expect to see tax revenue from mobile increase by approximately $US60 million.

- Reducing customs duties on imported network equipment supports increased investment in networks that will boost mobile broadband coverage. Investment across the economy as a whole could rise by approximately US$280 million, with approximately US$840 million of additional GDP, by 2020 if these reforms were implemented.

- Corporation tax (which is higher for mobile than other sectors), the revenue share tax, regulatory fees, and spectrum acquisition fees reduce incentives for investment. Reducing the corporation tax to a rate in line with other sectors and removing the withholding tax on regulatory payments could incentivise investment in mobile networks.

- A planned introduction of a 1% surcharge on mobile services could harm the growth of mobile and hinder economic growth. If implemented, there could be 576,000 fewer mobile connections (including 249,000 less mobile broadband connections) over the next six years. Similarly, such a measure could lead to foregone GDP of nearly US$360 million, in addition to over US$10 million of foregone potential additional tax revenue.

1. GSMA/Deloitte (2015), "Digital inclusion and mobile sector taxation in Bangladesh"
2. Based on GSMA 2012 and Qiang, C. Z. W., Rossotto, C.M., 2009.
3. Qiang, C. Z. W., Rossotto, C.M., 2009.
4. Mobile operators in Bangladesh paid about USD 1.2 billion in recurring tax payments in 2013, representing about 45% of total sector revenue.
5. See, for example, Moretti (2010), O2 for ONS (2002), Ovum (2010); Zain, Ericsson (2009),Kaliba et al (2006).

GSMA Head Office
Level 2, 25 Walbrook, London, EC4N 8AF, United Kingdom
Tel: +44 (0)207 356 0600
www.gsma.com

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