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# Investment incentives and the implementation of the Framework Convention on Tobacco Control: evidence from Zambia

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## ABSTRACT

**Purpose** Policy misalignment across different sectors of government serves as one of the pivotal barriers to WHO Framework Convention on Tobacco Control (FCTC) implementation. This paper examines the logic used by government officials to justify investment incentives to increase tobacco processing and manufacturing in the context of FCTC implementation in Zambia.

**Methods** We conducted qualitative semistructured interviews with key informants from government, civil society and intergovernmental economic organisations (n=23). We supplemented the interview data with an analysis of public documents pertaining to the policy of economic development in Zambia.

**Results** We found gross misalignments between the policies of the economic sector and efforts to implement the provisions of the FCTC. Our interviews uncovered the rationale used by officials in the economic sector to justify providing economic incentives to bolster tobacco processing and manufacturing in Zambia: (1) tobacco is not consumed by Zambians/tobacco is an export commodity, (2) economic benefits outweigh health costs and (3) tobacco consumption is a personal choice.

**Conclusions** Much of the struggle Zambia has experienced in implementing the FCTC can be attributed to misalignments between the economic and health sectors. Zambia's development agenda seeks to bolster agricultural processing and manufacturing. Tobacco control proponents must recognise and work within this context in order to foster productive strategies with those working on tobacco supply issues. These findings are broadly applicable to the global context. It is important that the Ministry of Health monitors the tobacco policy of and engages with these sectors to find ways of harmonising FCTC implementation.

## INTRODUCTION

Tobacco control initiatives require coordinated interventions across all sectors of government. The WHO Framework Convention on Tobacco Control (FCTC) implementation requires coordination among government sectors dealing with health, agriculture, trade, industry and finance among others. This requirement is reflected in Article 5.1 of the Treaty: "Each Party shall develop, implement, periodically update and review comprehensive multisectoral national tobacco control..."<sup>1</sup> One of the pressing challenges of FCTC implementation is the struggle to enlist the support of the non-health sectors of government who are either disengaged from the issue of tobacco control or actively pursue policies that are misaligned with the

provisions of the FCTC.<sup>2</sup> Despite this need, whole-of-government approaches (WoG) to tobacco control have yet to find their place as the modus operandi of most governments.<sup>3,4</sup> The challenge of WoG is particularly salient in the implementation of the FCTC.

The FCTC is the first public health treaty to be negotiated and ratified under the auspices of WHO, and outlines measures to be implemented by parties to the Convention that serve to reduce the demand for and supply of tobacco.<sup>1</sup> To date, 180 countries are party to the Treaty (as of April 2015). Zambia ratified the FCTC in 2008. Since this time, the Ministry of Health, through the Tobacco Control Focal Point, has worked to implement policies and to establish legislation that aligns with the treaty's commitments and provisions. Post-FCTC legislation was drafted in 2010, but as of April 2015 has not yet been adopted into law.<sup>5</sup> The challenges of implementation are not unique to Zambia, and our multicountry research is uncovering common barriers to implementation among tobacco-growing countries with emerging economies.<sup>6</sup> One of these barriers relates to incentives to attract domestic and foreign direct investment (FDI). The general logic underlying government investment incentives is twofold.<sup>7</sup> First, incentives are provided to stimulate economic growth or create value for the country by attracting capital, regardless of its origin, foreign or domestic.<sup>8</sup> Second, incentives are a means of attracting investment to a country in a competitive global marketplace,<sup>9</sup> intended to induce investment that otherwise would not be made.

For Zambia, the pursuit of investment has become central to the political economy of the country's future development. Despite consistent economic growth over the past decade, Zambia continues to struggle with high levels of poverty, income inequality, and in 2012, was ranked 163 of 187 countries on the Human Development Index.<sup>10</sup> Zambia's economy relies heavily on mineral exports, notably copper. However, since 2002, Zambia has focused on diversifying its economy by supporting the agricultural and service sectors. According to a report by United Nations Conference on Trade and Development (UNCTAD) the "challenge (for Zambia) is to attract more investments in sectors other than mining."<sup>11</sup> The former president of Zambia, Michael Sata, noted "the aim of (his) government is to continue with policy and institutional reforms with the key objective of making the country more attractive to domestic and foreign private investment."<sup>12</sup> FDI

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## Research paper

has increased significantly from US\$72 million in 2001 to US \$1.7 billion in 2012.<sup>13</sup> Much of the FDI inflows are tied to the copper sector. The mining sector in general continues to be the largest attractor of FDI (approximately 70% of total investment pledges in 2008).<sup>11</sup> Although agriculture only accounted for 22% of gross domestic product (GDP) in 2011, it is important for the livelihoods of the majority of Zambians, accounting for approximately 67% of employment and “has likewise been attracting FDI particularly in the areas of production of horticultural and floricultural products, as well as fruits, cotton, maize, tobacco and sugar.”<sup>11</sup> It is in this context of government-supported economic diversification and development that tobacco production, processing and manufacturing are being encouraged through investment incentives, representing a discrepancy between economic goals and tobacco control commitments. This paper focuses on how these two dissonant goals are rationalised by different actors.

## METHODS

The findings presented in this paper are a result of a larger multicountry study in Kenya, Malawi and Zambia. This multicountry case study examines the political economy of tobacco control. The case study methodology is oriented towards using multiple methods to understand a complex phenomenon within a particular context.<sup>14 15</sup> The findings presented in this paper refer only to our research in Zambia. The findings are derived from data collected through semistructured interviews with representatives from the Department of Industry (n=3), Foreign Affairs (n=2), Foreign Trade (n=2), Agriculture and Agribusiness (n=5), WHO country office (n=1), Ministry of Health (n=2), Tobacco Board of Zambia (n=1), Common Market for Eastern and Southern Africa headquarters (n=1), health-based civil society organisations (n=3) and tobacco industry representatives (n=3). The key informants were identified using purposive sampling and were included because of their involvement in our area of interest, namely the political economy of tobacco and tobacco control. All interviews were conducted in the workplace of the informants by international and Zambian researchers associated with the study. All but two of the interviewees agreed to be recorded. Notes were taken during the interviews with these two participants. Interview length ranged between 10 and 60 min, with the length of the majority of interviews being approximately 45 min. We supplemented the interview data with public documents on Zambia's economic development plans and tobacco investment. The key informants directed our research team to the key strategic documents with the Zambia Development Agency (ZDA) that informed their work. In addition to documents identified by the key informants, we collected other public documents pertaining to Zambia's development agenda, such as reports produced by the UNCTAD. The study protocol received ethics approval by the Institutional Review Boards of McGill University, Morehouse University (American Cancer Society) and the University of Zambia. All interviews were transcribed verbatim and analysed using thematic analysis.<sup>16</sup> The transcripts were entered into NVivo qualitative software for data management. The qualitative analysis was conducted by the lead author and used both deductive coding (based on the interview questions) as well as inductive coding. The results were discussed with team members, two of whom were experienced Zambian researchers active in the health and tobacco area, for verification.

## RESULTS

One of the major initiatives of the Zambian government to attract investment was the creation of the ZDA in 2006, with the mandate to “foster economic growth and development by promoting trade and investment in Zambia through an efficient, effective and coordinated private sector led economic development strategy.”<sup>17</sup> Tobacco export promotion is one of the country's priorities, now absorbed within the work of the ZDA, justified primarily by its importance to farmers:

It is a key industry especially for the farmers ... We have more than twenty thousand small scale farmers growing tobacco at the moment meaning that each farmer is able to take care of about six members of the family and when we do the math we will actually see how important this sector is in this country and how critical this industry is in reducing poverty levels. (ZDA informant)

Tobacco production receives incentives in terms of machinery and agricultural imports, on which ‘duty and VAT are not paid’. The key informant from ZDA was not aware of the FCTC, and acknowledged that ZDA does get involved in trade and tobacco disputes in “bilateral and multilateral discussions ... in Geneva ... articulating our interests.”

ZDA is also responsible for the governance of Multi-Facility Economic Zones (MFEZ) and industrial parks that were established in 2005 with investors from Japan and China. The MFEZs (special industrial zones for both export-oriented and domestic-oriented industries) were established to “create a platform for Zambia to achieve economic development by attracting significant domestic and foreign direct investment (FDI) through a strengthened policy and legislative environment,” and are characterised by “the best features of free trade zones (FTZs), export processing zones (EPZs) and the industrial parks/zones concept.”<sup>18</sup> In addition to bolstering governance and infrastructure to create an attractive investment environment, the ZDA provides a list of investment incentives offered to investors who intend to establish operations in the MFEZs, or whose investment aligns with Zambia's development priority sectors. There are seven MFEZ priority sectors and 12 general priority sectors including agroprocessing and manufacturing of agricultural products, including tobacco. The principal requirement to receive an investment incentive from the ZDA is outlined in Article 56: “An investor investing not less than five hundred thousand United States Dollars or the equivalent in convertible currency, in a priority sector or product, is entitled to incentives as specified by or under the Income Tax Act or Customs and Excise Act.”<sup>17</sup> The priority given to agroprocessing and manufacturing is supported by the objective to establish value addition within Zambia,<sup>19</sup> including efforts “to increase tobacco processing for more value-added.”<sup>11</sup>

This objective of value-addition is currently being enacted through government support for the establishment of a tobacco processing and manufacturing plant in the Makeni Industrial Park (an MFEZ) in Lusaka by Roland Imperial Tobacco Company (RITCO), a Zambian company.<sup>20–22</sup> At present, the plant is intended simply to process tobacco leaf. However, as a senior staff person with the MFEZ noted, “in the long run, [the company has] indicated it is in phases, in phase one they are processing and laying the ground work, and then when they get to phase three, that is when they begin to manufacturing the finished product [cigarettes].” In a public pronouncement, the chief executive officer of RITCO claimed, ‘we invested more than US\$8 million in our new cigarette plant in Lusaka, which can produce two billion cigarettes per year, or around twice the

cigarettes sold in Zambia annually.<sup>22</sup> This amount far exceeds the US\$500 000 minimum investment that is required to qualify for the incentives outlined by the ZDA.<sup>17 19 23</sup>

Whether restricted to leaf processing only, or proceeding to finished product (not all Zambian informants thought this would be likely), the company would benefit from government support in the form of no tariffs or VAT on imported machinery or raw goods. As well, “the government is funding this [MFEZ] ... they had to put up a requisite structure [electricity, roads, water] to make sure that the place is conducive for our investors both local and foreign” (MFEZ informant). It would also be exempt from any tax on profits for the first 5 years, paying only 50% of the standard corporate rate for the next 3 years, and 75% for the following 2 years. Only after 10 years would profits be taxed at Zambia’s normal corporate rate. These benefits would apply to tobacco, as with any other agroindustry product that comprises one of ZDA’s priority investment areas, and to processed leaf or finished products regardless of whether these are meant for the domestic or export market. That these incentives could give an unfair advantage over other Zambian tobacco leaf processors or a manufacturer (one of our informants stated that another manufacturing plant was getting established outside of an MFEZ) “has not yet been discussed, because the primary objective of these zones is to promote investment” (MFEZ informant).

We are working knowing we have been told [by ZDA] to win investors ... we are being pushed that we need investors [yet] I know that it has been the objective of the government to regulate [tobacco] consumption ... so you may say that if they are doing that then are contradicting that ... We market [investment] on the marketing point of view not on the health point of view ... If we say we look at the health point then we would be negative for us [and] we have to show the positive side. (MFEZ informant)

Our interviews with representatives from Zambia’s Department of Industry (DoI) and Department of Foreign Trade (DoFT) similarly found that these departments were also actively encouraging tobacco companies to set up processing and manufacturing facilities in Zambia. The participants explicitly stated that they encouraged the provision of investment incentives to make this happen, for both the domestic and international markets. Both department representatives viewed tobacco manufacturing as a potential growth area for Zambia’s economic development objectives. This encouragement was situated in the development strategy targeting value addition (namely manufacturing of agricultural products grown in Zambia) within the economy: “the agricultural sector will continue to be a strategic area of focus in promoting economic growth, reducing poverty and creating employment.”<sup>24</sup> Since the closing of the British American Tobacco manufacturing plant in Lusaka in 2006,<sup>25</sup> all the cured tobacco was being exported for manufacturing in other countries.

When asked about the role of the FCTC in the policies of their respective departments (ie, DoI and DoFT), the participants only had a vague understanding of its provisions or what commitments Zambia had made towards its implementation. A high-level key informant from the DoFT was unsure whether the treaty was in force in Zambia, and noted “implementation hasn’t started yet.” This statement may have been in reference to stalled comprehensive tobacco control legislation, although the treaty had come into force in Zambia in August 2008. It is difficult to identify whether there is a true lack of understanding of the FCTC and its relation to the economic policies of the country by these informants, or whether their government

departments are intentionally acting contrary to its provisions. We sensed from the interviews that the FCTC was simply not considered to be relevant to the work of either the DoI or the DoFT, and was situated as a singular Department of Health initiative. When we asked the participants about the relationship between investment incentives for tobacco processing and manufacturing and the health aspects of tobacco consumption, one participant stated that: “It is our view that the benefits to the economy will outweigh the health costs” (DoI informant).

Another participant, making the same argument as the interviewee from the MFEZ, noted “our concern is to promote industrial development and because smoking was a personal decision, we are not concerned with the health aspects” (DoI).

The view that Zambia’s tobacco production, and even its potential future cigarette manufacturing, would not add to its domestic smoking rates was echoed by tobacco industry informants, one of whom was quite explicit:

There is this myth that the more tobacco we grow here the more smokers we will have. We do not grow tobacco for local consumption but rather for the growing market like China. There is no correlation with the level of growing tobacco in Zambia to the level of smoking. It doesn’t exist. In fact there is a reduction in smoking in Zambia (tobacco industry informant).

The most recent WHO tobacco report on Zambia, however, estimates that in 2012, 24% of males were current cigarette smokers and 22% of them smoked daily, an increase of 2 and 5 percentiles, respectively, over the previous year.<sup>26</sup> Female rates remain considerably lower, but are rising among adolescents.<sup>27</sup> When asked that, even assuming Zambian tobacco was strictly for export, if it still meant someone else will be consuming a hazardous product, the response was swift, “even if we do not grow tobacco in Zambia, somebody else will grow it [and export it] so you see what I mean, it will still be there.” The Tobacco Association of Zambia (TAZ), representing farmers, noted that “the harmful effects on the human being is not debatable, it has been proven, we have all seen it” but that “it all borders on educating the person, that you have a choice in life and should manage your life accordingly” (TAZ informant).

These qualitative findings provide important insights into the rationale used by members of the government’s economic sector when developing policy pertaining to tobacco; this often resembles the arguments of Zambia’s tobacco industry and farming representatives, and suggests that there is deep misalignment between FCTC commitments and efforts to implement the treaty across relevant sectors of the government. The tension this creates was best captured in the somewhat wistful comment made by our MFEZ informant near the end of the interview: “I think somehow there must be harmonization of government policy; then that will make it much easier for stakeholders.”

One of the salient conditions underlying policy misalignment and lack of harmonisation is that tobacco control is under-resourced. There will need to be great effort to strengthen the *system* of implementation within countries such as Zambia. One individual serves as the FCTC focal point, but is responsible for a diverse portfolio of responsibilities beyond tobacco control. Along with other African countries at the FCTC Conference of Parties meetings, Zambia has complained about the lack of resources to implement tobacco control. A senior policy worker in the Ministry of Health thought that one reason why the comprehensive tobacco control legislation has been stuck for 4 years is that, “We had the challenge of funding, because initially tobacco was not on our agenda and ... we [had] different budget lines ...[and] it gives us a gap because we don’t have

funds to use for that purpose.” There is no multisectoral body in Zambia charged with FCTC implementation, and the different sectors ‘are not coordinating properly’ (Ministry of Health informant). DoI, DoFT, and Agriculture noted that they did not work with the Ministry of Health around issues of tobacco and tobacco control. There is, however, an active, but small group of civil society organisations and individuals within government working in tobacco control, but it must contend with a politically active and highly resourced tobacco industry whose own interests in ‘coordinating’ is about:

Sitting together. You see look we agree on most of the things but because we do not sit together we assume that we don't agree. We need to sit together as an industry ... The problem in this country is that we do not have an apex, one organization where all players meet for cross cutting issues. (tobacco industry informant)

## DISCUSSION

Our findings on the Zambia’s tobacco investment incentives point to an urgent need for proponents of the FCTC (domestic and international) to engage with the ZDA, DoI and DoFT to generate economic policies that align with FCTC commitments. The question is how to do this?

The Zambian government, like many governments around the world, is fragmented when it comes to governing tobacco and tobacco control. This fragmentation exists not only internally, but also at different levels whereby the DoI, DoFT and ZDA are linked with different economic development agencies within the United Nations system and the Department of Health is operating in relation to WHO and the Framework Convention Secretariat. Fragmentation is a not a new phenomenon, and undergirds calls made within the United Nations System to “strengthen multisectoral and inter-agency responses for the full implementation of the WHO FCTC.”<sup>28</sup> To label the lack of communication, coordination and cooperation between sectors as fragmentation is only theoretically valid if there is an underlying need to act collectively. In the case of FCTC implementation, fragmentation exists because comprehensive tobacco control implementation (invoking all components of the treaty including supply and demand measures) requires interventions in different sectors and levels of government. In this sense, FCTC implementation poses a collective action problem that challenges institutional designs that create departmental silos with minimal interaction and strong jurisdictional boundaries between sectors. In fact, the integrity of traditional departmental jurisdiction is reflected in the authority to “operate within a spatial and functional realm.”<sup>29</sup> A logical starting point to facilitate intersectoral working is to establish a forum for dialogue. The forum itself is not a panacea, but rather an initial point of contact. Brazil presents a good example of how a high-level decision from the President created a forum (CONICQ—ie, the intersectoral coordinating mechanism for the implementation of the FCTC) that brought together 13 different ministries and departments to work on FCTC implementation.<sup>30–31</sup> It will likely require a high-level decision to create such a forum in Zambia. Another basic starting point for those working on FCTC implementation in countries like Zambia is to begin to establish and propagate norms embedded in the FCTC. In this case, it will be the responsibility of proponents of tobacco control to reinforce the binding legal nature of commitments made to the FCTC to other sectors of government. The guidelines for Article 5.3 explicitly state, “Parties should not grant incentives, privileges or benefits to the tobacco industry to establish or run their business” (Article 5.3 guidelines, p8); but

evidence from this research suggests they are presently violating in Zambia.

It is possible that the first reaction to our findings might be that the tobacco industry has co-opted FCTC implementation by ‘capturing’ the economic sector. Regulatory capture, “specifically the process through which regulated (companies) end up manipulating state agencies that are supposed to control them,”<sup>32</sup> is a common occurrence in tobacco politics.<sup>33–35</sup> We suggest that although this may be, and likely is, part of the scenario in Zambia, there are other contextual factors that create a pull towards providing investment incentives for tobacco manufacturing. Zambia is a tobacco producer and exporter. The priority for the country is to diversify its economic output while supporting value-addition in its processing and manufacturing within the country. In this context, tobacco is a logical target for value-addition (leaf processing and manufacturing) given that the supply chain is well established. This is not to say that the provision of investment incentives is good practice; in fact, we suggest the opposite. Understanding this context will allow tobacco control proponents to target the underlying logic used by government officials who are promoting tobacco production, while also developing an empathetic stance when working to develop collaborative relationships with other government sectors. Understanding this context provides the basis for finding a remedy for this policy misalignment from the perspective of FCTC implementation. There are numerous interventions that can address this misalignment between economic policy pertaining to tobacco and commitments to implement the provisions of the FCTC. The arguments used by our key informants in favour of bolstering tobacco manufacturing through government investment incentives suggests that discourse in the economic sector is largely influenced by the standard arguments (eg, job loss/gain, revenue generation, personal choice) perpetuated by the tobacco industry over the years, particularly in tobacco growing countries.<sup>36–37</sup> Studies, like this one, provide important information to sensitise tobacco control proponents to the perspectives and approaches being fostered outside of the health sector. This sensitisation is particularly important as countries begin to implement intersectoral coordinating mechanisms for FCTC implementation as per Article 5.2. It is recognised that the political economic context must be confronted and engaged with by tobacco control proponents for any lasting success in tobacco control policy to be made.<sup>2–38–40</sup>

At a more abstract level, this study suggests a need to establish and integrate norms pertaining to the economics of tobacco and tobacco control. Our interviews revealed that the logic employed within the economic sector, that tobacco is a viable and sustainable economic commodity, still persists despite numerous studies to the contrary.<sup>41–43</sup> The argument that tobacco is an export commodity and therefore, not linked to the health of the population within the country is contrary to the intent of the FCTC to reduce tobacco consumption worldwide (and not simply in any given country). Without comprehensive tobacco control measures in place it is predicted that consumption among Zambians will increase.<sup>27–44–47</sup> It is reported that RITCO is in discussion with Japan Tobacco Incorporated (JTI) to produce JTI brands for the Zambian market.<sup>22</sup> RITCO itself has indicated that they will be developing new brands to be sold in the domestic market. The proliferation of tobacco products without the protection of comprehensive tobacco control measures will most likely lead to dramatic increases in consumption.

Government investment incentives that support tobacco industry development are deeply problematic for FCTC implementation. This finding in Zambia’s case, which we speculate is

likely to be repeated in most other low-income tobacco-producing countries that are also parties to the FCTC, points to an urgent need to foster WoG FCTC implementation.

### What this paper adds

- ▶ Successful implementation of the WHO Framework Convention on Tobacco Control (FCTC) will require whole-of-government (WoG) engagement.
- ▶ There continues to exist gross misalignments between the economic policies of tobacco producing countries, such as Zambia, who are providing investment incentives to support tobacco industry activity, and making commitments to implement the provisions of the FCTC.
- ▶ Providing investment incentives to stimulate tobacco processing and manufacturing is contrary to Article 5.3 of the FCTC, and is a crucial component to be addressed by tobacco control proponents to reduce the supply of tobacco.
- ▶ Our study provides important insights into the underlying logic used by officials to justify investment incentives that support tobacco processing and manufacturing.

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