

CSEA POLICY BRIEF

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CENTRE FOR THE STUDY OF
THE ECONOMIES OF AFRICA



Research Project

A Scoping Study of Nigeria's Tobacco Market



Prospects for Earmarking Revenue from Tobacco Taxes Products

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INTRODUCTION

Based on the results of CSEA's Tobacco Tax Simulation Model (TETSIM), the government stands to gain about N67.7 billion additional revenue from the new tobacco taxation policy, within a one-year period. There are two alternative ways to channel the resources; either by earmarking¹ them for targeted projects, or adding them to general revenue pool.

This policy brief makes a case for earmarking the additional revenue for tobacco control and related-health cost in Nigeria. We use both qualitative and quantitative survey data to understand public perception on tobacco taxation and earmarking; to make recommendation on earmarking the additional revenue for tobacco control and related public health cost; and to estimate the overall impact of earmarking tobacco tax revenues on public health and government in Nigeria.

METHODOLOGY

Data consists of primary and secondary data in both qualitative and quantitative forms. The survey sample consisted of 832 individuals, living in urban, semi-urban and rural areas across 12 states in the 6 geographical regions. Participants consists: current cigarette 409 smokers, 423 non-smokers that are urban (40.65%), semi-urban (30.16%), and rural (29.19%) dwellers. In the sample, income status is defined using a 3-point scale (high, middle and low)¹, 67.04% of the sample are low income earners, middle income earners represent 12.67%, while 10.29% are high income earners.

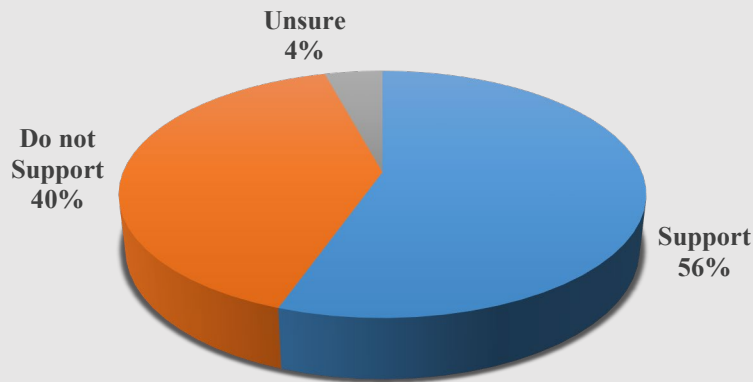
To gauge public support and recommendation for earmarking, respondents were asked the questions: "Would you support an increase in taxes on tobacco products?" to which respondents could answer either: yes, no or unsure. Support for earmarking revenue from tobacco product was assessed with two questions: (i) Respondents who support an increase in taxes on tobacco products where further asked "What will you recommend that the government should do with the revenue from tobacco tax?" to which respondents could answer either: add to total government revenue or earmark (spend on) for specific projects. (ii) Respondents who answered "No" or "Unsure" were further asked "Would you support an increase of cigarette tax if the revenue were used for a specific project or program?" to which respondents could answer either: yes or no.

RESULTS

Almost 1 in 2 respondents supported an increase in the tobacco taxation

From the sample, almost 1 in 2 respondents (55.41%, n= 461) supported an increase in the tobacco taxation (Figure 4.1). 70% of non-smokers in contrast to only 40% of current smokers support tobacco taxation. Income level was also strongly associated with support for an increase in tobacco taxation. Particularly, 47% of unemployed, 55% of low and middle income earners, and 69% of high income earners support an increase in tobacco taxation

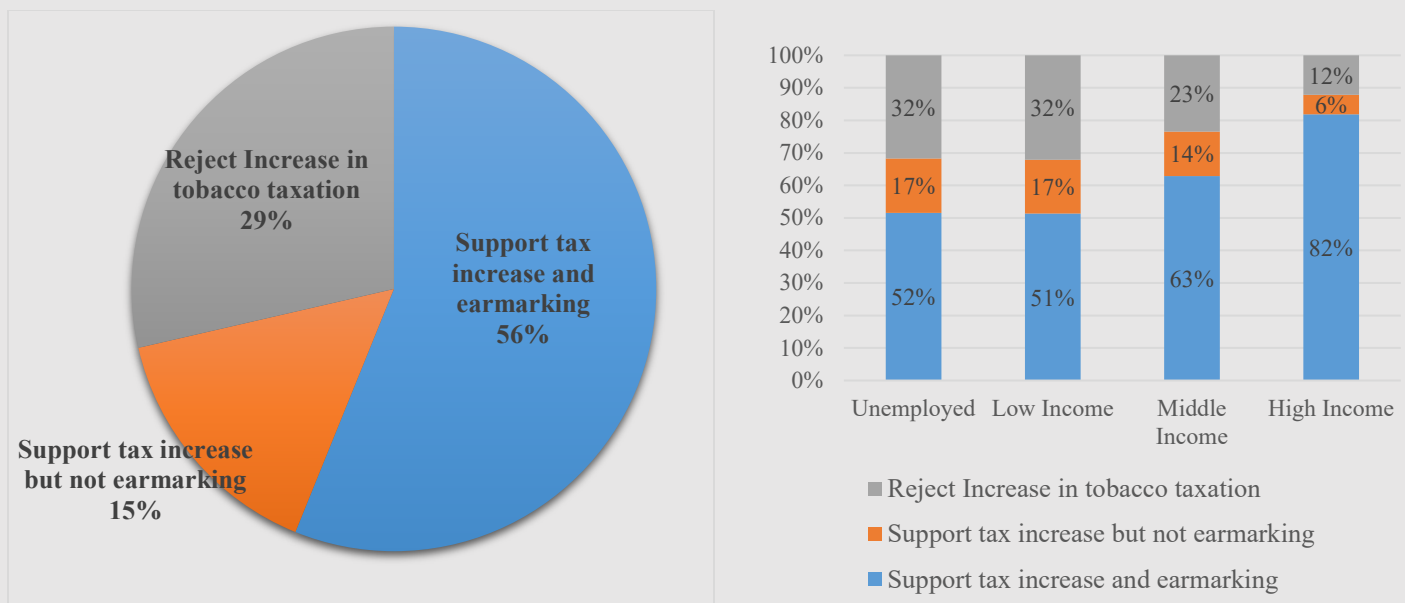
Figure 1: Public Support for Taxation



More than half (56%) of respondents support an increase in the tobacco taxation with earmarking

Based on a survey of the Nigerian public, 56% of respondents support tobacco tax increase and revenue earmarking, 15% support tobacco tax increase but not revenue earmarking, and 29% reject the increase in tobacco taxation (Figure 2). The level of income was also strongly associated with support for increase in tobacco taxation and earmarking. High income earners show the highest level (82%) of support for tobacco taxation and earmarking of tobacco revenue, this is followed by middle income (63%), low income and the unemployed (51% each). The unemployed (32%) and low income earners (33%) constitute the highest proportion of income group that reject both an increase in tobacco taxation and earmarking.

Figure 2: Public Support for Taxation and Earmarking of Tobacco Tax Revenue



Investment in illicit trade controls yield more pronounced public health and fiscal benefit

To understand the impact of changes in illicit trade on tobacco (particularly, cigarette) consumption in Nigeria, the sensitivity of changes in illicit trade market share is incorporated into, and tested through, the TETSIM. The methodology for the TETSIM has already been developed in the one of CSEA related policy briefs and in the full report.

Results show find that earmarking revenues for tobacco control (particularly in terms of border control, regulation enforcement, and supporting smoking cessation) can lead to a reduction in illicit trade market share and tobacco consumption. The largest decline in cigarette consumption after a reduction in illicit trade market share was policy interventions 2 (PI.2), which suggests a N129 cigarette excise tax in line with Nigerian public opinion, as well as policy intervention 4 (PI.4) which suggests a N139 cigarette excise tax in line with WHO recommendation (*Table 1*).

Table 1: Results of the Sensitivity Analysis – Cigarette Consumption (in million NGN)

| Policy Interventions (before and after illicit trade reduction) | Baseline (₦ million) | Year 1 (₦ million) | Year 2 (₦ million) | Year 3 (₦ million) |
|--|-------------------------|-----------------------|-----------------------|-----------------------|
| Old PI.1: Policy intervention 1 before illicit trade adjustment | 920 | 891 | 867 | 847 |
| New PI.1: Policy intervention 1 after illicit trade adjustment | 920 | 887 | 860 | 838 |
| Percentage change (between new and old PI.1) | | -0.4% | -0.8% | -1.1% |
| Old PI.2: Policy intervention 2 before illicit trade adjustment | 920 | 807 | 800 | 793 |
| New PI.2: Policy intervention 2 after illicit trade adjustment | 920 | 793 | 785 | 777 |
| Percentage change (between new and old PI.2) | | -1.7% | -1.9% | -2.0% |
| Old PI.3: Policy intervention 3 before illicit trade adjustment | 920 | 830 | 823 | 816 |
| New PI.3: Policy intervention 3 after illicit trade adjustment | 920 | 818 | 811 | 803 |
| Percentage change (between new and old PI.3) | | -1.4% | -1.5% | -1.6% |
| Old PI.4: Policy intervention 4 before illicit trade adjustment | 920 | 799 | 796 | 793 |
| New PI.4: Policy intervention 4 after illicit trade adjustment | 920 | 784 | 781 | 778 |
| Percentage change (between new and old PI.4) | | 1.9% | 1.9% | 1.9% |

Asides improvement in public health (through reduction in cigarette consumption), government excise tax revenue also improves after illicit trade adjustments relative to before illicit trade adjustment. Excise tax revenue is projected to further increase by 8.1% in PI.1 year 1, by 10.1% in PI.2 year 1, and by 10.2% in PI.4 year 1 after a 5-percentage point decline in illicit trade market. Results are available in the full report.

The overall implication of the result is that targeted spending aimed at reducing illicit trade is vital for effective tobacco taxation. Border controls are the first line of action in reducing illicit trade market share. Quality human resources (improving the ability of relevant officials to identify and penalize offenders), up-to-date technologies, organized modus operandi, as well as cooperation with other agencies at border and inland stations are important for effective illicit trade control

Public support for earmarking ranking: general public health costs (1st and 2nd priority), tobacco-related disease (as 3rd priority), and social programs (4th priority)

The survey findings also show that about 80% of respondents who support tobacco tax increase and revenue earmarking recommend earmarking tobacco tax revenues for general public health costs (as 1st and 2nd priority), tobacco-related disease (as 3rd priority), and social programs (4th priority) among others.

Majority of experts interviewed at relevant NGOs and multilateral organizations also support tax increase and revenue earmarking especially for tobacco control costs, while a majority of key government officials support tobacco tax increase but prefer that revenue is added to national revenue pool, with the exception of the Ministry of Health. With respect to the proportion of tobacco taxes to be earmarked to targeted priorities of the national government, between 25% - 50% of new tobacco taxes revenues are proposed for earmarking by the cross section of experts interviewed

Nonetheless, based on country studies and best practices, six key design and implementation considerations for effectively earmarking tobacco tax revenues in Nigeria. They include having: a clear expenditure purpose that is neither too broad nor too narrow; a strong but flexible revenue-expenditure link; a strong public financial management (PFM) and governance systems; “Soft” earmarking with option for reallocating funds to emerging priorities; and a clear medium-term time horizon for earmarking review.

Recommendations

In line with best practises, the additional revenue should be used to fund strong / high-tech stamp system to tackle illicit trade (such as Track-and-Trace systems) as well as tobacco prevention In line with the Nigerian public opinion and needs of the ministries of health, additional revenue can also be used to fund Universal Health Coverage (UHC). Earmarking the revenue from taxation to specific public health and tobacco control initiatives is important to amplify the effectiveness of tobacco taxation.

The prospective tobacco tax earmarking policy should have:

- ⇒ A clear expenditure purpose that is neither too narrow nor too broad
- ⇒ A strong but flexible revenue-expenditure link to avoid expenditure dependence on a sole revenue source
- ⇒ “Soft” earmarking with option for reallocating funds to emerging priorities,
- ⇒ A strong Public Financial and management (PFM) and governance systems for monitoring and reporting revenue flows and impact
- ⇒ A clear medium-term time horizon for earmarking review.

The Campaign for Tobacco-Free Kids (CTFK) funded the Centre for the Study of the Economies of Africa to conduct a scoping study on the tobacco market. This policy brief presents one out of the three components of the study. The full report will be made available on CSEA website: www.cseaafrica.org.

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