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.

**Key findings**

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.

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.

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.

**Impacts of reforms to sector-specific taxation by 2020:**

<table>
<thead>
<tr>
<th>Market Penetration*</th>
<th>Mobile Broadband Connection*</th>
<th>Mobile Revenues Net of Tax</th>
<th>Economy Wide Investment</th>
<th>GDP</th>
<th>Employment*</th>
<th>Tax Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>ELIMINATING THE INTERNATIONAL INCOMING CALLS FEE</td>
<td>+159,000</td>
<td>+115,000</td>
<td>+US$ 24.9 M</td>
<td>+US$ 28.6 M</td>
<td>+US$ 126 M</td>
<td>+1,700</td>
</tr>
<tr>
<td>ELIMINATING THE MOBILE SECURITY TAX</td>
<td>+26,800</td>
<td>+19,400</td>
<td>+US$ 4.8 M</td>
<td>+US$ 4.8 M</td>
<td>+US$ 21 M</td>
<td>+400</td>
</tr>
<tr>
<td>ELIMINATION OF THE FITT CONTRIBUTION</td>
<td>+21,000</td>
<td>+15,000</td>
<td>+US$ 3.7 M</td>
<td>+US$ 3.8 M</td>
<td>+US$ 16.5 M</td>
<td>+229</td>
</tr>
</tbody>
</table>

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