

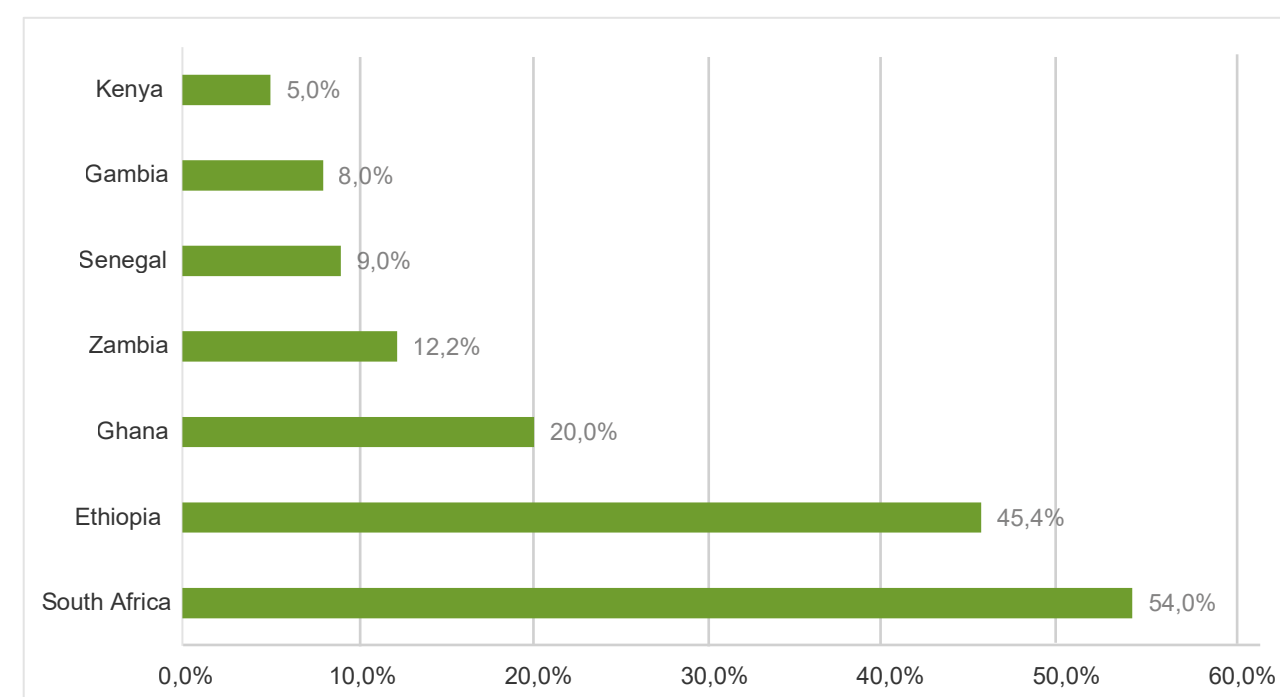
have an excise on electronic cigarettes (illustrated in Figure 8.4). Introducing excise duty on these products presents opportunities for African countries to increase their revenue collections and also effectively regulate these products.

2. Illicit Trade

Illicit trade in tobacco products is a big challenge. U.S. National Cancer Institute and World Health Organization (2016) noted that “*control of illicit trade in tobacco products, now the subject of its own international treaty, is the key supply-side policy to reduce tobacco use and its health and economic consequences.*”

World Health Organization (2016) estimates that on an annual basis, governments lose USD 40.5 billion in revenue from the illicit trade of tobacco products. In some countries, illicit trade can reach as high as 40–50% of the overall tobacco market. The report further notes that illicit tobacco trade is more prominent in low- and middle-income countries than in high-income countries. Illicit trade not only robs governments of the much-needed revenue but also denies legitimate businesses of the much-needed revenue and also exposes citizens to goods that may not be safe for consumption. The extent of the prevalence of illicit trade in African countries is depicted in the Tobacco (Tobacco Control Data Initiative, 2021). Figure 8.5 shows illicit trade prevalence in selected African countries in 2021.

FIGURE 8.5 PREVALENCE OF ILLICIT CIGARETTE TRADE ACROSS SELECTED COUNTRIES IN THE REGION



Source: Tobacco Control Data Initiative (2021)

It is evident that the prevalence varies across these countries, with South Africa and Ethiopia bearing the highest prevalence at 54% and 45.4%, respectively. Countries bearing the least prevalence were The Gambia and Kenya at a low, 8% and 5%, respectively.

Given the challenges with illicit trade cited above, there are specific considerations that need to be made by African countries. Firstly, illicit trade has been used by tobacco industry to fight increases in tobacco tax and the data

provided by the industry over states the levels of illicit trade in a particular country. It is therefore important that countries have mechanisms of measuring illicit trade independently.

Secondly, forgoing revenue based on the illicit trade argument is not a solution. Countries should implement comprehensive strategies to fight illicit trade. Otherwise, forgoing revenue and failing to comprehensively address illicit trade becomes a loss for domestic taxes mobilisation as well as for public health.

3. Designing an effective Excise Tax structure

One of the other challenges mentioned by the ATO countries is designing an effective excise tax structure. It is important to note that the structure of an excise tax has huge impact on the effectiveness of the tax itself and whether the tax will achieve the intended purposes. Section 8.2 above highlighted best practices in designing effective tax structures and from the analysis of the ATO data, many countries need to review their excise existing tax structures in order to improve their revenue mobilisation efforts.

4. Production Monitoring and Digital Marking systems (Track and Trace systems)

Production monitoring and tracking and tracing of excisable goods is a concern. The main concerns by tax authorities are how to ensure that they have full visibility of the production of tobacco products (and other excisable goods). In addition, how do countries implement effective production monitoring systems and track and trace systems.

Some countries like Kenya, Ghana and Morocco have implemented robust production monitoring systems, and track and trace systems that monitor production of excisable goods in the licensed factories. This ensures that they have visibility over production of tobacco products (and other excisable goods) which are produced in their countries.

Box 8.5

Kenya's gains from its production monitoring system, and track and trace systems

In Kenya, the implementation of the Excisable Goods Management system reduced illicit cigarette market from 15% in 2003 to 5% in 2016. This was achieved through a comprehensive strategy that included sticking tax stamps on cigarettes for domestic consumption, the licensing and registration of cigarette producers and importers, improved coordination between implementing agencies, the implementation of a track-and-trace system, the introduction of scanners at points of entry, increased enforcement, and heavier penalties for those involved in the illicit tobacco trade.

Source: (World Bank, 2018)

5. Low education of the tobacco tax reforms and illicit tobacco trade

Most tax authorities do not have adequate training on tobacco tax developments, new and emerging tobacco products, global developments on tobacco taxation and regulation, implementation of global instruments such as the Framework Convention on Tobacco Control and its Protocol to eliminate Illicit trade in tobacco products, among others.

6. Tax Administration Challenges

Another key challenge that was highlighted by ATO countries is non-compliance by the tobacco industry players and the capacity of tax administrations to address these challenges. Imposition of taxes alone without efficient tax administration systems cannot achieve the intended objectives. WHO (2023) highlights some key interventions to improve tax administration which include:

- ensuring compliance (through licensing, detailed tax declaration requirements and advanced information technology)
- ensuring control and enforcement on the supply chain (through, for example, the use of risk-based approaches for enforcement targets, tax stamps, track, and trace systems, implementing anti-forestalling methods)
- following clearly defined procedures after detecting illicit trade of tobacco (including high penalties).