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Reforming Tobacco Taxation in Togo: The Potential Impact of a Mixed Tax System on Consumption and Revenue



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Key Takeaway

Despite the implementation of anti-tobacco laws and regulations, including ratification of the WHO Framework Convention on Tobacco Control, smoking prevalence in Togo remains high. A study shows that the mixed taxation system leads to an increase in the final consumption price of the premium and economy segments of tobacco, an increase in excise tax revenue and a decrease in the quantity of cigarettes consumed and industry revenue, compared with the current "ad valorem" tax. Based on these results, the application of a mixed excise tax system would provide better results in terms of tobacco control.

1. The issue

Tobacco consumption is a significant public health issue in Togo, with nearly 10% of men aged 15-49 using tobacco products. This prevalence is concerning given the well-documented harmful effects of tobacco use, including increased risk of non-communicable diseases such as heart disease, respiratory diseases, and various types of cancer. Furthermore, exposure to second hand smoke can also lead to serious health complications, affecting not only smokers but also non-smokers within the same household or community.

In addition to the health implications, tobacco use also has significant economic consequences. For low and middle-income households, particularly in rural areas, spending on tobacco products can represent a substantial portion of the household budget. This expenditure on tobacco often comes at the expense of essential needs such as food, housing, education, and healthcare. In a country where a significant proportion of the population lives in poverty, the financial burden of tobacco use can exacerbate existing economic hardships and contribute to a cycle of poverty.

Despite the implementation of anti-tobacco laws and regulations, including the ratification of the WHO Framework Convention on Tobacco Control, the prevalence of tobacco use in Togo remains high. One of the main reasons for this is the affordability of tobacco products. The current "ad valorem" taxation system, which taxes tobacco products based on their value, has not significantly increased the retail price of tobacco. As a result, these products remain accessible to most consumers, including those in low and middle-income households.

Furthermore, the illicit trade of tobacco products poses another challenge in controlling tobacco use. Despite the implementation of a secure marking system for certain consumer products, including tobacco, in September 2020, the effectiveness of this system requires strengthening control over distributors across the country.

In summary, the issue of tobacco consumption in Togo is multifaceted, involving not only public health concerns but also economic and regulatory challenges. Addressing this issue requires a comprehensive approach that considers all these aspects.

2. Key findings and implications

The study conducted on the effects of tobacco taxation in Togo yielded several key findings with important implications for public health and economic policy.

Oligopolistic market structure:

The tobacco market in Togo is oligopolistic, with a limited number of companies controlling the importation of tobacco products. This market structure can limit the effectiveness of taxation policies, as these companies may have the power to influence prices and maintain their profit margins despite changes in tax rates.

Low impact of current taxation on tobacco prices:

Despite increases in the "ad valorem" tax rate on tobacco products from 2007 to 2014, the retail price of tobacco has not significantly increased. This suggests that the current taxation system is not effective in discouraging tobacco consumption through price increases.

Elasticity of demand for different tobacco products:

The study found that the demand for ordinary cigarettes is elastic, meaning that a 1% increase in price would lead to a 1.277% decrease in consumption. However, the demand for premium brands is inelastic, indicating that price increases would not significantly reduce consumption of these products. This finding suggests that taxation policies should consider the different price sensitivities of various tobacco products.

Potential impact of a mixed taxation system:

The study simulated the effects of a mixed taxation system, combining a 45% "ad valorem" tax and a specific tax of 10,000 FCFA per 1,000 cigarettes. The results showed that this system would significantly increase the retail price of both premium and economic segment cigarettes, decrease overall tobacco consumption by 60%, and increase tax revenue by 21%. This suggests that a mixed taxation system could be more effective in reducing tobacco use and generating public revenue.

These findings have important implications for tobacco control policies in Togo. They suggest that the current "ad valorem" taxation system is not sufficient to deter tobacco consumption and that a mixed taxation system could be more effective. Furthermore, the findings highlight the need for policies that consider the different price sensitivities of various tobacco products and the oligopolistic structure of the tobacco market. Finally, the potential increase in tax revenue from a mixed taxation system could be used to fund public health initiatives, including tobacco control programs.

3. Main policy recommendations

Based on the findings of the study, the following policy recommendations are proposed to address the issue of tobacco consumption in Togo:

Implement a mixed taxation system:

The study suggests that a mixed taxation system, combining a 45% "ad valorem" tax and a specific tax of 10,000 FCFA per 1,000 cigarettes, would be more effective in reducing tobacco consumption and increasing tax revenue. This system would significantly increase the retail price of both premium and economic segment cigarettes, making them less affordable and thereby discouraging consumption.

Consider price sensitivities of different tobacco products:

The study found that the demand for ordinary cigarettes is elastic, while the demand for premium brands is inelastic. This suggests that a one-size-fits-all approach to tobacco taxation may not be effective. Policymakers should consider the different price sensitivities of various tobacco products when designing taxation policies.

Strengthen data collection:

The study highlights the need for more detailed and up-to-date data on tobacco consumption and importation in Togo. Improved data collection would provide a stronger evidence base for the development of effective tobacco control policies. This could involve conducting regular national surveys on tobacco use and improving the tracking of tobacco importation.

Reinvest tobacco tax revenue in public health initiatives:

The potential increase in tax revenue from a mixed taxation system could be used to fund public health initiatives. This could include tobacco control programs, such as public awareness campaigns about the dangers of tobacco use, as well as broader health initiatives, such as improving healthcare infrastructure and services.

4. Further reading:

For more detailed information, please refer to the full study:

La politique fiscale au service de la lutte antitabac au Togo : simulation des répercussions d'une modification du système de taxation des produits du tabac [*Tax policy for tobacco control in Togo: simulation of the repercussions of a change in the tobacco taxation system*]

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