

# CONFRONTING ILLICIT TOBACCO TRADE:



WORLD BANK GROUP

## A GLOBAL REVIEW OF COUNTRY EXPERIENCES

SOUTHERN AFRICA CUSTOMS UNION (BOTSWANA,  
LESOTHO, NAMIBIA, SOUTH AFRICA, AND ESWATINI)  
AND ZAMBIA: ADDRESSING THE ILLICIT FLOW OF  
TOBACCO PRODUCTS

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TECHNICAL REPORT OF THE WORLD BANK GROUP  
GLOBAL TOBACCO CONTROL PROGRAM.

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CUSTOMS UNION  
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## SOUTHERN AFRICA CUSTOMS UNION (BOTSWANA, LESOTHO, NAMIBIA, SOUTH AFRICA, AND ESWATINI) AND ZAMBIA:

### Addressing the Illicit Flow of Tobacco Products

*Michael Eads, Telita Snyckers, and Ziyaad Butler<sup>1</sup>*

#### Chapter Summary

##### **Background and Methods**

This chapter examines efforts to combat illicit tobacco trade flows in the countries of the Southern African Customs Union (SACU): Botswana, Lesotho, Namibia, South Africa, and Swaziland (renamed eSwatini in April 2018), along with Zambia. The approach is based primarily on desk research relying on information available in the public domain or experience with initiatives conducted in some SACU countries. An electronic survey was sent to each of the countries, however Swaziland/eSwatini, Lesotho, and Zambia were the only countries that responded.

Report preparation highlighted the challenges in assessing the volume and share of illicit trade as a percentage of total tobacco consumption in the relevant countries. South Africa was the only country for which academic estimates were available. Nevertheless, the chapter presents sufficient data to provide an overview of relevant issues and offer recommendations. Additionally, this chapter can serve as a gap analysis to guide future studies towards areas that require further investigation.

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<sup>1</sup> Sovereign Border Solutions, Cape Town, South Africa

## Key Findings on Policy and Enforcement

In SACU and Zambia, relatively poor maturity is noted across key indicators, resulting in a weak capacity to combat illicit tobacco trade in the region. The contributing factors and key issues facing governments include:

- » Weak demand-reduction policy implementation;
- » The lack of reliable data regarding the share of illicit trade as a percentage of total consumption, fueled by a lack of independent research in the field, and inconsistencies between industry and academic estimates;
- » Limited control over tobacco supply chains – from growers to manufacturers through to retail;
- » Under-capacitated and inadequately skilled government agencies;
- » Legal frameworks which do not necessarily reflect contemporary good practices;
- » Limited focus on excise modernization and controls, resulting in mainly manual and paper-intensive processes and control measures;
- » Lack of robust risk management approaches; and
- » An aggressive tobacco industry that leverages its power to influence political, economic, and enforcement activities.

In their survey feedback, country officials also noted the following constraints:

ZAMBIA	LESOTHO	SWAZILAND
<ul style="list-style-type: none"> <li>› Limited staff</li> <li>› Ineffective risk management systems</li> <li>› Corruption</li> <li>› Obtaining data from other agencies</li> <li>› Lack of industry liability for diversion once cigarettes have been sold</li> </ul>	<ul style="list-style-type: none"> <li>› Limited staff</li> <li>› Inability to distinguish licit from illicit on market</li> <li>› Inability to identify where in the supply chain packs are being diverted</li> <li>› Lack of industry liability for diversion once cigarettes have been sold</li> <li>› Industry failure to respond to information requests</li> <li>› Tampering with Customs seals, locks, labels, gauges</li> </ul>	<ul style="list-style-type: none"> <li>› Limited staff</li> <li>› Limited investigations capacity</li> <li>› Inabilities to distinguish licit from illicit on market</li> <li>› Obtaining data from other agencies</li> </ul>

Despite these obstacles, SACU and Zambia have made some progress in addressing illicit tobacco trade, but countries require a concerted and coordinated approach to meet the rising challenge of illicit trade in the region.

## Recommendations

Detailed recommendations for policy makers have been set out in the body of the chapter and include the following. Governments may:

## SACU AND ZAMBIA TOBACCO CONTROL RELATIVE MATURITY

INDICATOR	RELATIVE MATURITY				COMMENTS
Demand reduction measures					<ul style="list-style-type: none"> <li>› Limited demand reduction measures: poor progress with advertising bans; very low tax rates; weak cessation support; weak health warnings</li> </ul>
Licensing					<ul style="list-style-type: none"> <li>› Licensing obligations only apply to manufacturers of tobacco products</li> <li>› No know-your-customer or commensurate demand obligations on manufacturers or exporters</li> <li>› No obligations re manufacturing equipment</li> <li>› Limited instances of licenses being withdrawn</li> </ul>
Production input controls					<ul style="list-style-type: none"> <li>› No specific controls over inputs into production, e.g. acetate tow, tobacco leaf production etc.</li> </ul>
Product markings/ stamps					<ul style="list-style-type: none"> <li>› No secure tax stamps except for Zambia which has a rudimentary tax stamp</li> </ul>
Track-and-trace					<ul style="list-style-type: none"> <li>› No traceability of packs across the supply chain</li> </ul>
Enforcement					<ul style="list-style-type: none"> <li>› Limited enforcement – worsened by removal of specialist units in South Africa</li> <li>› Poor data quality; limited insights from data; data not seen to be driving activities</li> <li>› Seized cigarettes destroyed but by industry</li> <li>› No region-wide enforcement strategy</li> </ul>
Agency Coordination					<ul style="list-style-type: none"> <li>› Limited local coordination</li> <li>› Some regional coordination in general, but not targeting illicit cigarettes</li> <li>› Exclusion of key players like SARS in South Africa</li> </ul>
Penalties					<ul style="list-style-type: none"> <li>› Generally strong legislative frameworks but which do not translate into prosecutions</li> <li>› No penalties for downstream supply chain actors</li> </ul>
Public awareness					<ul style="list-style-type: none"> <li>› Some illicit cigarette media campaigns, but mostly driven by industry</li> </ul>
<i>Meeting FCTC supply chain-related measures</i>					<i>None of the countries currently have legislative or operational frameworks that meet the minimum requirements relating to supply chain security under the WHO's FCTC Protocol.</i>

### KEY TO RATINGS

Absent	Policy in place poorly implemented	Implemented; notable opportunities for improvement	Implemented; some opportunities for improvement	Fully meets international good practice

- » Better understand the character, market share, and evolution of the illicit tobacco trade by supporting high-quality, independent research. This research should include critically reviewing enforcement agencies' capabilities and challenges in responding to illicit trade

- » Initiate remediation efforts including, inter alia, excise modernization programs; implementation of fiscal marking and track-and-trace programs; non-intrusive inspection; audit management solutions; due diligence regarding know-your-customer requirements; more focus on risk-management policies, procedures, and tools; stronger data analysis; and capacity building
- » Establish formal inter-governmental structures to share information and collaborate on anti-illicit tobacco enforcement within the region
- » Complement enforcement by strengthening demand-reduction measures.

# 1. Overview of Illicit Trade and Efforts to Address It

## 1.1 Overview of Tobacco Trade in SACU Region and Zambia

This chapter uses the definition of illicit trade set out in Article 1.6 of the World Health Organization's (WHO) Framework Convention on Tobacco Control (FCTC)<sup>2</sup>: *"any practice or conduct prohibited by law and which relates to the production, shipment, receipt, possession, distribution, sale or purchase, including any practice or conduct intended to facilitate such activity."*

General estimates put the illicit trade in tobacco in Africa at around 43 billion sticks a year – with a trade share in some countries as high as 41 percent (Cameroon) and 38 percent (Ethiopia,) and in several others hovering around an estimated 25 percent (e.g., Algeria, Nigeria, South Africa, Zambia<sup>3</sup>), resulting in annual tax losses of around \$10 billion a year across Sub-Saharan Africa alone.<sup>4</sup>

### SACU IN THE CONTEXT OF A UNIQUE AFRICAN PARADIGM

Academic estimates of illicit trade are not readily available (except for South Africa, where the work is some years old). A South African Revenue Service (SARS) estimate put the loss to illicit cigarettes at between R2 and R4.5 billion in 2012.<sup>5</sup> Industry estimates<sup>6</sup> range from a

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<sup>2</sup> Framework Convention on Tobacco Control, World Health Organization 2003, updated reprint 2004, 2005, available at [http://www.who.int/fctc/text\\_download/en/](http://www.who.int/fctc/text_download/en/)

<sup>3</sup> [http://www.tobaccoecon.uct.ac.za/sites/default/files/image\\_tool/images/405/Training/Emerging\\_Researcher\\_Programme\\_2015/Illicit-Trade-Africa.pdf](http://www.tobaccoecon.uct.ac.za/sites/default/files/image_tool/images/405/Training/Emerging_Researcher_Programme_2015/Illicit-Trade-Africa.pdf)

<sup>4</sup> [http://www.tobaccoecon.uct.ac.za/sites/default/files/image\\_tool/images/405/Training/Emerging\\_Researcher\\_Programme\\_2015/Illicit-Trade-Africa.pdf](http://www.tobaccoecon.uct.ac.za/sites/default/files/image_tool/images/405/Training/Emerging_Researcher_Programme_2015/Illicit-Trade-Africa.pdf)

<sup>5</sup> <http://www.sars.gov.za/AllDocs/SARSEntDoelib/Ent/SARS-Strat-07%20-%20SARS%20Strategic%20Plan%202012%202013%20to%202016%202017.pdf>

<sup>6</sup> The data for the illicit cigarette market share used in the map comes from a range of sources, including: [http://www.tobaccoecon.uct.ac.za/sites/default/files/image\\_tool/images/405/Training/Emerging\\_Researcher\\_Programme\\_2015/Illicit-Trade-Africa.pdf](http://www.tobaccoecon.uct.ac.za/sites/default/files/image_tool/images/405/Training/Emerging_Researcher_Programme_2015/Illicit-Trade-Africa.pdf); <http://www.pagemarkafrika.com/products/tax-stamps/>; <https://www.standardmedia.co.ke/business/article/2001235698/how-african-countries-lose-sh1tr-to-illicit-tobacco-trade>

low 2 percent for Lesotho, to 23 percent in South Africa<sup>7</sup>, but should be treated with caution, as the methodologies used to develop the estimates are opaque. Being industry-funded, such estimates are likely to reflect arguments that support industry positions, and they lack the objectivity one would associate with an independent academic study. (The most recent academic study for South Africa – conducted in 2010 – estimated the share of illicit trade in the country at that time at around 10 percent.<sup>8</sup>)

Numerous reports note the tobacco industry's turning to increasingly aggressive tactics across Africa, both in marketing its products and in pressuring governments to block anti-smoking regulations. Reported industry tactics include threatening and bullying governments and filing lawsuits to delay or stop further regulation.<sup>9</sup> Much of the industry's argument turns on vaunting its position as a key revenue contributor. Governments are warned that further regulation or tax increases will result in plant closures and job losses.<sup>10</sup> Tobacco industry revenues far exceed the gross national income of many African countries, making the playing field unequal, and giving tobacco firms extensive lobbying power in the region.

As tobacco firms face increasingly strong regulation elsewhere in the world, dramatically reduced smoking rates in Europe, and increasingly hostile regulatory environments, Africa holds a number of strategic advantages for the industry.<sup>11</sup> Africa, with its growing wealth, booming youth market, generally low excise taxes (and cigarette prices), patchwork regulations, and relatively weak government structures, is a strategic growth market for the tobacco industry – and consequently also for the illicit tobacco trade.

## KEY RISKS FACED BY REVENUE AGENCIES IN RELATION TO EXCISABLE PRODUCTS

The risks posed by the illicit trade in cigarettes across the region are largely similar to those found around the world, centering on import fraud, production fraud, export fraud, and transit fraud (Figure 1).

In contrast to other jurisdictions (where regulations and enforcement controls may be stronger), media reports note some instances of bootlegging in South Africa, though this is not as prevalent as in Europe, arguably in part because the tax differentials between neighboring African countries are not as high as between, for example, the UK and its neighbors. However, bootlegging in Africa is also limited by the fact that commercial-scale smuggling

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<sup>7</sup> See e.g. [www.tobaccosa.co.za](http://www.tobaccosa.co.za); <http://pmg-assets.s3-website-eu-west-1.amazonaws.com/150424tisa.pdf>; <http://www.tobaccosa.co.za/tobacco-farming/>; <https://www.whoownswhom.co.za/store/info/3200?segment=Manufacturing>; <https://citizen.co.za/news/south-africa/1263756/the-day-pravin-took-on-big-illegal-tobacco/>

<sup>8</sup> [http://www.fctc.org/images/stories/INB-3/INB3\\_report\\_illicit\\_trade\\_in\\_South\\_Africa.pdf](http://www.fctc.org/images/stories/INB-3/INB3_report_illicit_trade_in_South_Africa.pdf)

<sup>9</sup> <https://www.theguardian.com/world/2017/jul/12/big-tobacco-dirty-war-africa-market> and <https://www.theguardian.com/world/2017/aug/18/british-american-tobacco-cigarettes-africa-middle-east>

<sup>10</sup> See for instance <https://www.theguardian.com/world/2017/jul/12/big-tobacco-dirty-war-africa-market> and <https://www.theguardian.com/world/2017/aug/18/british-american-tobacco-cigarettes-africa-middle-east>

<sup>11</sup> <http://articles.latimes.com/2012/dec/12/world/la-fg-south-africa-smoking-20121213>; <https://www.theguardian.com/world/2017/jul/12/big-tobacco-dirty-war-africa-market> and <https://www.theguardian.com/world/2017/aug/18/british-american-tobacco-cigarettes-africa-middle-east>



Figure 1. Fraud Archetypes



of full containers is far more lucrative and far easier to perpetrate than in more regulated markets, making the relatively smaller profits per bootlegging trip less attractive.

Considering the ratio of production and movement across the region, South Africa and Zambia present the largest production and export fraud risks, making production and supply-chain controls critical in those countries, whilst the remaining SACU countries display the highest transit and import fraud risks, emphasizing the need for border, entry, and movement controls.

Figure 2 provides an overview of the tobacco context of the countries studied. South Africa has by far the largest population and GDP amongst the countries, although its GDP per capita ranks second-highest behind Botswana. Smoking prevalence across the region is statistically highest in Lesotho at 21 percent and lowest in Swaziland/eSwatini at 9 percent.

In 2015, the price of the most-sold cigarette brand across SACU countries was low relative to the rest of the world,<sup>12</sup> and there have been no significant price increases in SACU countries in the past two years. None of the SACU countries meet the minimum WHO-prescribed cigarette tax level (75 percent of retail price). Zambia’s tax incidence is the lowest across the countries under review. WHO tobacco control country profiles<sup>13</sup> suggest that, in 2016, the estimated average cost of a pack of 20 cigarettes of the most-sold local brand across the reviewed countries (excluding Lesotho) was \$2.55. Botswana had the highest cost at \$3.12 and Zambia the lowest at \$1.66.

<sup>12</sup> <http://chartsbin.com/view/38424>

<sup>13</sup> [http://www.who.int/tobacco/surveillance/policy/country\\_profile/en/](http://www.who.int/tobacco/surveillance/policy/country_profile/en/)

**Table 1. SACU and Zambia Tobacco Trade Profile**

BOTSWANA		NAMIBIA		SOUTH AFRICA	
Population	2.3M	Population	2.5M	Population	54M
Border Length	4347 Km	Border Length	4220 Km	Border Length	5244 Km
GDPperCapita (thousand)	\$ 7,67	GDPperCapita (thousand)	\$5,36	GDPperCapita (thousand)	\$6,09
Smoking Prevalence	19%	Smoking Prevalence	21%	Smoking Prevalence	20%
Smoked per person, per yr	433	Smoked per person, per yr	298	Smoked per person, per yr	510
Total taxes on retail price	49,7%	Total taxes on retail price	43%	Total taxes on retail price	52,4%
Price of most sold brand	\$3,12	Price of most sold brand	\$3,11	Price of most sold brand	\$2,33
Illicit trade	8%	Illicit trade	12%	Illicit trade	23%

ZAMBIA		SWAZILAND		LESOTHO	
Population	16.7M	Population	3.7M	Population	2.3M
Border Length	6043 Km	Border Length	546 Km	Border Length	1106 Km
GDPperCapita (thousand)	\$1,48	GDPperCapita (thousand)	\$3,51	GDPperCapita (thousand)	\$1,41
Smoking Prevalence	21%	Smoking Prevalence	9%	Smoking Prevalence	26%
Smoked per person, per yr	145	Smoked per person, per yr	92	Smoked per person, per yr	448
Total taxes on retail price	37,3%	Total taxes on retail price	49,1%	Total taxes on retail price	No data
Price of most sold brand	\$1,66	Price of most sold brand	\$2,54	Price of most sold brand	n/a
Illicit trade	20%	Illicit trade	20%	Illicit trade	2%

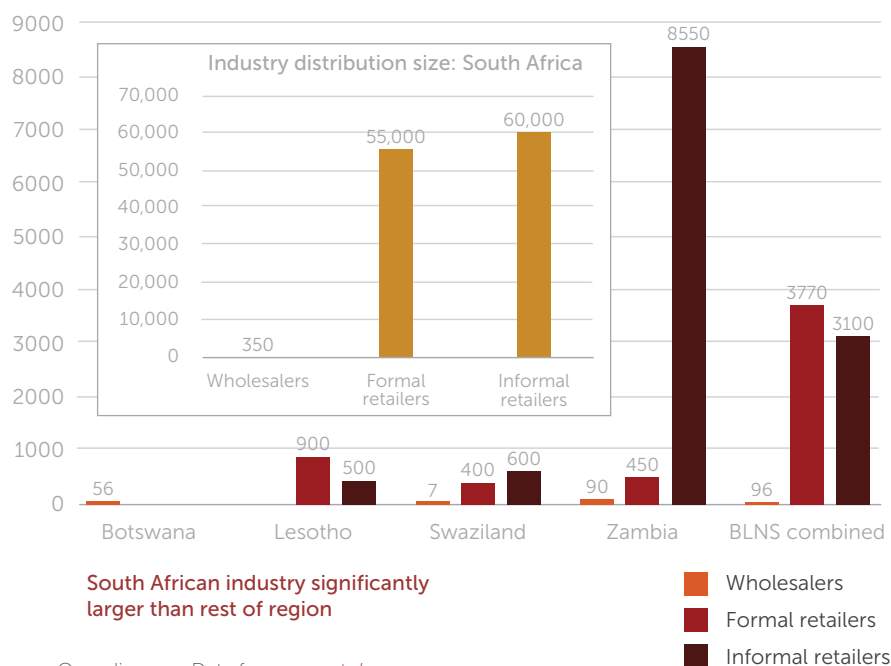
**Figure 2. SACU and Zambia Tobacco Metrics<sup>14</sup>**

	SMOKING PREVALENCE				CIGARETTES SMOKED PP/ PA				TAXES ON RETAIL PRICE				ILLICIT TRADE (INDUSTRY ESTIMATES)				EFFICIENCY OF VAT SYSTEM (AS PROXY INDICATOR OF AGENCY EFFICIENCY)			
Botswana	19%				443				38%				8%				56%			
Lesotho	26%				448				n.a.				2%				48%			
Namibia	21%				298				30%				12%				56%			
South Africa	20%				510				40%				23%				67%			
Swaziland	9%				92				36,7%				20%				n.a.			
Zambia	21%				145				23,5%				20%				34%			

Source: \*IMF rating: How effective is VAT administration out of 100?

<sup>14</sup> <https://tobaccoatlas.org/topic/consumption/> <http://chartsbin.com/view/38424> [http://www.who.int/tobacco/surveillance/policy/country\\_profile/en/](http://www.who.int/tobacco/surveillance/policy/country_profile/en/)

**Figure 3. Estimated Number of Entities Involved in the Tobacco Supply Chain in SACU and Zambia (Tobacco Industry Estimates)**



Source: Own diagram; Data from [www.tobaccosa.co.za](http://www.tobaccosa.co.za)

## LICIT/LEGAL TRADE OVERVIEW

Relatively little has been published on the tobacco trade in SACU and Zambia from a government perspective, although the tobacco industry itself commissioned studies some years ago that provide at least basic insights into the relative size of the industry (Figure 3).<sup>15</sup>

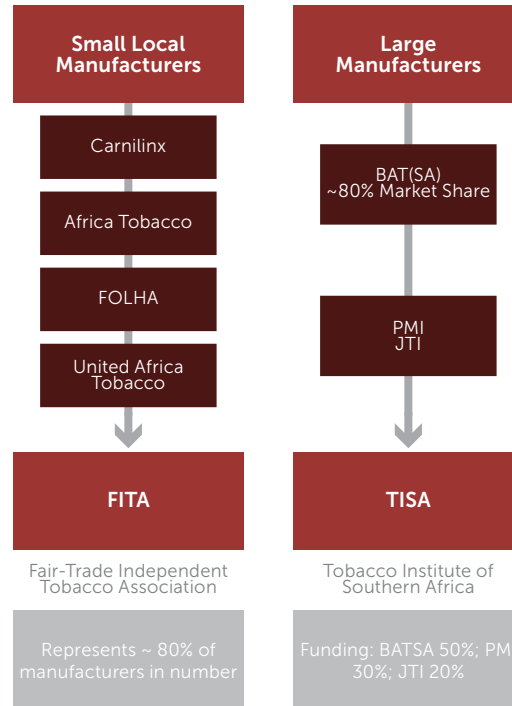
## DOMINANT PLAYERS

British American Tobacco (BAT) is the dominant cigarette producer and distributor in South Africa (Figure 4). Because of its dominance, BAT had significant pricing power to increase the net-of-tax price of cigarettes. Around 2010, the South African cigarette market changed substantially. High profit margins began to attract many smaller cigarette manufacturers and distributors, who were primarily competing in the low-price segment.<sup>16</sup> The larger manufacturers are represented by the Tobacco Institute of Southern Africa (TISA). TISA is active across the region and is funded by the three largest companies: BAT, Philip Morris International (PMI), and Japan Tobacco International (JTI). Smaller firms – accounting for around 80 percent of manufacturers – are represented by the Fair-Trade Independent Tobacco Association (FITA). FITA firms routinely argue that bigger companies like BAT(SA) are abusing their market

<sup>15</sup> Tobacco Institute of Southern Africa funded study, 2012, [http://www.tobaccosa.co.za/wp-content/uploads/NKC-Tobacco\\_Value\\_Chain\\_Report-October\\_2012.pdf](http://www.tobaccosa.co.za/wp-content/uploads/NKC-Tobacco_Value_Chain_Report-October_2012.pdf)

<sup>16</sup> <http://tobaccocontrol.bmj.com/content/early/2017/03/24/tobaccocontrol-2016-053340>

**Figure 4. Key Tobacco Industry Players, South Africa**



dominance to the detriment of smaller manufacturers, a situation reportedly exacerbated by TISA’s close relationship with government agencies.

**GOVERNMENTS’ ENGAGEMENT WITH THE LEGAL TOBACCO INDUSTRY**

TISA has signed memorandums of understanding (or is in the process of negotiating them) with a number of customs agencies in the region, including those in Mozambique, Lesotho, Botswana, Swaziland/eSwatini, Zimbabwe, and Zambia.<sup>17</sup> By all accounts, Lesotho, Swaziland/eSwatini, and Namibia have a relatively low focus on the industry, as there is limited or no production occurring locally, while South Africa and Botswana have a far stronger focus on engagement. The South African Revenue Service (SARS) has traditionally maintained a good relationship with the industry body representing big tobacco (TISA), which meets regularly with SARS, conducts training for customs officers, and destroys seized tobacco products on behalf of SARS (a similar situation is seen in Botswana). FITA and its members argue that they have not enjoyed similar opportunities for access and engagement.

The Botswana Unified Revenue Service (BURS) is generally highly facilitative to industry. However, in the absence of an adequate system of controls and checks and balances, this facilitative approach has left Botswana unnecessarily exposed. Government was forced to

<sup>17</sup> <http://pmg-assets.s3-website-eu-west-1.amazonaws.com/150424tisa.pdf>

cancel an MOU with TISA after it was heavily criticized by the Ministry of Health and the Anti-Tobacco Network for violating the FCTC Protocol on Illicit Trade in Tobacco Products (hereafter “FCTC Protocol”<sup>18</sup>). The Botswana Police Service was similarly criticized for violating the Protocol by accepting a vehicle from BAT. Concerns have also been raised that the lack of progress in updating excise controls is possibly attributable to the industry’s putting pressure on government, ostensibly arguing that industry could not absorb the cost of such measures, and that the program would result in job losses and plant closures.

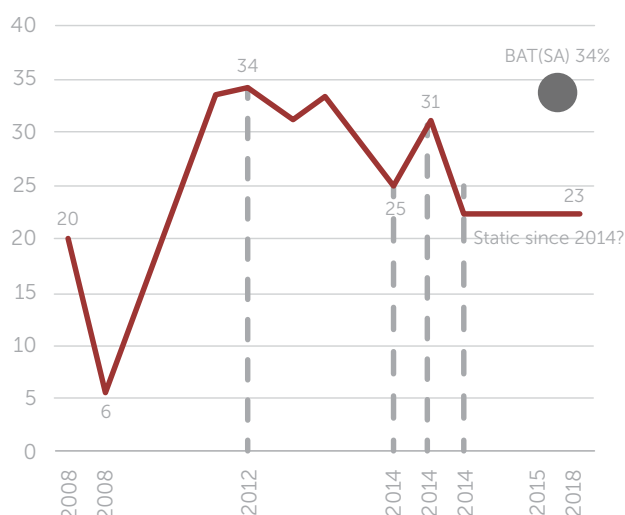
A substantial percentage of all vehicle hijackings in the region relate to trucks transporting cigarettes. In the Gauteng province in South Africa, for example, 20 percent of vehicle hijackings involve trucks carrying BAT cigarettes.<sup>19</sup> As a result, BAT(SA) has negotiated for police escorts for its trucks – a concession that has raised the ire of smaller manufacturers who are not afforded similar protection.<sup>20</sup>

## ILLICIT TRADE OVERVIEW

### *Magnitude of Illicit Trade*

Customs-agency estimates on the size of the illicit trade in cigarettes are not readily available. The most widely-quoted industry estimates put the penetration rate in South Africa as high as 23 percent, though curiously situating the rate as low as 2 percent in Lesotho. An analysis of industry estimates quoted in the media seems to suggest a recent decline in

**Figure 5. TISA Estimates of Illicit Trade Over Time**

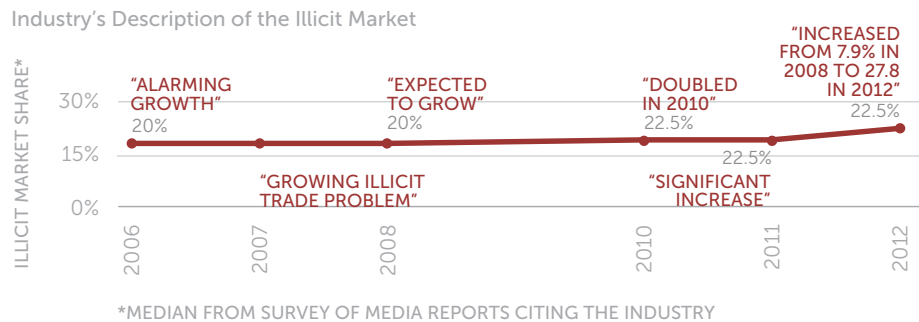


<sup>18</sup> <http://f-ita.co.za/govt-tricked-into-promoting-tobacco/>

<sup>19</sup> <https://www.timeslive.co.za/news/south-africa/2015-07-28-police-foil-cigarette-truck-hijacking/>

<sup>20</sup> <https://city-press.news24.com/News/Tobacco-giant-gets-free-police-protection-20150719>

**Figure 6. Tobacco Industry Descriptions of Illicit Trade, 2006-2012**



illicit trade in South Africa, from a high of 34 percent in 2012 to a 23 percent rate since 2014 (Figure 5). It should be noted, however, that the methods underlying the industry analysis are not clear. Academic studies have challenged industry claims, concluding that industry analysts inflate illicit trade numbers to support their case against further tobacco tax increases. Figure 6 tracks the vocabulary used by the industry to describe the illicit tobacco trade in South Africa over a recent six-year period. Academic researchers have observed: "The tobacco industry appears to rewrite history, apparently to emphasize the rapidity with which the illicit market has ostensibly increased. [Industry] claims that illicit trade in South Africa has consistently increased over the past 15 years, and has continued its sharp increase since 2010, are proven to be inaccurate."<sup>21</sup>

As in many jurisdictions around the world, industry estimates differ significantly from those of government and academics. However, with industry conducting its own assessments more regularly, its estimates get more prominence in the media, and are more widely quoted.

» **South Africa:** In 2012, SARS noted that it estimated its losses from the illicit trade in cigarettes at R2 to R4.5 billion per annum (it is not clear on what basis this estimate was produced). Research commissioned by the industry body TISA estimated the illicit cigarette market in South Africa at approximately 5.3 billion sticks for 2014 (between 20 and 25 percent of total sales). An earlier 2010 academic study estimated that the share of illicit trade as a percentage of total consumption sat at around 10 percent; new academic research is now in process. Since 2010, the South African Government is reported to have lost well over R21 billion in unpaid taxes (excise duty and VAT on excise) due to illicit cigarettes.<sup>22</sup> If treated as a single collective tobacco company, illicit trade would be the second-biggest tobacco company in South Africa. South Africa faces a number of challenges from an enforcement perspective – one of them being the country's 1,840 km

<sup>21</sup> "Are the tobacco industry's claims about the size of the illicit cigarette market credible? The case of South Africa," <https://www.ncbi.nlm.nih.gov/pubmed/24920576>

<sup>22</sup> <http://tobaccosa.co.za>

border. This border includes some 96 illegal points of entry,<sup>23</sup> 50 of them with Zimbabwe, and many of them used by cigarette smugglers.<sup>24</sup> While some smuggling happens corruptly at legal border crossings (for around \$350-750 per container<sup>25</sup>), much smuggling is believed to take place at illegal crossings away from border posts. Meanwhile, most of the illicit packs in South Africa are believed to originate from domestic illicit manufacturing. (Industry estimates that around 60 percent of illicit packs are manufactured locally.) However, the country is also the main destination point of illicit cigarettes that are smuggled from source countries like Zimbabwe.

- » **Botswana:** Industry estimates put the illicit trade in cigarettes in Botswana at around 10 percent, but given the research findings on how the industry inflated illicit trade numbers in South Africa, these estimates should be viewed with caution. No independent academic studies are readily available.
- » **Namibia** has been noted as a transit country, with illicit cigarettes being routed from China and the United Arab Emirates (UAE) through Namibia's Walvis Bay port mostly to South Africa, but also other neighboring countries in SACU.
- » **Swaziland/eSwatini:** Industry estimates put illicit market penetration in Swaziland/eSwatini at around 10 million sticks (20 percent of the market), accounting for estimated tax losses of \$0.8 million a year. No independent academic studies are available.
- » **Zambia:** Industry estimates put illicit trade in Zambia at around 20 percent. No independent academic studies are available. Zambia is largely positioned as a transit country for illicit cigarettes, with indications that illicit cigarettes are largely smuggled from Zimbabwe, Botswana, Tanzania, Malawi, and the Democratic Republic of Congo (DRC).<sup>26</sup>

### SOURCE OF ILLICIT CIGARETTES

Aside from locally manufactured illicit sticks, a significant source of illicit cigarettes imported into all of the SACU countries is widely believed to be Zimbabwe, where it is estimated that six factories are manufacturing more than 20 brands of cigarettes.<sup>27</sup> While no academic or official study could be found detailing the smuggling routes that feed the illicit trade across SACU, it is possible to piece together a view based on customs agency experience and limited-scope information in the public domain<sup>28</sup>.

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<sup>23</sup> <https://audioboom.com/posts/2419944-50-illegal-crossing-points-from-zimbabwe-to-south-africa-poses-a-major-health-terrorism-threat-to-the-population>

<sup>24</sup> <https://www.idsa-india.org/an-may-8.html>

<sup>25</sup> Major General Meetsi, South African Police Service, [https://www.saps.gov.za/resource\\_centre/publications/maj\\_gen\\_kr\\_meetsi\\_presentation.pdf](https://www.saps.gov.za/resource_centre/publications/maj_gen_kr_meetsi_presentation.pdf)

<sup>26</sup> <http://zambianformer.blogspot.co.id/2014/08/cigarette-smuggling-to-cost-zambia.html>

<sup>27</sup> "The Illicit Trade in Tobacco Products and How to Tackle It". International Tax and Investment Center <http://www.iticnet.org/images/AIT/English-FirstEd-TheIllicitTradeinTobaccoProductsandHowtoTackleIt.pdf>

<sup>28</sup> Based on agency experience. See also e.g. <http://www.thepatriot.co.bw/news/item/1794-tobacco-smuggling-scourge.html>; [www.icij.org/investigations/tobacco-underground/](http://www.icij.org/investigations/tobacco-underground/); [www.theguardian.com/world/2013/jan/27/cigarette-smuggling-mokhtar-belmokhtar-terrorism](http://www.theguardian.com/world/2013/jan/27/cigarette-smuggling-mokhtar-belmokhtar-terrorism)

- » According to TISA, an estimated 60 percent of South Africa’s illicit cigarettes are produced domestically, while 38 percent are smuggled from Zimbabwe (making that country pivotal for any illicit trade strategy) and the remainder from other countries;
- » Additional volumes – notably in respect of counterfeits – are attributed to manufacturing plants in countries like China, which either smuggle the consignments to South Africa directly, or through free trade zones in places such as Singapore or Dubai, or through transit countries like Namibia;
- » Because customs and excise controls are perceived to be relatively weak in Lesotho, experience shows that the country has been used as a destination market for round tripping or diversion of other commodities. Goods are exported tax-free from South Africa to Lesotho but subsequently smuggled back into South Africa, or are declared for export to Lesotho but are diverted to the local South African market before physically leaving the country. These goods can then be sold on the local market with no duties having been paid. It is likely that this weakness is exploited for cigarettes, as well as other commodities.

#### REGION-SPECIFIC ILLICIT TRADE ISSUES

Enforcement sources have noted a number of relatively unique manifestations around illicit cigarettes and the concomitant tax losses, including:

- » **Single stick sales:** It is commonplace to find vendors breaking up cigarette packs and selling single cigarette sticks (often to children).<sup>29</sup> Of course, the sale of single sticks severely limits the traceability of packs;<sup>30</sup>
- » **Wastage allowances:** Agency sources suggest that manufacturers have managed to negotiate for a 5 to 20 percent wastage allowance from their production – which does not appear to be mandated by legislation. Internationally, other agencies do not generally grant wastage allowances for tobacco products (or limit wastage allowances to around 1 percent);
- » **Prison sales:** Informal interviews with enforcement experts suggest that a significant volume of illicit cigarettes is being supplied to prisons, where their consumption largely goes undetected, unmeasured, and unchallenged. This may warrant further investigation as a new destination market for illicit cigarettes.

The cigarette supply chain across most of SACU is largely unsecured, significantly contributing to the relatively high regional share of illicit trade as a percentage of total consumption.

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<sup>29</sup> <https://www.theguardian.com/world/2017/jul/12/big-tobacco-dirty-war-africa-market>; <https://www.pressreader.com/south-africa/pretoria-news-weekend/20161210/281659664671990>

<sup>30</sup> Other commodities pose unique challenges too, like beer being sold in plastic bags.



## 1.2 Legal Frameworks

### LEGAL FRAMEWORKS AIMED AT REDUCING DEMAND AND CONSUMPTION

Most of the studied countries have made relatively poor progress in establishing legislative frameworks to reduce demand and consumption of cigarettes (Table 2). Only Namibia and Zambia have declared six or more categories of public places smoke-free; only Lesotho, South Africa, and Swaziland/eSwatini bear some of the costs of cessation treatment; only Namibia has large health warnings<sup>31</sup>; not one of the countries has recently had a national anti-smoking campaign lasting more than three weeks; Botswana is the only country with a complete ban on both direct and indirect advertising; only Namibia and Swaziland/eSwatini have adopted all seven of the advertising bans recommended by the WHO; and the recommended indirect advertising bans have been very poorly adopted.

### REDUCING DEMAND THROUGH TAXATION

SACU countries tax imports from outside the customs union upon entry at an ad valorem rate of 45 percent, in proportion to the estimated value of the goods or transaction concerned. Products originating from SACU, SADC, EU, and EFTA countries are imported duty-free.<sup>32</sup>

South Africa, Botswana, Lesotho, and Zambia (the only countries with cigarette manufacturing) apply specific excise duties at source (that is, as close as possible to the point of manufacture). This is administered via periodic (post-sale and distribution) self-declared excise declarations. South Africa offers deferred payment of duties, whilst the other countries require payment at the time of declaration. Over-reliance on tobacco company self-declaration, coupled with insufficient audit resources, poses a considerable risk in the region.

The cigarette tax burden across SACU and Zambia is well below the WHO-recommended 75 percent of retail sales price, and Botswana continues to use ad valorem excise taxes.

- » **Botswana:** Excise 39 percent; and ad valorem duty 9.4 percent.
- » **Lesotho:** Excise 33 percent.<sup>33</sup> Lesotho is somewhat different from neighboring countries, in that 68 percent of its tax revenue comes from customs/excise, making efficient customs and excise administration a core strategic priority for the country. While limited information is available, indications are that government is in the process of approving a levy on tobacco following World Bank recommendations. Combined with a levy on alcohol, the IMF estimates that this will result in an additional 200 million Maloti (\$16 million) in government revenues.<sup>34</sup>
- » **Namibia:** Excise 30 percent.

<sup>31</sup> The Tobacco atlas: <https://tobaccoatlas.org>

<sup>32</sup> <http://www.sars.gov.za/AllDocs/LegalDoctlib/SCEA1964/LAPD-LPrim-Tariff-2012-04%20-%20Schedule%20No%201%20Part%201%20Chapters%201%20to%2099.pdf>

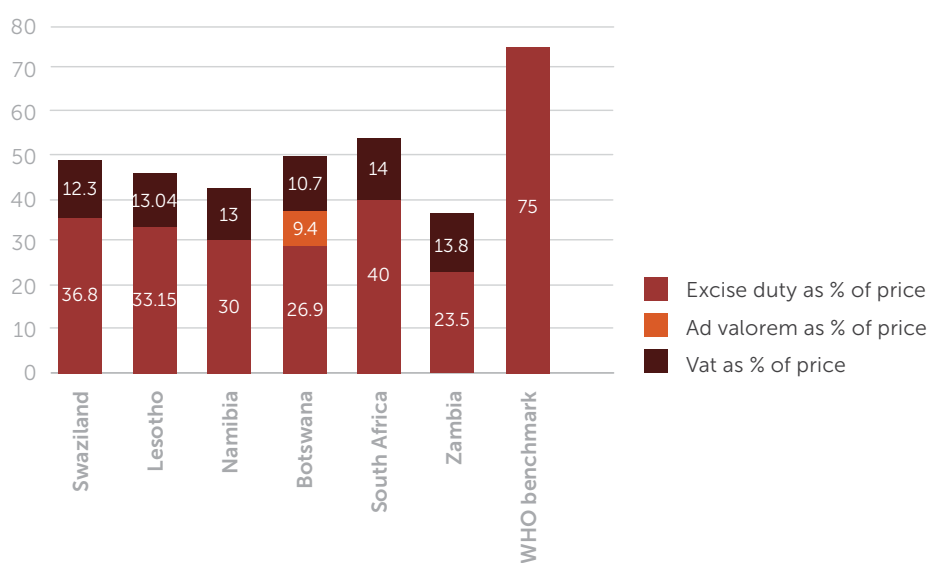
<sup>33</sup> [http://www.who.int/tobacco/global\\_report/2015/appendix2.pdf](http://www.who.int/tobacco/global_report/2015/appendix2.pdf)

<sup>34</sup> IMF Staff Country Report, Lesotho

**Table 2. Legislative Frameworks for Demand Reduction, SACU Countries and Zambia**

LEGISLATIVE FRAMEWORK: DEMAND REDUCTION						
	BOTSWANA	LESOTHO	NAMIBIA	SWAZILAND	SOUTH AFRICA	ZAMBIA
Demand reduction measures: General	Poor adoption of demand-reduction measures					
Health warnings	Small or none	Small or none	Large	Medium	Small or none	Small or none
Direct advertising bans (out of a recommended 7 types)	5/7	5/7	5/7	5/7	5/7	5/7
Indirect advertising bans (out of a recommended 10 types)	1/10	0/10	3/10	6/10	6/10	1/10
Tax rates (Excise; Total)	39%	--	30%	37%	40%	24%
	50%	--	43%	41%	52%	37%
Exemptions for travelers	200 cigarettes	200 cigarettes	400 cigarettes	200 cigarettes	200 cigarettes	400 cigarettes
	20 cigars	20 cigars	50 cigars	20 cigars	20 cigars	500g cigars
	250g pipe tob	250g pipe tob	250g pipe tob	250g pipe tob	250g pipe tob	500g pipe tob

**Figure 7. SACU Tax Rates as Percentage of Retail Price**



» **South Africa** has the highest tax rates among the SACU member countries: 52 percent of cigarette retail prices is accounted for by taxes. South Africa's tax ratios are close to the world average, but still far below the recommended norm.<sup>35</sup> After steadily increasing over a number of years, real excise collections from tobacco products have more recently been declining. For the tax year 2017/18, specific excise duties were R900m (-9.2 percent) lower than the published estimate, mainly because of collections on cigarettes and tobacco being lower by R1.2bn (-30.2 percent).<sup>36</sup> The reasons for this shortfall are not clear and contradict other data points which show smoking prevalence rising. From a tobacco control perspective, although there was a decline in adult consumption from the 1960s to the late 2000s, attributed to an array of government actions, developments in South Africa since 2010 have been disappointing. In 1994, government announced that it would aim to impose a total tax burden on cigarettes of 50 percent. This level was reached in 2005. In 2006, the total tax target was increased to 52 percent. Since 2006, the tax regime and the targeted tax percentage have remained unchanged.<sup>37</sup>

Although SACU legislation seeks to harmonize tax rates across the different countries, there is a fairly inconsistent approach to taxation of cigarettes, with some countries adopting a mixed model that levies both specific excise and ad valorem duties, others just levying excise duties, and still others adopting an additional levy on tobacco products. Inconsistencies in tax rates create opportunities for arbitrage – and contribute to incentives for smuggling.

### MANAGING DEMAND BY LIMITING EXEMPTIONS: DUTY-FREE ALLOWANCES

Zambia has an exceptionally high duty-free allowance for travelers: 400 cigarettes, 500g of cigars, and 500g of pipe tobacco. Tax- and duty-free sales generally erode the effects of tax and price measures aimed at reducing the demand for tobacco products. In line with WHO recommendations, a growing number of countries are prohibiting or restricting tax- or duty-free sales, for example by limiting the number of tobacco products that can be bought duty free (number of packs per purchase, or number of purchases within a particular period of time), or by imposing excise duties on tobacco products sold in duty-free shops.<sup>38 39</sup>

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<sup>35</sup> WHO *Technical Manual on Tobacco Tax Administration* 2010, p. 103; World Bank, 1999, *Curbing the Epidemic* (Washington: World Bank), 1999, p. 83.

<sup>36</sup> <https://www.businesslive.co.za/bd/national/2017-09-12-sars-has-a-r13bn-shortfall-and-these-are-th>

<sup>37</sup> <http://tobaccocontrol.bmj.com/content/early/2017/03/24/tobaccocontrol-2016-053340>  
[e-culprits/](http://www.sars.gov.za/ClientSegments/Customs-Excise/Travellers/Pages/Arrival-in-SA.aspx)

<sup>38</sup> <http://www.sars.gov.za/ClientSegments/Customs-Excise/Travellers/Pages/Arrival-in-SA.aspx> <http://www.lra.org.ls/sites/default/files/2017-03/Guidelines%20for%20Extra%20SACU%20importation%20and%20exportation%202010.pdf> <https://www.booknamibia.com/travel-information/duty-free-allowances> <http://www.burs.org.bw/index.php/customsexcisemain/travelers-guide/duty-free-allowance> <http://www.sra.org.sz/customs/general-import-and-export-rules.php> <https://www.worldtravelguide.net/guides/africa/zambia/money-duty-free/>

<sup>39</sup> WHO Guidelines on Implementing FCTC Article 6, [http://www.who.int/fctc/guidelines/adopted/Guidelines\\_article\\_6.pdf](http://www.who.int/fctc/guidelines/adopted/Guidelines_article_6.pdf)

**Table 3. Duty-Free Allowances for Tobacco**

<b>DUTY-FREE ALLOWANCES FOR TOBACCO</b>	
Botswana, Lesotho, South Africa, Swaziland	200 cigarettes, 20 cigars, 250 g pipe tobacco
Namibia	400 cigarettes, 50 cigars, 250 g pipe tobacco
Zambia	400 cigarettes, 500g cigars, 500 g pipe tobacco

**Table 4. Legislative Frameworks for Supply Management**

<b>LEGISLATIVE FRAMEWORK: SUPPLY MANAGEMENT</b>						
	<b>BOTSWANA</b>	<b>LESOTHO</b>	<b>NAMIBIA</b>	<b>SWAZILAND</b>	<b>SOUTH AFRICA</b>	<b>ZAMBIA</b>
General supply chain management	Very weak tobacco supply chain management					
Secure serialized tax stamp	None					Basic tax stamp but poorly enforced – 20% of packs on market are not marked
Traceability	Draft traceability legislation but long delayed	None			Draft traceability legislation but long delayed	
Institutional capacity	Weak				Some strategic strengths	
Administrative mechanisms to control supply chain	Weak production controls, audit controls, inspections capacity					

#### LEGAL FRAMEWORKS AIMED AT MANAGING SUPPLY

Most of the customs and excise-related legislation in the region had its genesis in the South African Customs and Excise Act of 1964 (along with the Act's subsequent revisions). Member countries' respective laws – although not identical - mirror each other to a large degree in terms of general principles and policy positions. The legislative underpinning for measures to combat illicit trade is not as robust as it should be. Indeed, in some cases the legislation actually imposes archaic measures (for example, the use of a physical imprint diamond stamp) or limits governments' ability to address the dynamic illicit trade problem. South Africa's tobacco-control legislation was thought to be one of the most comprehensive in the world at the time of its adoption, but it is now falling behind newer laws in many other countries. Out of a total of 24 tobacco-control measures identified by the WHO, South Africa currently complies with only 11.<sup>40</sup>

<sup>40</sup> Shisana, et al., SANHANES-1 Team, 2013, *South African National Health and Nutrition Examination Survey (SANHANES-1)*, (Cape Town: HSRC Press), 2013, p. 38

Table 5. Key Requirements of the FCTC Protocol on Illicit Tobacco

FCTC PROTOCOL ON TOBACCO – KEY REQUIREMENTS		RATING			COMMENT
Licensing	Licensing for any person involved in the manufacture/import/export of tobacco products and tobacco manufacturing equipment	■	■	■	Don't mandate licensing across the supply chain. No licensing requirements in respect of manufacturing equipment.
Due diligence	Due diligence checks of all customers/their agents, to ensure that sales are commensurate with legitimate demand	■	■	■	No due diligence or know-your-customer obligations on tobacco companies; No commensurate demand obligations or calculations done; No substantive controls after ex factory sales
Tracking and tracing	Unique identification markings to assist in determining the origin and the point of diversion; enable the monitoring of the movement of tobacco products	■	■	■	Zambia: Rudimentary tax stamp implemented but not appropriately enforced. SACU: No tracking and tracing of tobacco packs
Record keeping	All persons engaged in the supply chain of tobacco, tobacco products and manufacturing equipment maintain complete records	■	■	■	Record-keeping obligations for manufacturers and importers, but not other economic entities across the supply chain
Destruction of goods	Destruction of confiscated manufacturing equipment, tobacco, non-tobacco materials and illicit tobacco products	■	■	■	Tobacco is destroyed, but in most countries by an industry representative body. Only one known case of manufacturing equipment that was seized – not destroyed.
Preventing diversion	Obligations on all licenses to prevent the diversion of tobacco products into illicit trade channels	■	■	■	No traceability requirements; No know-your-customer obligations; No commensurate demand calculations; No obligations to prevent diversion
Offenses and enforcement	Prosecutions and sanctions for criminal activity, seizure of evidence, confiscation of assets, destruction of seized products and investigative techniques.	■	■	■	Generally appropriate legislative powers in place Limited investigative capacity and capabilities Limited impact from prosecutions – not targeting kingpins
International cooperation	Sharing a wide range of enforcement information and best practices; cooperation in providing training and technical assistance	■	■	■	Strong general regional coordination but still relatively limited in terms of illicit tobacco in particular, and should be expanded to include more source and destination countries (e.g. Zimbabwe)
Engagement with industry	Competent authorities should interact with the tobacco industry and those representing the interests of the tobacco industry only to the extent strictly necessary	■	■	■	MOU's with industry representative body. Industry body sits on enforcement structures; destroys seized goods on behalf of agency; trains customs officers. Contravenes FCTC Protocol.

KEY TO RATINGS



## LIMITED AWARENESS OF AND COMPLIANCE WITH WHO FCTC OBLIGATIONS

The FCTC Protocol contains a series of good practices aimed at better securing tobacco supply chains and empowering law enforcement with tools to detect and investigate illicit trade. Even for countries that are not signatories to the Protocol, tracking progress against its provisions provides a useful means to measure an agency's relative maturity, and to assess opportunities for further strengthening tobacco supply chain control.

Interactions with agencies throughout SACU and a review of the agencies' strategic documents both suggest a very limited awareness of the obligations customs and excise agencies would face under the FCTC Protocol, once the Protocol is ratified and comes into operation. Table 5 highlights the extent to which the reviewed countries meet obligations under the FCTC Protocol as one proxy for effective tobacco control.

Effective implementation of the FCTC Protocol requires that government agencies that are not traditional network partners (e.g., agencies dealing with health and revenue) work together. Considerable effort is required to secure a sustainable platform for mutual cooperation across the departments of health, police, border security, tax, customs, and excise.

To date, none of the countries studied has adopted minimum good practice measures in its legislation. FCTC compliance does not yet directly drive either strategy development or operational initiatives, and all of the countries reviewed would need to secure a more strategic focus on meeting their potential future obligations under the FCTC Protocol.

The various legislative frameworks fall short in respect of a number of good practices that would significantly assist in curbing the illicit tobacco trade:

- » **Licensing** obligations only apply to manufacturers and importers of tobacco products, and do not extend to other economic operators across the tobacco supply chain. Such obligations currently fail to include regular audits of tobacco manufacturing equipment;
- » **There are no due diligence obligations on any licensees**, or other obligations that would require them to conduct "know-your-customer" checks, or to assess whether the orders they receive are commensurate with the demands in the intended destination markets;
- » **There are no obligations on manufacturers or importers to introduce measures to prevent the diversion of their products.** Ex-factory sales are the norm, with no obligations on tobacco manufacturers or importers to ensure that their products are not subsequently diverted into illicit channels;
- » **Fiscal marks used are obsolete or are non-existent** (aside from Zambia, which has introduced a very rudimentary tax stamp). The diamond stamp employed by South Africa and Botswana is a simple die impression placed on packs (as opposed to an affixed paper tax stamp). The number of die stamps issued to industry is unaccounted for, and the mark itself is easily counterfeited. The "stamp" provides absolutely no assurance that duty has been paid or that the product is genuine. Nor does it confirm where a pack originated from;

- » **No track-and-trace systems have been implemented:** Currently, only Zambian legislation provides for the use of a true tax stamp. Both South Africa and Botswana had previously made progress with the preparation of draft legislation, and officials have intimated that these countries may introduce a more secure fiscal marking regime, but recent years have seen no progress in implementing solutions. The efforts now appear to be tabled in South Africa and on hold in Botswana;
- » **Most of the legislative frameworks have sufficiently strong punitive options, but these are not translating into prosecutions** or concrete punitive actions against the tobacco industry.

A significant first step should include the introduction of legislation that implements, at a minimum, the good practices noted in the FCTC Protocol.

### 1.3 Institutional Frameworks

#### OPERATIONAL OVERVIEW

The capacity of the various administrations differs greatly across the region. There are relatively broad disparities between countries on a range of fronts, including their GDP, the estimated scope of illicit cigarette trade,<sup>41</sup> the size of the shadow economy, and tax administration efficiency.<sup>42</sup> The disparity makes the development of a region-wide strategy and alignment of response plans more complex – but also more important.

SARS is arguably the most advanced, and its tax administration meets that of many developed countries in terms of efficiency and automation of taxes. SARS has a strong tradition of rigorous strategy development, and its in-principle strategy aimed at targeting illicit trade was relatively well-defined and comprehensive as far back as 2013. Components included: modernizing warehousing management and acquittal systems; changing import and export risk processes; targeting the entire supply chain; improving control of warehouses; automating the excise system and processes; increasing collaboration with key stakeholders; and strengthening detection capabilities.<sup>43</sup> There are no indications to what extent the strategy has been effective, or that the strategy has subsequently been reviewed.

A similarly strong strategic focus was not immediately evident from this high-level overview in respect of the other five countries, although Botswana is undergoing a modernization program which includes a new information technology platform for customs and a review of excise policies and processes, as well as the potential introduction of a fiscal marking and track-and-trace solution for excisable goods. (BURS had made considerable progress in conducting a thorough analysis and even published a tender to introduce a solution across excise goods, but the tender was not awarded and ultimately expired.)

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<sup>41</sup> Using industry estimates, in the absence of more objective academic estimates

<sup>42</sup> Using VAT-C efficiency as a proxy

<sup>43</sup> SARS, 2014a, Strategic Plan 2014/15-2018/19.

## LIMITED STRATEGIC FOCUS ON EXCISE ADMINISTRATION

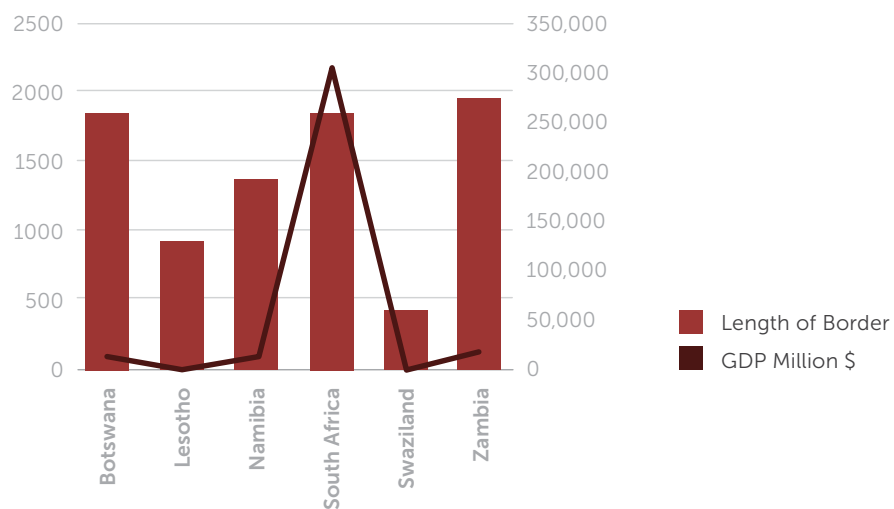
Excise taxes contribute relatively little by way of revenues, compared to other taxes. Their administration is typically underfunded and understaffed, and they are generally not prioritized from a modernization perspective.

The current approach is short-sighted: excise administration is critically important, not only from a revenue or health-risk perspective, but because excisable products like cigarettes offer an easy way for criminality to slip into the legitimate supply chain. Indeed, in South Africa, there are a number of indications of links between the illicit trade in cigarettes and other criminal activities.<sup>44</sup>

All the countries studied here have long borders to secure, but also a relatively low GDP from which to fund such operations, requiring more innovative methods to secure borders (Figure 8).

Over-reliance on industry self-declaration as the basis for taxation; the lack of an effective risk management approach; and non-existent fiscal marking and track-and-trace regimes place the region at high risk for the increased proliferation of illicit trade.

**Figure 8. SACU Border Lengths (km) vs. GDP (\$M)**



<sup>44</sup> See e.g. <https://blackopinion.co.za/2016/04/19/mazzotti-alleged-italian-criminal-gave-julius-malemas-eff-r200-000/>; <https://www.news24.com/SouthAfrica/News/R388m-tax-bill-for-Cape-gangster-20150412>; <https://www.enca.com/south-africa/has-a-cigarette-smuggler-and-fraudster-been-helping-dlamini-zumas-campaign>; <https://www.maritime-executive.com/editorials/north-korean-diplomats-smuggle-ivory-cigarettes-and-gold>; <http://defsec.csir.co.za/wp-content/uploads/2016/05/1.-Dr-Louise-Shelley-Convergence-of-Illicit-Actors-and-Flows.pdf>; <https://khulumaafrika.com/2018/02/07/fuel-tankers-center-drug-smuggling-operations-zim-sa/>; <https://www.biznews.com/undictated/2016/03/03/ejected-sars-bosses-start-fighting-back-illicit-cigarette-industry-tagged/>



### INTERNAL CAPACITY AND CAPABILITY

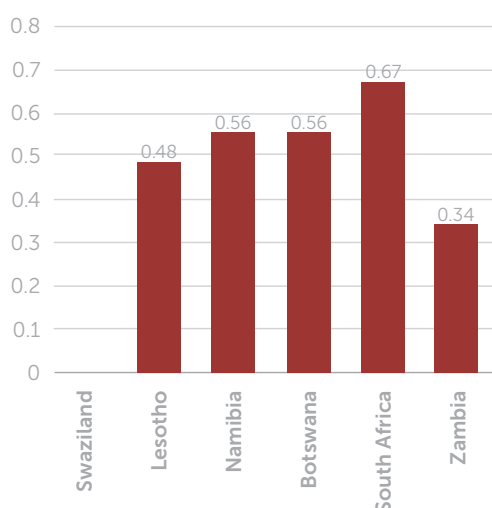
This limited-scope study did not provide for a formal review of agency capacity and capabilities. It relies on experience in the region. While not directly addressing agencies' excise capabilities, in the absence of other specific assessments, the IMF's assessment of the respective countries' VAT C-efficiencies could be used as a rough proxy for agency efficiency. (VAT C-efficiency is defined as actual VAT collections as a share of the potential VAT base and is frequently used by organizations like the IMF as one measure of an agency's effectiveness.) Given that excise taxes are generally afforded less strategic priority than VAT in most agencies, efficiency in respect of excise administration can be assumed to be below that of VAT.

While South Africa and Zambia have relatively more advanced capabilities, all of the countries surveyed have relatively low maturity across the capabilities required to deliver on an agency's excise administration mandate. People, policy, processes and procedures, forms, business rules, payment terms, and information technology systems all require varying degrees of transformation. Audit and risk-management capabilities are generally weak across the excise value chain within the region.

Despite this, some of the countries have made positive strides towards improving their capacity and capability to manage and control excise processes, although these improvements have not been targeted specifically at tobacco control.

- » **South Africa** generally has a more mature framework in terms of its ability to counter illicit trade in cigarettes, being particularly strong in respect of strategy development, business intelligence, and the use of technologies like scanners. SARS notes its commitment to

**Figure 9. VAT C-Efficiency Ratings for Countries, as Proxy for Relative Agency Efficiency**



contributing to building capacity in the region,<sup>45</sup> for example by improving its focus on training excise officers;<sup>46</sup> hosting a regional risk-accreditation event in 2017; conducting direct technical assistance missions on data warehouse capabilities for the Swaziland/eSwatini Revenue Authority; supporting risk management capacity building missions to Zimbabwe, Kenya, and Zambia; and training eight dogs and their handlers as part of detector-dog technical assistance missions to Botswana.

- » **Botswana:** Audit and risk management capabilities are relatively weak across the excise value chain. A number of tax administration reforms are underway (including the establishment of a risk management unit), but progress has stumbled with Botswana's failure to enact the planned Tax Administration Act and with persistent capability gaps, particularly from an audit and risk management perspective.<sup>47</sup>
- » **Lesotho:** The Lesotho Revenue Authority's weak risk management capacity is exacerbated by the country's customs information management system, ASYCUDA, sometimes being down for weeks. Even when the system is operative, some features may not function fully, and information about inspections does not feed back into the risk assessment process. As a result, audit effectiveness and general compliance levels are both low.<sup>48</sup>
- » **Zambia:** An IMF review notes that Zambia's VAT efficiency and corporate income tax productivity are well below those of SADC comparators, with relatively poor tax base management, auditing capacity, and compliance monitoring capabilities. These weaknesses are all likely to extend to the country's excise management capabilities and maturity, contributing to poor revenue collection performance in Zambia.<sup>49</sup>

## LIMITED ALIGNMENT ACROSS GOVERNMENT AGENCIES

The countries that achieve the best success in respect of moderating the illicit trade in cigarettes tend to be those that adopt a whole-of-government approach, leveraging the powers and capabilities of various enforcement bodies beyond just those of the customs/excise administration. However, across SACU and Zambia there is generally limited evidence of any significant amount of coordination and cooperation between relevant government agencies.

SARS historically had a good working relationship with a number of law enforcement agencies, using intelligence gathered by the relevant agencies to drive its investigations, and conducting many of its enforcement interventions in conjunction with the police. A national illicit tobacco task team was established but excluded SARS. The creation of duplicate structures leave space for duplication of effort, arbitrage, misalignment, and missed opportunities.

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<sup>45</sup> <http://www.sars.gov.za/AllDocs/SARSEntDoclib/AnnualReports/SARS-AR-22%20-%20Annual%20Report%202016-2017.pdf>

<sup>46</sup> <http://www.sars.gov.za/AllDocs/SARSEntDoclib/AnnualReports/SARS-AR-22%20-%20Annual%20Report%202016-2017.pdf>

<sup>47</sup> IMF Staff Country Report, Botswana

<sup>48</sup> IMF Staff Country Report, Lesotho

<sup>49</sup> IMF Staff Country Report, Zambia

Moreover, the industry is known to have built allies across a number of government institutions outside of SARS, who were used to either thwart SARS' efforts, or to put pressure on SARS to be more sympathetic towards the tobacco industry. SARS noted: "Certain companies and individuals in the tobacco industry have penetrated a fragmented government system and have been using some elements and access to political parties and persons to further their personal interest."<sup>50</sup> The agency voiced concern about state agencies not being sufficiently aligned in respect of the challenges posed by the industry.

### REGIONAL ALIGNMENT STRUCTURES

A SACU Regional Risk Management Working Group – with a regional risk register – has been established. Its mandate focuses on identifying significant customs risks that are common across the region and that require a collective mitigation approach. The group seeks to maintain a central record of the results of countries' interventions.<sup>51</sup> Given the importance that other neighboring countries such as Zimbabwe play in the illicit cigarette trade, it would be prudent to consider expanding the regional group beyond just SACU members, to include prominent illicit tobacco source or destination countries.

Recent regional joint operations focusing on the textile, alcohol, and tobacco industries are reported to have yielded positive results,<sup>52</sup> strengthening the case for more expansive regional campaigns focused on illicit tobacco. Highlights of recent operations included 14 arrests for the smuggling of cigarettes and the seizure of 9,485,637 cigarettes, representing a potential revenue loss of R72 million. Intensified action of this type could inform a regional approach to stop contraband upstream, at the point of manufacture, long before goods cross countries' borders illegally.

SARS has made progress in establishing one-stop-border posts with Mozambique and Zimbabwe. It has also piloted the WCO – SACU IT Connectivity Initiative with Swaziland/eSwatini and Mozambique to enable interface capabilities for information and data exchange. If further developed and fully implemented, these initiatives could better position the agencies to target illicit trade.

### INDUSTRY DRIVES MOST OF THE PUBLIC DISCOURSE ABOUT ILLICIT TRADE

Across SADC – but perhaps most markedly in South Africa – most of the discourse around illicit trade in cigarettes is driven by the tobacco industry. This discourse presents illicit trade primarily as a function of high tax rates; vaunts the importance of industry as a revenue generator and employer; portrays industry as both victim and savior in the fight against illicit trade; and pressures governments to reduce the regulations imposed on the tobacco industry.

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<sup>50</sup> <https://www.dailymaverick.co.za/article/2017-01-23-state-capture-all-roads-lead-to-tobacco-some-to-marius-fransman/#.Woo9N2aQ1E4>

<sup>51</sup> <http://www.sacu.int/docs/reports/2017/SACU-Customs-Operation-External-Publication.pdf>

<sup>52</sup> <http://www.sacu.int/docs/reports/2015/topliq.pdf>

South Africa is widely cited in the local media as being “in the top five” countries with the highest market share of illicit trade in cigarettes – a statement that is simply not true, but that has become part of the lexicon in the local market, unchallenged by media or officials. The statement can be traced back to the industry body TISA, which continues to frequently cite this groundless assertion as fact. In reality, there are many countries around the world with a far higher incidence of illicit trade, including Albania, Bolivia, Bosnia, Brazil, Ethiopia, Georgia, Hong Kong, Iraq, Laos, Macedonia, and Uzbekistan (to name but a few).<sup>53</sup> This highlights the importance of applying a critical lens to industry claims.

### POLITICAL INTERFERENCE

Some observers express concern about criminal enterprises’ close ties to leading political figures, at least in South Africa. Recently, a notorious cigarette smuggler’s lavish birthday party is reported to have been attended by high-profile policemen and politicians.<sup>54</sup> Similarly, multiple reports allege that a leading cigarette smuggler met with South Africa’s ex-President to secure a votes-for-protection agreement.<sup>55</sup> A number of sources have noted how industry players sought to use senior political connections to halt SARS investigations into the tobacco industry.<sup>56 57</sup> All future policy and enforcement measures must reckon with the reality that, in this region, the tobacco industry is disproportionately powerful.

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<sup>53</sup> See e.g. [http://www.tobaccoecon.uct.ac.za/sites/default/files/image\\_tool/images/405/Training\\_Emerging\\_Researcher\\_Programme\\_2015/Illicit-Trade-Africa.pdf](http://www.tobaccoecon.uct.ac.za/sites/default/files/image_tool/images/405/Training_Emerging_Researcher_Programme_2015/Illicit-Trade-Africa.pdf); [https://smokefreepartnership.eu/position-papers-briefings-reports/download/196\\_d73fa3d27ef551c49b0d362932a698f8](https://smokefreepartnership.eu/position-papers-briefings-reports/download/196_d73fa3d27ef551c49b0d362932a698f8)

<sup>54</sup> <https://select.timeslive.co.za/news/2018-02-13-the-tobacco-tycoons-birthday-bash-and-his-policemen-guests-at-table-9/>

<sup>55</sup> <http://ewn.co.za/2015/11/20/ANC-refutes-claims-on-Zuma-gang-bosses>

<sup>56</sup> See e.g. <https://www.economist.com/news/briefing/21732086-ruling-african-national-congress-ponders-choice-between-dynasty-and-reform-how-jacob-zuma>; <https://www.nation.co.ke/news/africa/Book-links-Jacob-Zuma--his-family-to-illicit-money/1066-4177106-8ijq6u/index.html>; [https://www.huffingtonpost.co.za/2017/10/29/zuma-worked-for-somebody-else-while-he-was-president\\_a\\_23259551/](https://www.huffingtonpost.co.za/2017/10/29/zuma-worked-for-somebody-else-while-he-was-president_a_23259551/); <https://www.timeslive.co.za/sunday-times/news/2017-10-29-gangster-republic-dirty-cigarette-money-is-funding-ndzs-bid-for-president/>; <https://www.thesouthafrican.com/the-presidents-keepers-most-shocking-claims-jacques-pauw/>; <https://www.news24.com/SouthAfrica/Politics/Cape-gangster-gets-VIP-invite-to-Zumas-party-20140427>; <https://www.biznews.com/sa-investing/2016/11/24/zuma-lifman-sars/>; <https://www.biznews.com/undictated/2016/03/03/ejected-sars-bosses-start-fighting-back-illicit-cigarette-industry-tagged/>

<sup>57</sup> Rogue: The Inside Story, Johann van Loggerenberg, <https://www.amazon.com/Rogue-Inside-Story-Sarss-Crime-Busting/dp/1868427404>; The President’s Keepers, Jacques Pauw, [https://www.amazon.com/Presidents-Keepers-Those-keeping-prison-ebook/dp/B076YBL1WS/ref=sr\\_1\\_1?s=books&ie=UTF8&qid=1524214766&sr=1-1&keywords=presidents+keepers](https://www.amazon.com/Presidents-Keepers-Those-keeping-prison-ebook/dp/B076YBL1WS/ref=sr_1_1?s=books&ie=UTF8&qid=1524214766&sr=1-1&keywords=presidents+keepers); <https://www.biznews.com/undictated/2016/03/03/ejected-sars-bosses-start-fighting-back-illicit-cigarette-industry-tagged/>

## 1.4 Administrative Mechanisms

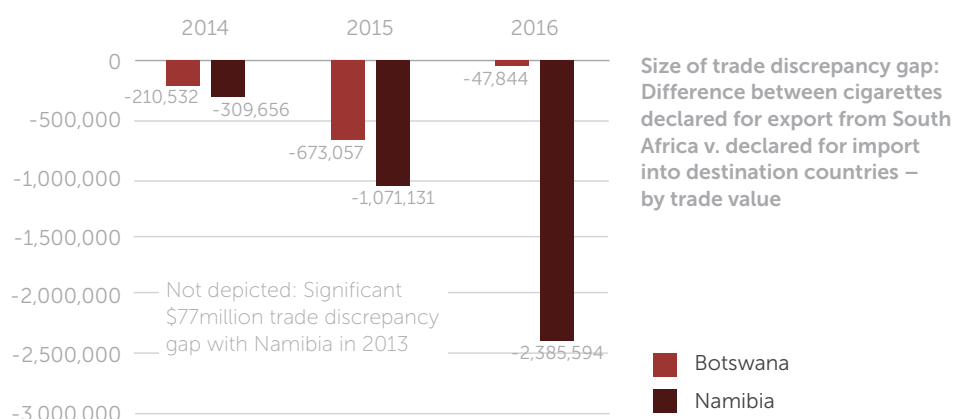
### DATA QUALITY AND ACCURACY

The compilation of this report was significantly hampered by the lack of credible, publicly available information. A key example relates to countries' readiness to implement the traceability obligations under the FCTC Protocol. In the WHO country profiles, most of these countries indicate that they mandate the use of secure tax stamps, when in fact this is patently not correct. Although this possibly speaks to a definitional misunderstanding, it does result in a skewed perspective on the readiness of countries to fulfil their obligations under the Protocol.

### DATA-CENTRIC DECISION-MAKING

It is not immediately evident to what extent the respective countries rely on data analytics and business intelligence to drive policy development and enforcement targeting. However, even superficial research highlights suggestive disparities in trade statistics between the different countries. The volume of cigarettes declared for export from one country should in theory match the volume of cigarettes declared for import in the destination country – they do not.<sup>58</sup> (See Figure 10.)

**Figure 10. Tracking Trade Discrepancies: Value of Cigarettes Declared for Export from South Africa, vs. Cigarettes Declared for Import in Destination Countries**



Source: Own diagram; Data: [www.comtrade.un.org](http://www.comtrade.un.org)

In 2016, there were no reported imports of cigarettes into Lesotho or Swaziland/eSwatini. Yet South African records for the same year show 3,452,659 cigarette packs having been exported from South Africa to Lesotho. These goods are not reflected in any official

<sup>58</sup> See data at <https://comtrade.un.org/db/dqBasicQueryResults.aspx?px=HS&cc=240220&r=710&p=894&rg=2&y=2016,2015,2014,2013,2012&so=8>

accounts in Lesotho; 3,452,659 cigarette packs remain unaccounted for in the Swaziland/eSwatini system. Conversely, Namibia, reports 2,385,594 more cigarettes having been imported from South Africa than are recorded as exports on the South African side.

This makes Lesotho and Swaziland/eSwatini something of a black hole from a data perspective, which weakens insights into how the tobacco supply chain operates and limits the effectiveness of enforcement activities. These findings suggest significant issues with data capture and data quality – making it difficult for any agency to assess the extent to which cigarettes are unaccounted for.

Additional work is required to raise awareness of the importance of trade statistics as something that goes far beyond a purely administrative task. Done properly, it affords valuable insights into the nature and scope of illicit trade, allowing agencies to focus their efforts where risks are greatest.

## 1.5 Enforcement Activities and Practices

### RISK MANAGEMENT

An excise-specific risk engine was deployed by SARS in 2016/17 to improve the quality and impact of excise audits. Audits based on the new risk rules yielded a relatively low 56 percent hit rate / strike rate (in other words, the percentage of audits that result in a finding and additional assessment being issued)<sup>59</sup>. However, from a very quick review, it is unclear to what extent this is attributable to issues with the risk rules themselves, or to a skills issue, or indeed to what extent this presents an improvement over earlier excise audit success rates.

**Table 6. Innovative and Technological Enforcement Solutions in SACU Countries and Zambia**

INNOVATIVE AND TECHNOLOGICAL ENFORCEMENT SOLUTIONS ADOPTED		
	Botswana, Lesotho, Namibia, Swaziland, South Africa	Zambia
Tax stamps		Basic tax stamp only
Methods for applying tax stamps		
Digital numbering and coding technologies for unique item identification	No secure, serialised tax stamps used	No innovations or advancements
Readers as authentication tools		
Track and trace of supply chain	Weak tobacco supply chain management	
Enforcement and surveillance techniques		
Monitoring, business intelligence, dashboards		

<sup>59</sup> <http://www.sars.gov.za/AllDocs/SARSEntDoelib/AnnualReports/SARS-AR-22%20-%20Annual%20Report%202016-2017.pdf>

There is no evidence of similar risk management initiatives from the other SACU countries (Table 6). Controls are typically paper-based or heavily reliant on self-declared documents related to production volumes. Audit controls are typically weak, and teams are under-staffed. Given the labor-intensive nature of these controls (e.g., officers having to frequently enter excise facilities), far too much interaction is forced with industry stakeholders - in the customs/excise world, this too often results in integrity issues. Automated controls are far more targeted and do not pose the same risks.

**Table 7. Enforcement Approaches, Activities, and Gaps in SACU and Zambia to Date**

ENFORCEMENT APPROACH	RELATED ACTIVITIES
Licensing	All authorities require registration of excise producers and importers, but with no specific control over tobacco producers and importers. Additionally, each country processes licenses differently with varying degrees of entity-based risk management.
Product markings/ stamps	South African and Botswana have adopted the 'diamond stamp' – an impression die-stamp as their solution for marking cigarette packs. This is not an effective solution due to the lack of control of stamps in circulation, the ease of duplicating the stamp itself, and its efficacy as an enforcement tool due to the lack of ability to authenticate the mark as genuine. There is no evidence of any marking solutions for the other SACU countries. Zambia has implemented a rudimentary tobacco tax stamp, but reports note that around 22% of cigarettes on the market remain unmarked.
Track-and-trace	None of the reviewed countries currently have track and trace solutions, although Botswana made progress in developing a modernisation initiative and even published a tender for a track and trace solution for all excisable goods. However, this tender expired without being awarded. South Africa has made some overtures and has published a tender for transaction advisor, to advise on the feasibility of establishing a Public Private Partnership for a fiscal marking solution.
Enforcement	There is evidence of some co-ordinated enforcement effort at the SACU level, where joint Customs/Excise enforcement projects occur targeting tobacco and liquor (see "TopLiq" reference above). At the individual country level, SARS seems quite active in targeting illicit cigarettes being imported into the country, often seizing shipments of smuggled goods coming in from Zimbabwe.
Coordination among Agencies	There is limited evidence of co-ordination of relevant government agencies in targeting and enforcing cigarette control policies or anti-smuggling programmes. South Africa had a tobacco task team, but this seems to have been driven by the "Big" tobacco companies for their own gain and notably excluded SARS as a key government agency. The other countries displayed little or no co-ordination or risk-based approach to combating the production or importing of illicit cigarettes.
Penalties	Other than the imposition of specific excise duties for tobacco production and higher than normal import duties for cigarettes in SACU, there seems to be no other targeted penalties for tobacco products.
Public awareness	Public awareness about illicit trade is generally low across SACU, except for South Africa, where the Tobacco Institute of South Africa (TISA) – an industry body-regularly flights ad campagins and targeted media campaigns that highlight the impacts of illicit cigarette production. Although this has a positive effect on public awareness, it inflates the size of the illicit trade in the country; and creates the false impression that illicit trade is attributable only to smaller low-cost manufacturers.

## REGIONAL ENFORCEMENT INITIATIVES

The SACU secretariat has been responsible for driving initiatives to control illicit trade in the region (Table 7). One such effort was Operation TopLiq,<sup>60</sup> cited earlier, in which regional member authorities embarked on a joint customs enforcement operation targeting tobacco and liquor products, in 2014-15. The collaboration yielded 14 arrests and the seizure of nearly 10 million illicit cigarettes, avoiding a potential revenue loss of R72 million.

## LACK OF PRODUCTION CONTROLS, TAX STAMPS, OR SUPPLY CHAIN SECURITY

As noted, apart from Zambia, none of the SACU countries surveyed have implemented secure tax stamps or any other modern and secure fiscal marking regimes. None of the countries effectively controls the cigarette supply chain, beyond the licensing of tobacco manufacturers and periodic audits. All countries rely on the self-declaration of excise production and imports. The information technology solutions utilized in all countries lack robust controls for excisable goods. Lesotho's ASYCUDA customs information system, for example, is notoriously weak when it comes to excise declarations. Zambia does have a tax stamp program, but it is generally viewed as a basic system lacking robust features and controls. Reports suggest it has not been effective in combatting illicit trade.

As noted previously, South Africa and Botswana use a very rudimentary "diamond stamp" – a physical die impression stamp that is meant to be impressed on each pack of cigarettes produced. These stamps offer no modicum of control and provide no substantive insights into either the tax status or legitimacy of packs found on the market. The issuing of these stamps is largely manual and uncontrolled; there is no follow-up after the initial issuing to check the status of the stamps or how often have been used; the stamps themselves are easily reproducible; there is no production control or oversight of the stamps in the production environment; and there is no compliance control or monitoring of products that have been stamped. The use of the diamond stamp has thus led to a false sense of control of tobacco production.

SARS has affirmed its intention to address illicit tobacco trade through increased controls for many years,<sup>61</sup> but implementation has lagged (Figure 11). Despite the agency's announcing in 2012 that it would "improve authentication markings on cigarettes to enable identification of legal cigarettes," there have been no changes to the diamond stamp – which cannot be authenticated, as it contains no security features. (In contrast to its slow action on tobacco controls, SARS previously transformed its entire tax and customs systems platforms over a period of seven years, introducing a new operating model and new IT systems across all major tax and customs operations.) Considering that the vast majority of cigarettes consumed in the region are either manufactured in South Africa or are transited through South Africa, the lack of a means of determining the duty-paid status

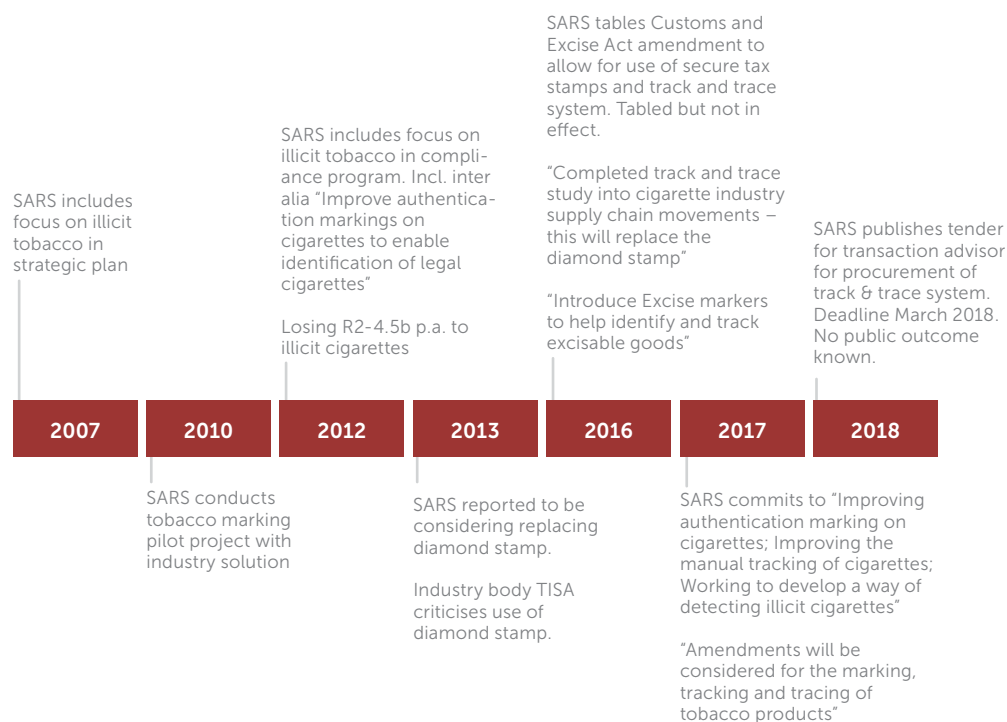
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<sup>60</sup> <http://www.sacu.int/docs/reports/2015/topliq.pdf>

<sup>61</sup> <https://www.biznews.com/budget/budget-2018/2018/02/21/full-malusi-gigaba-budget-speech/>



Figure 11. Timeline of SARS Efforts to Replace Obsolete Diamond Stamp



of tobacco products in South Africa has the potential to negatively impact the entire region. Draft legislation to enhance existing controls was tabled in Parliament in 2016 but is not yet in effect.<sup>62</sup> It is critical to introduce a secure fiscal marking and traceability solution in full compliance with the FCTC Protocol in the region's largest illicit tobacco market. This agenda should receive priority attention.

Zambia has tax stamps on cigarettes, but industry complaints have been noted alleging that packs not bearing tax stamps are openly sold in retail outlets, with no enforcement action being taken. A survey conducted by the International Tobacco Control Policy Evaluation Project supports this view. Survey respondents were asked to display their cigarette packets; of the 75 cigarette packs shown, 22 percent did not have tax stamps.<sup>63</sup>

### OTHER TECHNOLOGIES/ENFORCEMENT TOOLS

SARS continues to invest in other technologies, including non-intrusive detection solutions like cargo scanners. Nine additional scanners were deployed by the agency in 2016/17, and

<sup>62</sup> [http://www.sars.gov.za/Procurement/Pages/TenderDetails.aspx?tendernumber=30&year=2017&type=Request%20for%20Proposal%20\(RFP\)](http://www.sars.gov.za/Procurement/Pages/TenderDetails.aspx?tendernumber=30&year=2017&type=Request%20for%20Proposal%20(RFP))

<sup>63</sup> [http://www.itcproject.org/files/ITC\\_Zambia\\_Wave\\_2\\_National\\_Report-Dec7-FINAL.pdf](http://www.itcproject.org/files/ITC_Zambia_Wave_2_National_Report-Dec7-FINAL.pdf)

<sup>64</sup> <http://www.sars.gov.za/AllDocs/SARSEntDoclib/AnnualReports/SARS-AR-22%20-%20Annual%20Report%202016-2017.pdf>

procurement processes were initiated for the purchase of two additional cargo scanners.<sup>64</sup> This has increased the agency's cargo scanning capacity to 300 vehicles a day. Given the volume of trade, however, this is still woefully inadequate, as it represents less than 1 percent of the total containers entering South Africa. The international benchmark for minimum scanning is 3-5 percent.<sup>65</sup> (Moreover, even where illicit goods are found, prosecutions tend to focus on the transporters, and not on the manufacturers.)

Another successful enforcement tool has been the deployment of detector dog units, which were first introduced in South Africa and have shown significant results in detecting cigarettes hidden in shipments of other goods.

## 1.6 Effect of Enforcement on Illicit Trade

Very little information could readily be found relating to the various agencies' impact on illicit trade through enforcement activities (Table 8).

**Table 8. Results of Reforms to Address Illicit Trade, and How Impact Has Been Measured**

EFFECT AND RESULTS OF REFORMS TO ADDRESS ILLICIT TRADE IN TOBACCO			
	Botswana; Lesotho Namibia; Swaziland	South Africa	Zambia
Description of results	n.a.	<ul style="list-style-type: none"> <li>› Nr and value of seizures have reduced in recent years;</li> <li>› Prevalence of illicit trade has decreased (industry estimate):</li> <li>› 2012: 34% -&gt; 2018: 23%</li> </ul>	20% of packs on market not marked
How are results measured? (Metrics)	n.a.	<ul style="list-style-type: none"> <li>› Number of seizures</li> <li>› Number of sticks seized</li> <li>› Value of seizures</li> <li>› Number of prosecutions</li> <li>› Prevalence of illicit trade over time</li> </ul>	n.a.

SARS has had some measurable impact on the illicit cigarette trade: in 2016/17, it seized 17.5 million sticks; conducted 36 investigative audits with an 83 percent success rate; conducted 57 cigarette manufacturing audits with a 51 percent success rate; and conducted 2,156 general excise audits (43 percent of which relate to diesel refunds<sup>66</sup>). Manufacturing audits tend to focus simply on production measures and are aimed at establishing a potential tax liability. By contrast, an investigative audit is used where criminality is suspected. Such audits apply a structured investigative approach by criminal investigators who focus on uncovering fraud or other serious offenses. These investigators are experts at preparing cases for prosecution.

<sup>65</sup> <https://pdfs.semanticscholar.org/868f/4a2166bcba3469712b2f2bc0d17e9fc5424a.pdf>

<sup>66</sup> <http://www.sars.gov.za/AllDocs/SARSEntDoctlib/AnnualReports/SARS-AR-22%20-%20Annual%20Report%202016-2017.pdf>

A number of factors appear to have reduced the efficiency of SARS enforcement actions, including a loss of experienced personnel and the effective shuttering of specialist investigations units. As a result, in recent years, SARS has seen a decrease in both the number of sticks seized and the value of the seizures.

A secure fiscal mark would give agencies the capability to determine whether a pack is genuine or not; where the product originated; and how it potentially entered the illicit market. (Currently, the agencies are reliant on the industry to assess whether packs found on the market are counterfeit.) Moreover, in the case of South Africa, an industry representative body - and not SARS itself - carries out the destruction of illicit goods. There are no recorded instances of the destruction of manufacturing equipment.

### 1.7 Specific Policies or Reforms Enacted

Although a number of stand-alone reforms have been enacted, there does not seem to be a concerted whole-of-government approach to an anti-tobacco campaign, or to combatting illicit trade (Table 9).

The reviewed countries have introduced some policies and initiatives that have had an impact on illicit trade (Table 10).

**Table 9. Key Policy Reforms and Gaps Across the Study Countries**

POLICY REFORMS						
	BOTSWANA	LESOTHO	NAMIBIA	SWAZILAND	SOUTH AFRICA	ZAMBIA
Point of tax collection	Duty at source; payment due at time of declaration				Duty at source; duty deferments granted	Duty at source
Exemption for travelers	200 cigarettes 20 cigars 250g pipe tob	400 cigarettes 50 cigars 250g pipe tob	200 cigarettes 20 cigars 250g pipe tob	200 cigarettes 20 cigars 250g pipe tob	400 cigarettes 500g cigar 500g pipe tob	200 cigarettes 20 cigars 250g pipe tob
Restrictions on out-of-network sales (internet, duty-free sales)	None					
Use of prominent tax stamps, serial numbers	No secure, serialised tax stamps					Basic tax stamp
Other package markings (e.g. health warnings)	Small or no warnings	Small or no warnings	Large warnings	Medium warnings	Small or no warnings	Small or no warnings

**Table 10. Major Policy Reforms and Their Impacts on Illicit Trade**

<b>WHAT HAS BEEN DONE TO ADDRESS ILLICIT TRADE?</b>				
	<b>LESOTHO, NAMIBIA, SWAZILAND</b>	<b>BOTSWANA</b>	<b>SOUTH AFRICA</b>	<b>ZAMBIA</b>
Major reforms over last 5 years	n.a.	<ul style="list-style-type: none"> <li>› Plans to introduce marking and traceability – no substantive progress;</li> <li>› Exploring use of canine units</li> </ul>	<ul style="list-style-type: none"> <li>› Plans to introduce marking and traceability – no substantive progress;</li> <li>› Use of canine units;</li> <li>› Increase in vehicle scanners;</li> <li>› Comprehensive industry compliance investigation – initial inroads with 61 criminal cases prepared; investigations units disbanded before cases could go to court (attributed to political and industry interference)</li> </ul>	Introduction of basic tax stamp
Impact	n.a.	› n.a.	› n.a.	22% of packs on market not marked

**CONTRIBUTORS TO SARS’ SUCCESSES INCLUDED:**

- » Establishing strong multi-disciplinary project teams that combined expertise across a range of topics, including excise, VAT, corporate income tax, criminal investigations, auditing, intelligence and legal;
- » Ensuring that the illicit trade in cigarettes was aligned across the organization’s multi-year compliance program, to its business planning and operational measures;
- » Comprehensive qualitative and quantitative research into the industry and players, focusing on understanding the supply chains, the business practices, and the loopholes and gaps that were allowing illicit trade to flourish;
- » A strong business intelligence capacity that allowed SARS to conduct relationship analysis and develop comprehensive profiles of the subjects of their investigations, with access to multiple third-party data sources and inputs from intelligence sources;
- » The use of special investigative techniques, including controlled deliveries, access to undercover agents affiliated with the country’s intelligence structures, and access to the surveillance capabilities of other law enforcement agencies;
- » Multi-tax investigations that included the following approaches: focusing on the subjects from a holistic perspective – thus, covering their excise duty, customs duty, VAT, corporate income tax, and other related obligations; expanding investigations to include, for example, money laundering and fraud perspectives; and relying heavily on cross-tax comparative analyses to highlight anomalies;
- » Robust project planning with clear phasing of appropriate actions, and with responsibilities clearly mapped – both to ensure alignment and reduce opportunities for divergence;

- » The use of a range of tools within the tax administration legislative framework, including for example the use of estimated assessments and agreed assessments (where appropriate);
- » Addressing instances of corruption through the use of income tax-based indirect lifestyle audits – allowing for the identification of unexplained income sources as an indirect way of targeting corruption, and paving the way for the removal of corrupt officials;
- » Not just targeting consignments, but targeting economic operators; and
- » The use of customs-specific tools like container scanners, x-ray scanners, detector dogs, and mobile anti-smuggling teams.

Of note, in recent years SARS has unfortunately seen a dramatic loss of experienced personnel and the effective shuttering of specialist investigations units. This has resulted in the organization's delaying a series of tobacco industry prosecutions and tax assessments that it had been ready to pursue as far back as 2014.

### CONTRIBUTORS TO ZAMBIA'S SUCCESS INCLUDED:

A strategic focus on excise management; the introduction of a professionally staffed national excise audit section; investing in the recruitment of professionally qualified auditors to spearhead its national excise audits and inspections; a comprehensive anti-corruption strategy; stronger oversight of excise producers; the development of a comprehensive excise audit guide; and a strategic focus on securing voluntary compliance.

## 1.8 Tobacco Industry Role in Illicit Trade

The tobacco industry in Southern Africa has been noted to have a history of non-compliance. Initially, this was limited to allegations of smuggling, but more recently some of the bigger industry players are facing serious charges of money laundering, industrial espionage, and abusing access to political structures to influence the outcomes of investigations related to their potential frauds. From a big-tobacco perspective, the experience in Southern Africa offers an interesting case study. The UK's Serious Fraud Office and the EU Anti-Corruption Unit<sup>67</sup> are both known to be investigating serious allegations of corruption, bribery, corporate espionage, and money laundering against BAT(SA) and BAT Plc.<sup>68</sup>

Extensive media reporting<sup>69</sup> suggests how BAT set in motion a concerted and formalized effort to disrupt the activities of smaller competitors. This included securing long-term access to metro police cameras facing competitor's premises; paying police officers to detain competitors' consignments just long enough to make them go moldy; paying a tax auditor to audit competitors on a monthly basis, and to pass production and related

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<sup>67</sup> <https://select.timeslive.co.za/news/2018-02-19-exclusive-british-american-tobacco-used-state-agency-to-spy-on-competitors/>

<sup>68</sup> Confirmed by multiple industry sources. See e.g. also <https://www.pressreader.com/south-africa/sunday-times/20140330/282299613130796/TextView>

<sup>69</sup> See e.g. the Twitter account @espionageafrica that posted excerpts, copies and details of project plans, payments made, surveillance photos, etc.

information on to BAT; paying an attorney and chair of the smaller local industry body to both spy on her clients and to secure the removal of the SARS executive heading investigations into criminality in the industry. In order to facilitate undetectable payments to their extensive team of agents, BAT resorted to what the European Anti-Fraud Office (OLAF) has termed "Al Qaeda-style" money-laundering tactics.<sup>70</sup>

## 2. Recommendations

As set out in the preceding sections, for the most part, agencies across the region have had little impact on illicit trade, largely due to the following:

- » Lack of focus, priority, and resources allocated to tobacco regulation and to excise goods in general;
- » Failure to adequately secure tobacco supply chains at key points (e.g., production, shipment, retail environment);
- » Weak or non-existent controls related to production (e.g., tax stamps/fiscal marks)
- » Poor institutional capability in relation to excise controls;
- » Rudimentary risk management systems for targeting suspicious consignments;
- » Insufficient non-intrusive inspection assets (scanners, dog units, etc.); and
- » Considerable human-capacity gaps across the excise compliance and enforcement value chain.

The various countries across the region largely suffer from similar maladies, and a number of recommendations can be applied to the region as a whole. Excise in the region, and by implication the ability to combat illicit trade in tobacco, has been neglected in terms of transformation and modernization. South Africa has made some strides in advancing their excise capability, but these are mostly limited to automation (introducing automated processes for previously manual ones), rather than modernization and transformation (a systematic approach to improving human capacity, processes, and systems).

Experience has shown that in order for real and beneficial change to occur in combating illicit trade, governments should embark on a holistic health, economic, and enforcement program. Customs, revenue, and excise agencies should lead the vanguard of this approach in their oversight role of managing tobacco production, border entry, and movement control.

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<sup>70</sup> See e.g. Rogue: The Inside Story, Johann van Loggerenberg, <https://www.amazon.com/Rogue-Inside-Story-Sarss-Crime-Busting/dp/1868427404>; The President's Keepers, Jacques Pauw, [https://www.amazon.com/Presidents-Keepers-Those-keeping-prison-ebook/dp/B076YBL1WS/ref=sr\\_1\\_1?s=books&ie=UTF8&qid=1524214766&sr=1-1&keywords=presidents+keepers](https://www.amazon.com/Presidents-Keepers-Those-keeping-prison-ebook/dp/B076YBL1WS/ref=sr_1_1?s=books&ie=UTF8&qid=1524214766&sr=1-1&keywords=presidents+keepers); <http://www.timeslive.co.za/local/2014/03/30/bat-s-smoke-and-mirrors-war-on-rivals1>; <http://www.fin24.com/Economy/Sars-smokes-out-big-tobacco-20150516>; <http://www.full-disclosure.co.za/wp-content/uploads/2013/08/bat-sucked-in-alleged-industrial-espionage.pdf>; <http://www.politicsweb.co.za/news-and-analysis/sars-this-is-the-inside-story--adrian-lackay>; <https://www.pressreader.com/south-africa/sunday-times/20140330/282299613130796/TextView>

Figure 12. Roadmap of Recommendations to Combat Illicit Trade



Source: © Sovereign Border Solutions

## 2.1 Internal Efficiencies and Reform

### CONDUCT AN ENVIRONMENTAL SCAN/DIAGNOSTIC

Following an understanding of the size and nature of illicit trade, a critical requirement for agencies to be able to address and combat illicit trade is understanding and appreciating their internal and external operational capacity and capabilities. Agencies need to be able to better understand their own internal strengths and weakness; review their processes, financial resources, skills, capabilities, and systems; and establish a data-centric fact base from which to guide their efforts. Major gaps should be identified, and remediation efforts should be implemented in alignment with the overall findings. A comprehensive environmental scan/diagnostic will provide a basis from which to design a responsive and appropriate program aimed at combating illicit trade.

### STRONGER FOCUS ON DATA ANALYSIS

This review highlighted various gaps in terms of both the scope and quality of data, and the limited use of data and analytics to drive policy development and operational responses.

Additional work is required to raise awareness of the importance of sources like trade statistics as something that goes far beyond a purely administrative task. Done properly, it affords valuable insights into the nature and scope of illicit trade, allowing agencies to focus their efforts where risks are greatest. Data sharing and analysis of the disparities between reported import and export volumes among the different countries would be good first steps.

More comparative analysis across different tax types -- e.g., comparing declarations made from an excise, VAT, corporate income tax, and payroll tax perspective, along with stronger analysis of trade disparity gaps with neighboring countries -- would also likely provide valuable insights into potential tax losses and anomalies. This would create a basis for more targeted anti-illicit trade enforcement and policy measures.

### **CAPACITY BUILDING**

Across the reviewed countries there is a dearth of resources with the relevant level of skill and experience to deal with rising illicit trade in the region. This places governments in potentially compromising situations and undermines the requirements of the FCTC Protocol. It is recommended that agencies embark on capacity building exercises, emphasizing a focus on the latest innovative solutions for combating illicit trade in tobacco. This should be coupled with training programs for staff, and could include training on basic data analytics, entity-based risk management, illicit financial flows, audit methodologies, and related topics. Agencies also generally lack the human resources required to effectively control tobacco supply chains. The primary focus should be on increasing the number of auditors and field inspectors, equipped with the right tools, to conduct more interventions. Eliminating the current largely manual, paper-based processes could be a source of additional human capacity without having to necessarily hire additional staff.

### **FCTC COMPLIANCE**

None of the reviewed countries comply with the obligations that would be imposed once the FCTC Protocol comes into force, insofar as securing the tobacco supply chain is concerned. It is recommended that the necessary legislative requirements be enacted, and the relevant operational solutions be implemented to secure compliance with Part III, Supply Chain Control, in particular. The respective agencies would benefit from establishing an FCTC Protocol compliance working group to create a roadmap and track progress related to implementation of relevant Protocol provisions.



Figure 13. Technique for Estimating the Size of a Country's Illicit Cigarette Trade

SIMPLE ESTIMATE OF # ILLICIT STICKS IN A COUNTRY			
1. Calculate total cigarette consumption		2. Calculate number of cigarettes on the market legally	
Population	1,000		
% of population that smokes	20% = 200,000 smokers		
Each smoker smokes # cigarettes per day -> #x365	<10 a day -> 3,000 a year		
Total cigarettes smoked in the country = # of smokers x # of cigarettes smoked per year per person	200,000 smokers x 3,000 cigarettes = 600 million cigarettes smoked in the country a year	Legal cigarette market (based on declared volumes from licensed manufacturers & importers – cigarettes exported)	400 million cigarettes manufactured locally + 200 million cigarettes imported legally – 100 million cigarettes exported legally =
= 600 million cigarettes smoked in the country		= 500 million legal cigarettes in the country	
Illicit cigarettes = 600 million smoked - 500 million in the country legally = 100 million illicit sticks = <b>17% of the market</b>			

Table 11. Options to Improve Results in Tackling Tobacco Supply and Demand

WHAT CAN BE DONE TO IMPROVE RESULTS – SUPPLY AND DEMAND	
SACU + ZAMBIA	
Demand reduction	<ul style="list-style-type: none"> <li>&gt; Increase tax rates to WHO recommend 75%</li> <li>&gt; Shift from ad valorem to specific excise tax</li> <li>&gt; Eliminate or reduce duty free allowances</li> <li>&gt; Review duty free allowances</li> <li>&gt; Impose direct and indirect advertising bans</li> <li>&gt; Introduce plain packaging regulations</li> <li>&gt; Adopt and enforce bans on smoking in public places</li> </ul>
Production sources	<ul style="list-style-type: none"> <li>&gt; Impose use of secure, serialised tax stamps with traceability back to manufacturers</li> <li>&gt; Impose know-your-customer obligations on manufacturer</li> <li>&gt; Impose commensurate demand calculation obligations</li> <li>&gt; Impose licensing obligations for purchase, sale and importation of tobacco manufacturing equipment</li> </ul>
Methods of transportation	<ul style="list-style-type: none"> <li>&gt; Impose licensing and reporting obligations on transporters</li> </ul>
Points of sale	<ul style="list-style-type: none"> <li>&gt; Impose legal liabilities for sale of illicit cigarettes</li> <li>&gt; Ban sale of single stick cigarettes</li> <li>&gt; Implement direct and indirect advertising bans</li> </ul>
Regional coordination and collaboration	<ul style="list-style-type: none"> <li>&gt; Increase regional focus on Zimbabwe as a source country of illicit cigarettes</li> <li>&gt; Regional illicit cigarettes enforcement campaign</li> <li>&gt; Increase data analysis of trade gap data</li> </ul>

## 2.2 Managing Supply and Demand

### UNDERSTAND THE PROBLEM - SIZE AND MARKET SHARE OF ILLICIT TRADE

Aside from industry estimates – which have been criticized in a number of studies for inflating the size of illicit trade - very little objective analysis is available in respect of the size and share of illicit trade as a percentage of total consumption across the region. This makes it difficult to develop coherent policy positions, or to effectively track the impact that enforcement and policy initiatives are having on illicit trade over time. Regional agencies would benefit from engaging with academic institutions or qualified non-industry aligned NGOs for assistance both with objectively assessing the extent to which illicit cigarettes are found on the local market, and with developing a framework against which to assess the impact of efforts aimed at curbing illicit trade.

The University of Cape Town's Economics of Tobacco Control Project has developed a guide to understanding and measuring cigarette tax avoidance, which constitutes an important resource for the countries surveyed to better understand the size of illicit trade in their respective jurisdictions.<sup>71</sup> (At its very simplest, this could be a calculation along the lines of figure 13.<sup>72</sup>)

### STEP UP EFFORTS TO REDUCE DEMAND

A number of opportunities are readily available to all of the countries reviewed to significantly reduce the demand for tobacco products, by adopting the various WHO demand-reduction measures around smoke-free policies; cessation support; large health warnings on packs; introducing plain packaging regulations; mass media campaigns on the health risks associated with smoking; direct and indirect advertising bans; review of duty free allowances for travelers; shifting from ad valorem to specific excise taxes; and a dramatic increase in the tax rates on tobacco products to assure that in each year prices rise as fast as per capita income in current prices (proven to be one of the most significant factors in reducing smoking prevalence) (Table 11).

## 2.3 Enhanced Enforcement Strategies, Tools, and Capability

### IMPROVE RISK MANAGEMENT CAPABILITIES AND TOOLS

Risk management lies at the core of any compliance/enforcement program for combatting illicit trade. It provides the capabilities to:

- » Profile risk by understanding how and where illicit trade in tobacco can manifest;

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<sup>71</sup> [http://www.tobaccoecon.uct.ac.za/sites/default/files/image\\_tool/images/405/Publications/reports/Understanding-and-measuring-tax-avoidance-and-evasion-A-methodological-guide1.pdf](http://www.tobaccoecon.uct.ac.za/sites/default/files/image_tool/images/405/Publications/reports/Understanding-and-measuring-tax-avoidance-and-evasion-A-methodological-guide1.pdf)

<sup>72</sup> [http://www.tobaccoecon.uct.ac.za/sites/default/files/image\\_tool/images/405/Training/Emerging\\_Researcher\\_Programme\\_2015/Illicit-Trade-Africa.pdf](http://www.tobaccoecon.uct.ac.za/sites/default/files/image_tool/images/405/Training/Emerging_Researcher_Programme_2015/Illicit-Trade-Africa.pdf)

- » Assess the pertinent data related to supply chain actors and their transactions to understand both the likelihood and consequences of illicit trade risks;
- » Act by implementing countermeasures and controls; and,
- » Adapt to the ever-changing nature of illicit trade.

A concentrated focus by agencies in the region should encompass a holistic review of their risk management capabilities, which should include a review of excise audit strike rates / hit rates, a review of the effectiveness of excise-specific risk rules, development of illicit tobacco profiles based on previous investigations and increased data sharing with other agencies internally and within the region. These measures would enable governments to better manage compliance and more appropriately target their interventions. Considering the limited capacity of most agencies, automating their risk management capability should include direct inputs from internal and third-party data sources, to drive their inspection, audit, and enforcement activities.

Of course, appropriate case selection is only effective insofar as it is supported by specialist criminal investigations units and audit experts who specialize in complex excise audits, and by political support for prosecution of offenders.

### INTRODUCE SECURE FISCAL MARKS AND TRACEABILITY

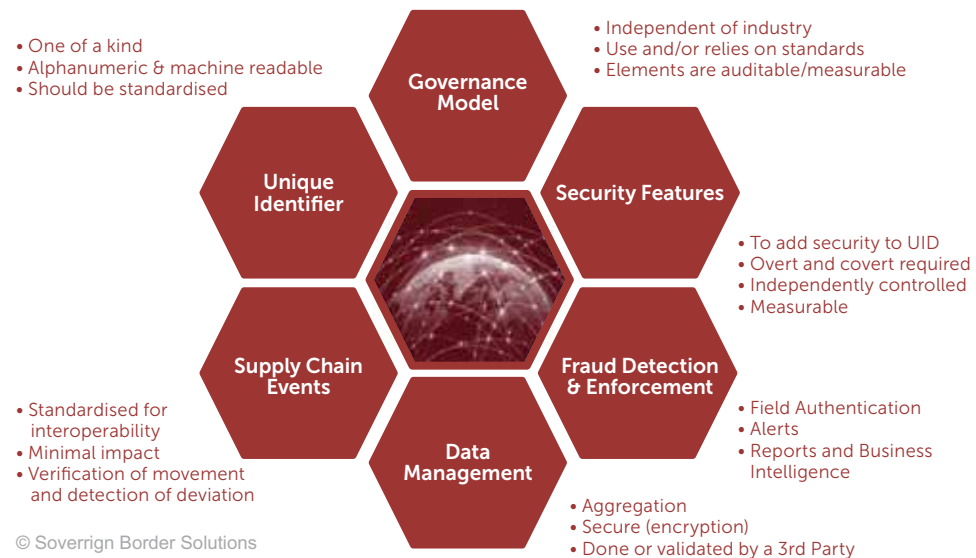
Several of the agencies in the region consider the current diamond stamp as a control mechanism, when in fact it offers little more than a false sense of security. Perhaps the most impactful investment governments in the region can make lies in adopting secure fiscal marks on tobacco products, which would allow administrations to monitor production volumes; track excisable goods through the supply chain; provide the means to authenticate that products are genuine and that all duties and taxes have been paid; and trace goods that are found on the market back to a specific manufacturer. Without these controls, administrations have no means of distinguishing the illicit from the licit.

There are a number of approaches to implementing a secure fiscal marking and track-and-trace program, but there isn't a one-size-fits-all solution – making it all the more important for agencies to conduct an upfront assessment, in order to gauge their real needs and capacities. To this end, the following overview of the solution components required for an effective, FCTC compliant solution is suggested (Figure 14).

A fiscal marking and track-and-trace solution will not solve all issues related to illicit trade in tobacco. It will, however, go a long way to authenticating legitimate trade, thereby enabling identification and enforcement of illicit trade.

This should be augmented with stronger production controls: imposing know-your-customer obligations on manufacturers; imposing commensurate demand calculation obligations on manufacturers; and imposing licensing obligations for the purchase, sale, and importation of tobacco manufacturing equipment. Part III of the Protocol provides specific guidance in these respects.

**Figure 14. Tobacco Track-And-Trace Solution Components**



## IMPROVE AUDIT CONTROLS

Most of the reviewed countries do not appear to have a dedicated, sophisticated tobacco audit capability. Most agencies consider a post-declaration inspection an audit, basically inspecting documentation presented by the declarant, and validating it against self-generated information from the same entity. In most cases, the actual goods are no longer present, as they have moved on in the supply chain, making physical verification impossible. There is normally no independent or third-party validation available for production or movement control, rendering this type of control ineffective in the case of even moderately sophisticated frauds. Further, agencies should have well defined audit procedures, audit manuals, case management reporting systems, and adequate staffing to enable robust audits of producers and importers.

## NON-INTRUSIVE ENFORCEMENT CONTROLS

As tobacco products are relatively homogenous in terms of dimensions and weight, cargo and baggage scanners are a viable means of detecting smuggled or mis-declared illicit tobacco products. Detector dog units are also very effective at detecting mis-declared tobacco products at borders and other control points. Coupled with a robust risk management and targeting solution, these assets can serve as an efficient and effective means of targeting illicit tobacco flows. Non-intrusive inspection provides a means of matching paper declarations to the actual goods without having to unpack containers. This is considered a trader friendly means of inspecting goods, as it is less time-consuming and cheaper than traditional inspections that require labor-intensive physical unpacking of containers.

## 2.4 Regional Coordination and Industry Engagement

### RELATIONSHIP WITH INDUSTRY

Agencies in the region should be mindful of the FCTC recommendations relating to engagement with the tobacco industry – engagement is not prohibited but should be limited to what is strictly necessary and with absolute transparency, and with none of the agencies' functions being delegated to the industry.<sup>73</sup>

### REGIONAL COORDINATION

With the porous borders, and the close reliance across SACU on shared revenues, the member countries' respective successes are very much tied to their neighbors' successes, making the development of a regional strategy, and the enhancement of regional capabilities and dramatically improved collaboration, critical components of the response plan to better curb illicit trade. Part of a concerted regional focus should include the development of strategies aimed at clamping down on production and smuggling of illicit cigarettes from Zimbabwe, which is consistently noted as a key source country for illicit cigarettes across the region. The illicit trade in tobacco should be made a focus area for the Regional Risk Management Working Group.

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<sup>73</sup> "Competent authorities should interact with the tobacco industry and those representing the interests of the tobacco industry only to the extent strictly necessary" - WHO FCTC Article 5.3; FCTC PROTOCOL 8(13)

## COVER QUOTE SOURCES

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<sup>i</sup> WHO Framework Convention on Tobacco Control Press Release, June 28, 2018.  
<https://www.who.int/fctc/mediacentre/press-release/protocol-entering-into-force/en/>

<sup>ii</sup> World Health Organization Press Release, July 19, 2017.  
<https://www.who.int/en/news-room/detail/19-07-2017-who-report-finds-dramatic-increase-in-life-saving-tobacco-control-policies-in-last-decade>

<sup>iii</sup> Combatting illicit trade in tobacco products: Commissioner Andriukaitis' Statement on the EU's adoption of an EU-wide track and trace system. European Commission Press Release, December 15, 2017.  
[http://europa.eu/rapid/press-release\\_STATEMENT-17-5269\\_en.htm](http://europa.eu/rapid/press-release_STATEMENT-17-5269_en.htm)

<sup>iv</sup> How to design and enforce tobacco excises? International Monetary Fund, October 2016  
<https://www.imf.org/en/Publications/Fiscal-Affairs-Department-How-To-Notes/Issues/2016/12/31/How-to-Design-and-Enforce-Tobacco-Excises-44352>

<sup>v</sup> World Bank Group: "Global Tobacco Control: A Development Priority for the World Bank Group", Preface of WHO Global Tobacco Report 2015.  
[http://www.who.int/tobacco/global\\_report/2015/timevansandworldbankforeword.pdf?ua=1](http://www.who.int/tobacco/global_report/2015/timevansandworldbankforeword.pdf?ua=1)

“To tackle illicit trade is to tackle accessibility and affordability of tobacco products, to be more effective on the control of the packaging and to reduce funding of transnational criminal activities whilst protecting the governmental revenues from tobacco taxation.”<sup>i</sup>

– **Dr. Vera Luiza da Costa e Silva**  
Head of the Secretariat of the WHO Framework Convention on Tobacco Control

“Governments around the world must waste no time in incorporating all the provisions of the WHO Framework Convention on Tobacco Control into their national tobacco control programmes and policies. They must also clamp down on the illicit tobacco trade, which is exacerbating the global tobacco epidemic and its related health and socio-economic consequences.”<sup>ii</sup>

– **Dr. Tedros Adhanom Ghebreyesus, Director-General**  
World Health Organization

“Tobacco still remains the biggest avoidable cause of premature death in the EU, and the illicit trade in tobacco facilitates access to cigarettes and other tobacco products, including for children and young adults. In addition, millions of euros in tax revenues are lost every year as a result of the illicit trade.”<sup>iii</sup>

– **Commissioner Vytenis Andriukaitis**  
Health and Food Safety / European Commission

“Given their light weight, small size, and high value, tobacco products are susceptible to fraud through illegal trade, production, and cultivation. . . . Illegal trade is a context-specific activity that has various modus operandi and therefore requires multi-dimensional context-specific solutions.”<sup>vi</sup>

– **Patrick Petit (Senior Economist) & Janos Nagy (Senior Economist)**  
Fiscal Affairs Department / International Monetary Fund

“Effective tobacco tax regimens that make tobacco products unaffordable represent a 21st century intervention to tackle the growing burden of noncommunicable diseases. We are convinced that, working together with WHO and other partners in support of countries, we will be able to prevent the human tragedy of tobacco-related illness and death, and save countless lives each year.”<sup>v</sup>

–**Dr. Tim Evans (Senior Director) & Patricio V Márquez (Lead Public Health Specialist)**  
Health, Nutrition and Population Global Practice / World Bank Group

