OPTIONS FOR TOBACCO TAXATION IN AFGHANISTAN

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IN AFGHANISTAN, HIGHER LEVELS OF URBANIZATION, EDUCATION, AND INCOME ARE ASSOCIATED WITH LOWER TOBACCO CONSUMPTION AND A PREFERENCE FOR CIGARETTES.
OPTIONS FOR TOBACCO TAXATION IN AFGHANISTAN

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KEY MESSAGES

• Men are the primary consumers of tobacco products in Afghanistan: 48 percent of ever-married men ages 15–49 use tobacco, compared to only 6 percent of ever-married women in the same age group.

• Approximately 22 percent of adult men smoke cigarettes. An estimated 6.4 billion cigarettes are consumed per year in Afghanistan – a figure set to rise with the growth of the young urban population.

• Around 5 percent of the country’s disability adjusted life years (DALYs) can be directly attributed to tobacco use.

• Gradually increasing cigarette import tax from 27.6 percent to 46.2 percent is estimated to generate an additional tax revenue of US$19.7 million in 2022; a 5.1 percent reduction in cigarette sales; and a 2.7 percent fall in the number of cigarette smokers.

• Illicit re-exportation is estimated to account for 24 percent of cigarettes imported into Afghanistan each year. While higher tax rates may disrupt this trade, modeling indicates that gradual tax rate changes will result in higher net revenues due to the size of the domestic market.
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TOBACCO USE IN AFGHANISTAN

Many forms of tobacco are used (in varying proportions) in the different regions of Afghanistan – most commonly cigarettes, chelam and snuff.

The Afghanistan Demographic and Health Survey 2015, published in 2017, provides insight into tobacco consumption across the country and allows a comprehensive analysis of some of its patterns.

Men are the primary consumers of tobacco products in Afghanistan: 48 percent of men ages 15–49 who have ever been married use tobacco, compared with only 6 percent of women in the same group. Approximately 22 percent of men in this group smoke cigarettes, compared to 1 percent of women.

A 2010 survey on tobacco use in Kabul found that 72 percent of male smokers began smoking before the age of 20, suggesting that youth should be a focus of campaigns to prevent smoking.

There are no national data on tobacco use among adolescents ages 15 and younger, and adults ages 50 and older. This gap prevents a complete estimation of Afghanistan’s tobacco use profile, necessitating further data collection and analysis.

In Afghanistan, higher levels of urbanization, education, and income are associated with lower tobacco consumption and a preference for cigarettes. However, there is very little gradient in cigarette smoking across the income groups – from 19 percent in the lower quintile to 24 percent in the top quintile. The data also show a steep drop-off in use of other tobacco products in the two highest income groups.

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Percentage of ever-married men ages 15–49 using tobacco, by type of tobacco and income quintile, Afghanistan

Source: AFDHS 2015
Generational differences in the forms of tobacco used may decrease or even disappear as younger generations grow older. As urbanization increases, cigarettes could be the main tobacco product used in the country in coming years. Almost 60 percent of male smokers consumed 10 or more cigarettes per day in 2015 (the number that indicates an addiction).

Rates of tobacco use and cigarette smoking are higher in many of the provinces that are close to Afghanistan’s borders. As the country is not a significant tobacco producer, additional research is needed to learn whether higher tobacco use in these provinces is influenced by the illicit trade with neighboring countries.
TOBACCO-RELATED DISEASES

Tobacco is a significant contributor to non-communicable diseases (NCDs) in Afghanistan. Around 36 percent of DALYs were the result of causes of disability associated with tobacco, and 5 percent of DALYs could be attributed directly to tobacco use in 2016, according to estimates from the Institute of Health Metrics and Evaluation (IHME). NCDs encompass common preventable and modifiable behavioral risk factors, of which tobacco use is probably the biggest.

From 2005 to 2016, tobacco remained the seventh-highest risk factor for death and disability (combined) in Afghanistan, increasing 19 percent during the period, according to IHME surveys based on epidemiological records and peer-country trends. Tobacco is a high-risk factor for many diseases – ischemic heart disease, lower respiratory infection, stroke, chronic obstructive pulmonary disease, and lung, trachea, and bronchial cancer.

Tobacco-associated DALYs have different weights in the total burden of disease at different stages of the life cycle in Afghanistan. For people ages 15 or younger, relative estimated losses are lower, but they increase with age, acquiring higher weight among adults ages 50–69, and declining among adults ages 70 and older.

While only 19 percent of the population in the richest quintile use tobacco, this percentage increases to 33.5 percent in the poorest quintile. By contrast, 41 percent of patients diagnosed with cancer in the richest quintile die from the disease, compared to 69 percent in the poorest quintile.
Mortality from lung cancer is much higher in the poorest-income households compared to the richest households. This may be associated with the failure of health systems to detect lung cancer cases among the poorest population. Many factors may be responsible for this outcome, including long-term exposure to tobacco as a smoker or a secondary smoker, and lack of access to early or opportune diagnosis and adequate treatment.

Given the age-related effects of smoking on lung, trachea, and bronchial cancer, mortality from this kind of cancer is greater among adults ages 50–69, and less among those ages 70 and above, who suffer more from such other causes of mortality as cardiovascular diseases.

In the past 10 years, Afghanistan’s health sector has made considerable progress in reducing child and maternal mortality, and controlling communicable diseases. However, the burden of disease is shifting and in recent years NCDs have become the main causes of death and morbidity. In this context, tobacco control is increasingly a priority for the Ministry of Public Health (MoPH).
LEGAL FRAMEWORK FOR TOBACCO TAXATION

Afghanistan signed the World Health Organization Framework Convention on Tobacco Control in June 2004 and its membership was ratified in August 2010. Afghanistan passed its Tobacco Control Law in 2015, which calls for increased tobacco taxation as well as measures to reduce demand for tobacco products.

Under this legal framework, import duties are specified as a mechanism to tax tobacco products. Article 20 of the Tobacco Control Law requires the Ministry of Finance (MoF) “to increase customs tariffs up to 50 percent on the import of cigarettes and other tobacco products.”

The law also seeks to reduce tobacco consumption by informing consumers about health risks of tobacco use, explicitly listing cigarettes, water pipes (tobacco), hookah (tobacco), snuff, and other tobacco products. The MoF is required to monitor imported products to ensure they have “written and pictorial signs and symbols demonstrating the risks of cigarettes in official languages of the country”.

Tobacco products in Afghanistan are generally imported and reached an import value of US$117 million in 2017. Available data indicate that approximately 76 percent of imported cigarettes are consumed domestically, and 24 percent are re-exported.

As of 2018, Afghanistan applies several tariffs and taxes to tobacco products, primarily collected on import. Tariffs on cigarettes are set at 20 percent of cost, insurance, and freight (CIF). Other tobacco products have a 10% tariff, and unmanufactured tobacco has a 5 percent tariff. All products are subject to a 4 percent business receipts tax (BRT) and a 2 percent fixed tax, both of which are levied against CIF and tariffs. There are currently no excise taxes in Afghanistan. The average total tax rate for cigarettes is 27.6 percent of CIF.

Afghanistan is planning to introduce a 10 percent Value-Added Tax in December 2020 to replace the BRT. This would raise the total tax rate on cigarettes to 34.8 percent.

Compared to other countries in the region, tobacco tax in Afghanistan is low. Tax on cigarettes is 60.3 percent in Pakistan (excise and VAT), while estimated average tax will rise to approximately 40 percent in Iran this year. The WHO-recommended tobacco tax rate is 70 percent. Tobacco imports in Afghanistan are estimated to be higher than domestic consumption.
METHODS AND STUDY FINDINGS

METHODS

The study ran estimations of the impact of increasing tobacco taxation in Afghanistan using the WHO Tax Simulation Model (TaXSim), and supplementary calculations were added for other types of tobacco, customized for Afghanistan’s tax system. This approach allowed estimation of the impact of the instruments and tax rates on revenue generation, prices and consumption against the baseline.

Patterns in four key indicators (average price of cigarette packs, sales volume, number of smokers, and tax revenues) were used to run the simulations. The simulations considered the average price elasticity of the demand for cigarettes in low-income countries (between -0.6 and -0.8) modeled by premium, mid-priced, and economy brand names. In all scenarios it was assumed that the 10 percent VAT would be introduced in December 2020.

Three scenarios were modeled in the study:

**Scenario 1 – Baseline with VAT.** In this scenario, there are no changes to tobacco-specific taxation. However, this scenario accounts for the introduction of VAT in 2021 (the tax comes into effect in December 2020).

**Scenario 2 – Gradual increase in tariffs.** In this scenario, tobacco-specific ad valorem tariffs are gradually introduced. To maintain a gradual change in rates, tariffs do not change in 2021 when VAT is introduced. Tax rates on cigarettes are increased from 27.6 percent in 2019 to 33 percent in 2020, 40.5 percent in 2021, and 46.2 percent in 2022.

**Scenario 3 – Excise tax and tariff increases.** In the final scenario, an excise tax is introduced on tobacco products based on the number of sticks (for cigarettes) while tariffs are applied to other tobacco products. This scenario has higher administrative costs associated with the introduction of a new tax type.

MAIN FINDINGS OF THE SIMULATIONS

The scenarios provide straightforward options to raise an additional US$8 million to US$21 million in annual revenues that could be used for social expenditures to improve living conditions in Afghanistan. At the same time, each option would reduce the consumption of tobacco products and the associated burden of disease.
The first option provides the least ambitious approach to tobacco taxation – continuing the current tariff regime while introducing VAT. This option represents the outcome of making no other changes to tobacco taxation and is not recommended.

The second option (recommended by the authors) presents a compelling choice for policy makers. A gradual increase in tariff rates could be accomplished with no additional investments in administrative capacity. It would be simple to implement and monitor. According to this option, tax revenues for cigarettes will increase from US$30.9 to US$50.6 between 2019 and 2022, with cigarette consumption falling from 6.4 to 6.1 billion during the same period.

Finally, the third option would implement international good practice, which suggests that a specific tax would reduce the likelihood of consumers and producers simply switching to lower-cost tobacco products by applying a per-pack or per-stick tax to cigarettes.

Given the high degree of uncertainty around the data and assumptions going into the model, adoption of any policy change would be best done on a gradual basis, with regular review of changes in domestic consumption of tobacco products, tax revenues, administrative costs, and illicit re-exportation.

A gradual yearly increase of the total tax on cigarette imports taxes (second option) from 27.6 percent (2019 – base scenario) to 46.2 percent (2022) is estimated to generate additional annual tax revenue of US$19.7 million by 2022. Cigarettes sales are estimated to fall by 5.1 percent and the number of cigarette smokers is estimated to fall by 2.7 percent.

Special attention would be required to ensure that the total tax rates in Afghanistan do not significantly exceed those in Iran or Pakistan, to ensure that the flow of illicitly traded cigarettes is not reversed.
CONCLUSIONS

Tobacco taxation offers an opportunity increase revenue generation while reducing tobacco use and its related morbidity and mortality.

Considering this study’s estimations and correlating male tobacco smoking and lung cancer mortality by income levels, it is possible to estimate a reduction of 0.48 percent in lung cancer mortality for each 1 percent reduction in the number of cigarettes smoked by the male population per year.

These estimations require further research to be refined, based on the collection of robust data that can provide detailed information to sophisticated and more precise estimation models, adjusted according to temporal effects and including other relevant variables. However, there are very robust and consistent results across the world confirming that price increases can help to reduce tobacco use, improve health and prevent premature mortality.

Tobacco in Afghanistan affects the poor most profoundly – not only their health status, but also their income levels. Reducing tobacco use by increasing taxation could mean healthier lives for the poor, contributing to the achievement of the SDGs and supporting efforts to reduce poverty and increase shared prosperity.
REFERENCES


This HNP GP Knowledge Brief highlights the key findings from a study by the World Bank on “Options for Tobacco Taxation in Afghanistan” by Andre Medici, Bernard Haven, and Lutfi Rahimi (forthcoming).
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