

Unlocking digital inclusion in Honduras: Reforming taxation on the mobile sector to support economic and social development

Mobile services in Honduras connect over 5.4 million users of mobile, or 66% of the population and deliver widespread socio-economic benefits. They facilitate the exchange of information, increase productivity, and improve access to life-changing services such as education, healthcare and financial services. Increased connectivity has led to improved economic growth, and the mobile sector is a large contributor, both directly and indirectly, to employment, government revenues and FDI.

However, 2.8 million people in Honduras are still unconnected to mobile services and a number of barriers to digital inclusion remain:



Access to mobile broadband is low, with only a quarter of the population accessing the mobile internet with 3G/4G technologies and less than a third of the population is using a smartphone. These services are key to unlocking the full potential of mobile.



The price of mobile broadband for the poorest households accounts for

48% of annual income.
20% of the population can afford entry-level broadband services.*



Mobile operators are subject to high sector-specific taxation, which limits their incentives to invest and their ability to pass on savings to consumer prices.

*According to the threshold set by the Broadband Commission of 5% of annual income.

A recent study of mobile taxation in Honduras, conducted for the GSMA by Deloitte, identifies priorities for policy change and estimates the socio-economic and fiscal benefits of rebalancing mobile taxation and fees in Honduras.



A fee is levied on international incoming call at US\$ 0.03 per minute, which raises prices for consumers, reduces call volumes, and negatively impacts on the wider business environment.

Key findings

The taxes and regulatory fees levied directly on mobile operators comprised

14%



of market revenues, higher than Mexico, Ecuador, Jamaica and other countries in the region.

Mobile operators paid an estimated

US\$ 228 million

in taxes and regulatory fees to the Honduran government, which represented **23%** of their market revenue in 2014.

Recurring spectrum fees and other regulatory fees accounted for 14% of industry tax and fee payments.

These include a contribution of

1%

of revenues to the FITT, a universal service fund.

In addition mobile operators also pay non-recurring spectrum fees. In 2013, the largest mobile operators, Tigo and Claro, paid **US\$ 12.1m** each in an auction for 4G spectrum.

Honduran mobile operators are subject to a sector-specific mobile security tax charged at **1%** of revenues, equivalent to **2%** of industry payments to the government.



IMPACTS OF REFORMS TO SECTOR-SPECIFIC TAXATION BY 2020:

| | MARKET PENETRATION* | MOBILE BROADBAND CONNECTION* | MOBILE REVENUES NET OF TAX | ECONOMY WIDE INVESTMENT | GDP | EMPLOYMENT* | TAX REVENUES |
|--|---------------------|------------------------------|----------------------------|-------------------------|--------------|-------------|--------------|
| ELIMINATING THE INTERNATIONAL INCOMING CALLS FEE | +159,000 | +115,000 | +US\$ 24.9 M | +US\$ 28.6 M | +US\$ 126 M | +1,700 | +US\$ 9 M |
| ELIMINATING THE MOBILE SECURITY TAX | +26,800 | +19,400 | +US\$ 4.8 M | +US\$ 4.8 M | +US\$ 21 M | +400 | +US\$ 1 M |
| ELIMINATION OF THE FITT CONTRIBUTION | +21,000 | +15,000 | +US\$ 3.7 M | +US\$ 3.8 M | +US\$ 16.5 M | +229 | +US\$ 0.8 M |

*Additional cumulative effect over 2016-2020, otherwise figures show additional effect in 2020.



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