Digital Inclusion in the Democratic Republic of the Congo: Taxation to support mobile affordability, growth and investment

In the Democratic Republic of the Congo (DRC), mobile services connect 31% of the population and deliver widespread social and economic benefits.

Increased mobile penetration and use promotes digital inclusion, enabling many more Congolese to benefit from the exchange of information for business and social purposes. It can also increase productivity, and can improve social cohesion and participation, access to education, healthcare and government services.

Mobile penetration in the DRC has increased ten-fold since 2005, reaching 22 million unique subscribers in 2015. The growing mobile sector is estimated to have contributed 5.9% to GDP from 2006 to 2010 and, according to the World Bank, tax and fee payments by the mobile sector comprised 37% of total tax revenues collected by the government in 2008.

In addition, mobile applications have given many Congolese people access to essential and life-changing services. Only 4% of the population have a traditional bank account and now mobile money applications are serving the unbanked. Other services include access to information for the large farming community, helping them improve their incomes and become more efficient. Applications are also helping refugees reconnect with lost loved ones.

However, the mobile sector's development is lower compared to Sub-Saharan Africa (SSA) as a whole. Mobile penetration stands at 31% of the population, compared to the SSA average of 40%, and 3G penetration stands at 3% compared to the SSA average of 10%. There are a number of barriers to achieving greater digital inclusion through mobile:

- Mobile services remain unaffordable to many. It is estimated that those in the poorest 20% of households would have to spend 19% of their annual income for a basic phone and even the richest 20% would have to spend a third of their income to afford a premium phone.
- The population is large, dispersed and with low levels of education, which creates challenges in expanding coverage and supporting ownership and use of mobile services.
- Infrastructure challenges affect operators and consumers alike. Frequent power interruptions or lack of infrastructure in some areas mean that operators must use alternatives at high cost or not cover parts of the country.
- Complex taxation and regulation on mobile operators increase the costs of doing business. Operators are subject to uncoordinated national and regional regulations and taxes, have to make payments to multiple revenue authorities and are subject to oversight by a number of different regulatory bodies often with overlapping jurisdiction. Further, mobile operators are required to have paper-based customer registration for consumers.

While some of these barriers are present across the region, other SSA countries have managed to achieve higher access and usage of mobile service. For example, Kenya and Tanzania have rapidly become world leaders in mobile payments. With the appropriate polices, including on industry taxation, the DRC has potential to follow the example of regional leaders.

Supportive policies by the government, including a more balanced taxation structure, are required to allow the mobile industry to develop and deliver the benefits of digital inclusion. A recent study on mobile taxation conducted for the GSMA by Deloitte assesses the economic impact of mobile taxation, identifies priorities for policy change and quantifies the potential socioeconomic and fiscal benefits of rebalanced mobile taxation and fees in the DRC[1].

Mobile services are subject to an additional excise duty on top of standard VAT, whereas the majority of SSA countries do not impose this form of discriminatory taxation.

This form of taxation can be highly distortionary by raising prices for consumers and reducing incentives to invest for operators.

Key findings

The customs duty that applies to handsets may lead to higher device acquisition costs which in particular affect poorer consumers. Experience in countries such as Kenya shows that reducing taxation on handsets can lead to an increase in mobile access.

Consumer taxes account for **27%** of the total cost of mobile ownership, the fourth highest in SSA and above the regional and world averages of **20%**.

In 2014 the mobile sector paid

US $454 million

in taxes and regulatory fees, equivalent to **27%** of mobile revenues and **1.3%** of GDP.

Mobile operators recognise the role of the industry in supporting government revenues and contributing to public services. However, taxation on mobile could potentially deliver short-term benefits to government revenues at the cost of long-run socioeconomic development. Mobile operators have noted that current proposals on next year's national budget include changes to tax law that may increase the tax burden specific to the telecommunications sector. This may create further barriers to digital inclusion.

Rebalancing taxes on mobile would support the promotion of ICT usage, as well as investment and economic growth. This would potentially enable the government to recover tax revenues in the medium term, and enhance the tax base in the longer term. In particular:

- Reducing the excise duty on mobile services from 10% to 5% could reduce the cost of mobile services for consumers. As a result, there could potentially be an additional 1.6 million connections by 2020, including 500,000 3G connections. The potential increase in GDP from increased use of mobile could be US$ 480 million by 2020. As a result the government of the DRC could potentially achieve revenue neutrality within four years of the tax change and gain up to US$ 14 million in additional revenues in 2020.

- Eliminating the excise duty on mobile services has the potential to have double the effect, adding 3.2 million mobile connections by 2020. Economic activity in 2020 could potentially be increased by US$ 970 million as measured by GDP, which could not only increase government revenues in 2020 by US$ 28 million, but also potentially support lifting 1 million people out of poverty.

- Halving numbering fees could potentially increase incentives to expand coverage by reducing the cost of connections. The resulting increase in mobile penetration could increase economy-wide investment by US$ 86 million cumulatively from 2016-2020.

1. GSMA/Deloitte (2015), "Digital Inclusion and Mobile Sector Taxation in the Democratic Republic of the Congo".

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