Unlocking the economic potential of mobile connectivity for El Salvador

Tax reform can alleviate the affordability barrier that is preventing wider availability of mobile internet services, while maintaining fiscal stability. It can also improve the returns on investment, leading to more efficient capital allocation.

Despite a penetration rate of around 80% for mobile services, more than two thirds of El Salvadorans remain unconnected to mobile broadband. Barriers to increasing mobile broadband penetration include difficulties in expanding coverage and the issue of affordability. Whilst the average cost of a mobile broadband bundle is near the level of affordability recommended by the UN Broadband Commission, high income inequality means that this cost can reach 15% of income for low earners. Growth in mobile internet penetration is also affected by delays in releasing 4G spectrum and the uncertainty surrounding licence renewals.

1. GSMAi data
2. GSMAi data
3. Deloitte analysis based on operator data, and GSMA Intelligence, Banco Central de Reserva de El Salvador and World Bank databases
A recent study conducted for the GSMA by Deloitte, “Digital inclusion and mobile sector taxation in El Salvador”, examines the role of tax policy in stimulating mobile uptake, digital inclusion, infrastructure investment, employment and broader economic growth.

Different sectors are not always taxed in the same manner. In many countries, as in El Salvador, higher taxes or additional fees can be imposed specifically on the mobile sector. The study finds that taxes applying specifically to the mobile sector raise the affordability barrier for mobile consumers in El Salvador by increasing the cost of mobile ownership. They also reduce the returns on investment, thereby limiting the attractiveness of investment in the sector.

- A new tax introduced in November 2015, the Contribución Especial para la Seguridad Ciudadana y Convivencia (CESC) is applied specifically on the sector aiming to support the security situation in El Salvador. All mobile services including calls, SMS, and broadband are subject to this 5% tax, which also covers SIM cards, devices and network equipment used to facilitate mobile communication. Only four of the other 19 Latin American countries levy similar taxes.

- In addition to the CESC, the CEGC tax (Contribución Especial A Los Grandes Contribuyentes Para El Plan De Seguridad Ciudadana) was established in November 2015. It is levied at a rate of 5% on the net income of companies whose net income exceeds $500,000.

- The introduction of the CEGC has raised the effective corporation tax rate for large companies to 33.5%, the highest in Central America.

Reducing sector-specific taxation on mobile has the potential to drive the development of El Salvador’s digital economy, promoting social inclusion and economic growth, while preserving government revenues in the medium term.

Based on the best practice principles and on evidence from numerous mobile taxation country studies world-wide, Deloitte estimates the impacts of a reduction of CESC to 2.5% and, separately, of exempting mobile broadband services from CESC over a four-year period:

<table>
<thead>
<tr>
<th></th>
<th>New connections</th>
<th>Increase in GDP ($ millions)</th>
<th>Increase in investment ($ millions)</th>
<th>Employment (new positions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction of CESC to 2.5%</td>
<td>110,000</td>
<td>470</td>
<td>70</td>
<td>300</td>
</tr>
<tr>
<td>Exempting mobile broadband from the CESC</td>
<td>60,000</td>
<td>250</td>
<td>40</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: Deloitte analysis of GSMA, World Bank, IMF and operator data; Note: GDP and Investment show the cumulative effect over four years

Reducing sector specific taxation can improve affordability and drive up the uptake of mobile services and the mobile internet in particular. At the same time, sound policy making in the areas of spectrum allocation and licence renewals can attract investment and foster economic development.

7. These are Panama, Colombia, Argentina and Mexico
8. These are Panama, Colombia, Argentina and Mexico