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ORIGINAL ARTICLE

Consequences of policy incoherence: how Zambia's post-FCTC investment policy stimulated tobacco production

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Abstract

Zambia, a tobacco-growing country, provides manufacturing incentives to attract foreign and domestic investment. In an earlier study, we cautioned that these incentives could lead to local tobacco manufacturing, undermining its domestic tobacco control efforts. In 2018, as part of our continuing research program, we conducted key informant interviews ($n = 15$) and document analyses. Our early caution proved correct. In 2018, taking advantage of tax incentives, British American Tobacco Zambia and Roland Imperial Tobacco opened new cigarette-manufacturing facilities in the Lusaka Multi-Facility Economic Zone. They report capability of producing 25 million cigarettes daily, between 3 and 5 million of which is intended for the domestic market. Zambia's tax incentives for cigarette manufacturing are likely to increase domestic consumption. The 170 new jobs created in the two plants pale when considering long-term health impacts and lost economic productivity of an increase in supply of locally produced cigarette brands.

Keywords Smoking · Tobacco · Prevention and control · Economics · Taxes · Supply and distribution

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Introduction

Zambia, like many countries around the world, has implemented a program to attract foreign investment and foster domestic manufacturing [1]. The incentive program extended to tobacco production and processing, in violation of Article 5.3 of the WHO Framework Convention on Tobacco Control (FCTC) that obligates Parties not to provide “incentives, privileges or benefits” or “any preferential tax exemption” to the tobacco industry [2]. Zambia ratified the FCTC 2008. Research published after ratification indicated that many government officials lacked familiarity with the FCTC and its obligations, and emphasised that most tobacco leaf production was exported, very few Zambians smoked, and thousands of smallholder farmers relied on tobacco production for their livelihoods. These rationales in support of tobacco as an economic commodity are not unique to Zambia and reflect a common, albeit shifting, discourse amongst those working in the economic sectors of government in tobacco-growing countries [3–6]. A parallel study on livelihoods that we undertook subsequently found that most farmers end up losing income from tobacco, and notably so when the value of their family labour is monetised [7]. Initially, it was unclear how the investment incentive offered by the Zambian government would impact tobacco control efforts, although some of our interviewees were concerned that these tax and other incentives would lead to the establishment of cigarette-manufacturing facilities, potentially increasing domestic consumption rates.

This paper presents an analysis of recent, follow-up interviews of key informants and document analyses to illustrate the impact of policy incoherence on tobacco production and control in Zambia. Our most compelling initial finding is the focus of this paper: Zambia’s failure to exclude tobacco investment from its incentive programs did lead to new cigarette-manufacturing facilities—as we predicted. This policy failure will have implications for tobacco control efforts even if (and when) new tobacco control measures currently under legislative consideration come to fruition in Zambia. Production from the new facilities is likely to stimulate consumption.

Methods

Our research team, comprised of local (Zambian) and international researchers, conducted semi-structured interviews with 15 key informants over a two-week period in November 2018. We used purposive sampling to identify state and non-state actors engaged in some aspect of tobacco control, tobacco farming, or economic development policies. Informants represented a range of sectors: health ($n=4$), economic development ($n=4$), tobacco interests ($n=2$), agriculture ($n=2$), labour ($n=1$), and parliamentarians ($n=2$). Two or three investigators from our team (RL, FG, and RZ) conducted interviews face-to-face with informants in their workplaces. Interviews ranged in length from 30 min to 2 h (average 1 h), were audio-recorded with interviewees' consent, and transcribed. For this report, the lead author (Labonté) conducted a focused qualitative analysis of the interview transcripts with emphasis on the government-supported growth in domestic cigarette manufacturing. We supplemented interview data with information from relevant media accounts and publicly available government and non-governmental reports. Institutional Ethics Review Boards of Morehouse School of Medicine (American Cancer Society), McGill University, the University of Ottawa, and the University of Zambia Biomedical Research Ethics Committee (UNZABREC) approved this study.

Results

As it did in 2015, the Zambian government emphasises the importance of value-addition in its economic development strategy. Our informants almost universally referenced the recent 7th National Development Plan (2017–2021) that aims for Zambia to achieve World Bank middle-income country status by 2030, primarily by diversifying away from its reliance on copper, in part by enhancing agricultural value chains [8]. Two of its top five priority areas are agriculture and manufacturing, "not just agriculture, but value-addition…a push to industrialization and job creation" (participant 8).

Apart from roughly half the population's livelihoods still being based on agriculture, the contribution of this sector to the overall Zambian economy remains low (4.8% of GDP in 2017)—having fallen by almost 2/3rds since 2012 [9]. This decline accounts for the government's current focus on manufacturing and value-addition in agricultural crops including tobacco that the Zambian government considers to be a "very lucrative investment opportunity", maintaining the narrative of tobacco's profitability relative to other major crops [8]. Although tobacco's contribution to GDP has fallen from a high of 3% in 2013 (the peak year of tobacco leaf production) to a reported 2017 contribution of between 0.3% and 0.4% (participants 11, 12), it is still second (after sugar) in its overall share of agricultural export earnings [9]. Many of our informants underscored tobacco's importance in generating foreign exchange (FOREX) (participants 4, 5, 8, 9), although the value of tobacco exports in 2016/2017 was only marginally greater than the cost of tobacco imports (primarily cigarettes) [9], effectively cancelling out tobacco exports as a source of net FOREX. Several informants noted that illicit trade in cigarettes had become the greatest current concern with tobacco's sparse economic contribution, although primary research data indicate that because cigarette prices are amongst the lowest in the region, the illicit cigarette market is small. The tobacco companies' greatest concern is the competition from the informal, 'roll-your-own' (hand-rolled by the consumer) market that takes away from the profitability of (already rolled) manufactured cigarettes [10]. This informal sub-sector is, ironically, the direct result of government promotion of smallholder tobacco farming as an economic livelihood, yet there is little indication that officials are considering this economic dynamic.

These broader economic features help explain the government's (and tobacco industry's) interests in developing domestic cigarette-manufacturing capacity, both to avoid revenue losses from claimed (but unsubstantiated) illicit trade and to create new manufacturing jobs. Prior to 2018, there was only one small domestic cigarette manufacturer, Roland Imperial Tobacco Company (RITCO), a wholly owned Zambian company. Tax and other incentives offered by the government (zero percent tax for the first 5 years of operation) recently led to opening of two new facilities in the Lusaka Multi-Facility Economic Zone (MFEZ): a British American Tobacco (BAT) plant (fully operational in 2018), and a new RITCO plant (which became fully operational in early 2019).

According to interviewees, the BAT plant, representing a USD 25 million investment, produces “5 million sticks (cigarettes) a day”, about 40% of which is likely to be for the domestic Zambian market (participants 11, 12, 15). BAT itself explained its interest in opening the plant as “localizing its brand portfolio in Zambia” partly to undermine the impact on its own profits of illicit tobacco imports [11]. Government officials stated that “the fiscal and non-fiscal incentives for BAT [are] in line with the Seventh National Development Plan” [12]. They also emphasised the importance of the new employment BAT created (although BAT claimed to have created only 72 new manufacturing jobs [11]), and the presence of a new buyer for tobacco from Zambian farmers. At the time of our study, however, BAT was reportedly importing its tobacco leaf from Zimbabwe and Kenya for its cigarette manufacturing (participants 11, 12, 15), providing little or no benefit to Zambian tobacco farmers.

The RITCO plant is more substantial, with the company stating that it is investing USD 30 million in its new cigarette plant, and USD 50 million in tobacco leaf processing [13]. Its new cigarette-manufacturing capacity is around 20 million sticks/day [13], with total employment of around 100. A media article accompanying the plant’s opening described RITCO as “feeding the nation’s favourite habit” while pointing out that, although over half its new output would be for exports to neighbouring African countries, there was considerable potential to enlarge the domestic market [14]. RITCO estimates the annual growth rate in cigarette consumption since 2014 at 30% [13]. Although RITCO provided no substantiation for this figure, it does indicate the company’s belief in a continued rise in cigarette use in Zambia. To ensure and enhance this domestic growth, the company employs 34 sales representatives and “Foot Soldiers and Peddlers [sic]…to cover markets which cannot be reached by motor vehicles” [13].

Discussion

Many of our informants expressed optimism that Zambia’s ratification of the FCTC would lead to adoption of new tobacco control legislation sometime in 2019, and noted that there is much greater awareness of the FCTC amongst the different sectors of government now than in 2015. Yet it is also clear that the (often overstated) economic contributions of tobacco to the Zambian economy or to tobacco farmer livelihoods continues to place tobacco production and tobacco control in conflict. The conflation of the government’s understandable concern with value-added manufacturing, and its emphasis on agriculture (including tobacco) as the sector likely to show most long-term sustainable growth, is almost certain to increase tobacco consumption in Zambia in the near term, primarily (although not exclusively) due to the incentives that led to two new cigarette plants in the Lusaka MFEZ. Both firms (BAT and RITCO) are intent on expanding the domestic cigarette market, with BAT (internationally) having stated in its 2017 report that although "by 2030, a very significant percentage of Group revenue will be generated by our suite of potentially reduced-risk products" BAT remains "fully committed to our combustible tobacco business" [15]. Tobacco use, especially amongst Zambian adolescents, is reportedly already increasing rapidly (participants 2, 6, 7, 13). Without strong, new tobacco control legislation, and substantial financial support for its enforcement, the aim of a smoke-free Zambian future will remain elusive. Also, the value of fewer than 200 new jobs created in 'value-adding' cigarette manufacturing will be quickly overwhelmed by the health and economic damages created by increased domestic tobacco use. This continuing policy incoherence between the country's economic and social development goals will create medium- and long-term problems for its economic development [16, 17] and devastating health impacts over the longer term.

Zambia, in its 2018 budget, eliminated the 'tax holiday' (tax incentive) program for investors in its MFEZs, although not before the two tobacco firms were able to take advantage of it.

Conclusion

This case study of Zambia presents a cautionary tale for other countries contemplating similar investment incentives that fail to exclude products, such as tobacco, whose manufacture is almost certain to damage the health and longer-term economic productivity of their citizens. It also illustrates the critical importance of country-level efforts to ensure policy coherence amongst its different government sectors consistent with global tobacco control measures. Zambia's tax incentives for cigarette manufacturing are likely to increase domestic consumption and the 170 new jobs created in the two plants pale when considering long-term health impacts and lost economic productivity of an increase in supply of locally produced cigarette brands.

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