

Supporting Pakistan's **Vision 2025** through mobile-led development

Mobile-specific taxes are a key barrier to affordability and network investment in Pakistan.

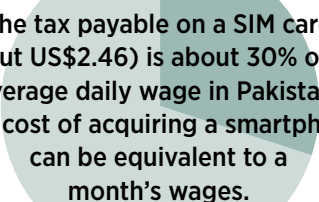


Vision 2025 aims to make Pakistan one of the 25 largest economies in the world by 2025. Today, mobile networks support essential services that boost productivity and drive economic growth for the 60 million Pakistanis that have access to them. In parallel, 120 million of their fellow citizens remain unconnected. Broadening access to mobile through sector-specific tax reductions has the potential to accelerate Pakistan's development, deliver a range of life-changing services and, as a result, support progress towards *Vision 2025*.

The Issues

Unleashing this potential requires a supportive policy framework. The new Draft Telecoms Policy goes some way towards this, but there are other barriers that must be addressed. A recent study conducted for the GSMA by Deloitte, a world leading professional services firm, has looked in detail at how the tax system could be reformed to make mobile more accessible and affordable for the average Pakistani¹, and promote investment in new 3G and 4G mobile broadband networks by mobile operators. In particular, the study shows that:

- Over 30% of the cost of owning and using a mobile in Pakistan is accounted for by tax. This is the third highest proportion in the world² and substantially more than Pakistan's neighbours.
- On average, Pakistanis pay US\$22 in taxes every year simply to own a mobile device. In a country where half the population lives on less than US\$2 per day, this has a real impact on affordability.
- Reducing mobile-specific taxes would help to increase mobile ownership. Owning a mobile can make a citizen more productive. Having access to mobile broadband facilitated by a smartphone further increases these economic benefits.
- 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 points³. The World Bank has found that a 10% increase in broadband penetration can accelerate GDP growth by 1.38 percentage points⁴.
- High taxes play a major role in slowing the expansion of mobile networks. On average, mobile operators earn lower revenue per user in Pakistan than in other countries. This reduces incentives for investment in the networks needed to provide access to mobile.
- For every new job created in the Pakistani mobile sector, 11 are generated in the wider economy⁵.



The tax payable on a SIM card (about US\$2.46) is about 30% of the average daily wage in Pakistan. The cost of acquiring a smartphone can be equivalent to a month's wages.

The Solutions

The mobile sector is a major source of tax revenue for Pakistan, which faces a number of fiscal challenges. The short-term benefit of imposing such high taxes on mobile operators and consumers is earned at the price of the long-term economic growth that *Vision 2025* aims to promote. Reducing mobile taxes would boost mobile usage and broaden the tax base. **Those same reductions would be offset by a net increase in tax revenue by 2020.** More specifically:

- Consumers pay a higher sales tax on mobile than on other goods and services. Charging the same rates would make mobile more affordable. This could generate an additional 2 million mobile connections, including 670,000 new mobile broadband connections, boosting GDP by US\$1.1 billion by 2020.
- Abolishing the SIM card tax could create an additional 500,000 mobile connections, resulting in an increase of US\$270 million in GDP and lifting 43,000 ordinary Pakistanis out of poverty.
- Abolishing the income tax paid on imported network equipment could boost network rollout, increasing investment across the economy by over US\$100 million and mobile connections by 900,000.
- Jobs, growth and investment could be supported through cutting customs duties on network equipment, reducing the Withholding Tax paid by mobile consumers, harmonising GST and FED rates across the country, and removing the advance tax on spectrum auction payments.

1. GSMA/Deloitte (2015), "Digital inclusion and mobile sector taxation in Pakistan"
2. Based on a sample of 111 countries: GSMA/Deloitte (2011), "Global mobile tax review"
3. Based on GSMA 2012 and Qiang, C. Z. W., Rossetto, C.M., 2009.
4. Qiang, C. Z. W., Rossetto, C.M., 2009.
5. See, for example, Moretti (2010), O2 for ONS (2002), Ovum (2010); Zain, Ericsson (2009), Kaliba et al (2006).

