



Achieving economic growth and fiscal stability in Chad through supporting affordability and enhancing digitalisation

The mobile sector is a key contributor to Chad's economy. In 2015, mobile services generated market revenues of US\$ 300 million (XAF 117 billion), which corresponded to 2.7% of Chadian GDP.

Despite over 78% of Chadians living in rural areas, the country's two leading operators, Tigo and Airtel, have each brought 2G coverage to 85% of the population. Mobile penetration has grown from 140,000 unique subscribers in 2006 to over 4 million in 2016. However, over 8 million Chadians remain unconnected and mobile penetration lags behind many other African countries. Mobile broadband networks are still in their infancy and internet usage is the lowest among countries with comparable GDP per capita.

The government has presented long-term economic objectives in its 'Vision 2030' strategy, which identifies the need to promote diversified, competitive economic growth and to strengthen infrastructure. To achieve these ambitious goals, the GSMA's report, '**Digital inclusion and mobile sector taxation in Chad**', examines the role of tax policy in stimulating mobile uptake, digital inclusion, infrastructure investment, employment and broader economic growth.

The mobile sector could help deliver even greater growth and support the government's growth strategy by addressing the barriers to mobile internet access and usage.

- Affordability is a concern for many Chadians, particularly for the poorest 20% of the population. The estimated cost of voice and SMS services amounts to 87% of average monthly income. The SIM activation fee alone represents around 2.5 times of daily income.
- Affordability is likely to be a major reason for low rates of broadband usage. Even for the highest 20% of earners, the cost of a typical mobile broadband package represents 9% of monthly income, higher than the 5% threshold set by the United Nations Broadband Commission.
- The mobile sector as a whole paid around US\$ 143 million (XAF 85 billion) in taxes and regulatory fees in 2015, which represents approximately 48% of sector revenues.

- The mobile sector's contribution to government tax revenues, including all tax and fee payments, is over four times its share of GDP. Despite only accounting for less than 3% of GDP, the sector contributed 12% of total government tax revenues in 2015.

2014 to 7% of revenues in 2016, which is among the highest in the region. Not only did these fees create negative incentives for investment, but also contributed to market uncertainty due to the rapid increase.

- Mobile operators pay a range of sector-specific fees such as spectrum fees, numbering and other administrative fees. In particular, the combined rate of the regulatory fees increased from 4% in

An alternative approach to mobile sector taxation could extend the benefit of mobile, support the government's digital agendas and support digitalization, ICT investment and economic growth in Chad. A number of areas for tax policy changes and their potential impact by 2021 are identified in the report.

	Tax revenues shortfall relative to total non-oil tax revenues	Total mobile connections/ Mobile broadband connections	New Sites / upgraded Sites	GDP	Economy-wide Employment	Total investment
<i>Reduction of RAV and FNDS excise duties on mobile usage</i>	0.80%	+330 000 +80 000	+30	+US\$ 370 million (XAF 220 billion)	+450	+US\$ 90 million (XAF 55 billion)
<i>Reducing the surcharge on incoming international traffic</i>	0.75%	+270 000 +70 000	+50	+US\$ 310 million (XAF 190 billion)	+700	+US\$ 80 million (XAF 50 billion)
<i>Reduction of ARCEP administrative fee</i>	0.80%	+340 000 +80 000	+60	+US\$ 390 million (XAF 240 billion)	+900	+US\$ 95 million (XAF 60 billion)

Source: Deloitte analysis using GSMA, World Bank and operators' data. Note: Additional cumulative effect over 2017-2021;

- Reducing the excise duties on mobile usage has the potential to reduce the cost of mobile services for consumers, attracting new subscribers
- Reducing the tax on incoming international traffic has the potential to lead to price reductions for consumers and reduced incentives for illegal traffic routing
- Reducing and rationalising regulatory fees has the potential to create a more favourable environment for investment
- Reduction or removal of the SIM card activation tax has the potential to drive penetration further by lowering the barrier to mobile ownership.

Given that the tax shortfall from each proposed tax reform is below 1% of total non-oil tax revenues, a modest increase in general tax rates may be sufficient to cover the shortfall. Similarly, a marginal increase in the breadth of general tax bases may be sufficient to cover the shortfall.

Reforming mobile taxation has the potential to align infrastructure investment and mobile access with the ICT objectives laid out in the 'Vision 2030' strategy. Tax reform also has the potential to stimulate mobile sector investment and Foreign Direct Investment in Chad.

