POLICY BRIEF

Track and Trace in Kenya

Evaluating various measures to control illicit cigarette trade

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Tobacco tax evasion and avoidance can diminish the effectiveness of tobacco taxation as a public health measure, because they generally make tobacco products more affordable, thus stimulating demand. In addition, they deprive the government of tax revenue. In response to the presence of illicit cigarettes in the market in the early 2000s, Kenya adopted numerous measures to reduce tobacco tax evasion, with varying degrees of success.

Initially, to deal with growing concerns about the illicit cigarette market, Kenya introduced paper tax stamps in 2003 (Muthaura, 2013), which were too easy to counterfeit or steal. Therefore, in 2008 the Kenya Revenue Authority (KRA) proposed to implement a T&T system (Ross, 2015). Given the lengthy process of selecting a provider, KRA decided in 2010 to implement a set of temporary measures. These involved tax stamp verifications at four points in the supply chain, improved licensing controls, importer registration, an overhaul of the accounting system to better track cigarette production and newly established tax enforcement units doing period checks on production lines. These temporary measures were also met with the introduction of a single specific tax regime and the introduction of an electronic cargo tracking system (2010). However, this partial roll-out of T&T only had a short-term effect (Muthaura, 2013).

Even though all these temporary measures resembled features of a T&T system, integration into a single data-sharing point was still missing. Following a tender, Kenya selected SICPA in April 2013 to set up the excisable goods management system (EGMS) for tobacco and alcohol products, which was accompanied by the rollout of an iTax system, which facilitates online tax payments and helps to improve income tax compliance.

- **In April 2013, Kenya selected SICPA to set up the EGMS to track and trace tobacco products to combat illicit trade**
- **A preliminary assessment of the EGMS's impact is encouraging**
  An increase in legitimate cigarette sales, tax compliance and revenue.
- **T&T systems similar to the one adopted in Kenya are key requirement of the WHO FCTC protocol to eliminate illicit trade in tobacco products**

Some feature of the EGMS include electronic digital stamps (with overt security features) that ensure taxes have been paid, and affixing photosensitive readers on production lines. This allowed for the verification of the legality of a product at any point in distribution. An authorized field officer may inspect a premise at any time (Gazette, 2015), seize illicit products, and arrest the offender on the spot (Ngeywo and Kenya Revenue Authority, 2015). Even though distributors and retailers are not licensed, they are criminally liable if they sell products without the appropriate excise tax paid. Furthermore, all manufacturers and importers must be licensed (Ngeywo and Kenya Revenue Authority, 2015).

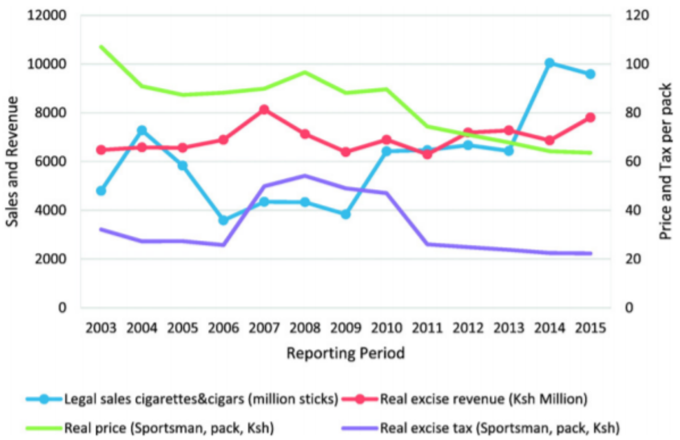

Fig. 1. Cigarettes in Kenya 2003–2015: legal sales, excise revenue, price & tax.
Source: Kenya National Bureau of Statistics, Economic Survey 2015 and 2016 (Gazette, 2015).

Policy lessons

- Track and trace systems can be effectively implemented in LMICs
- The presence of T&T systems in more countries will only enhance the effectiveness of such systems.

A preliminary assessment of the EGMS's impact is encouraging. The Kenya National Bureau of Statistics reports a 49% increase in legitimate cigarette and cigar sales from 2013 to 2015 (Fig. 1). Overall, 2014 tax compliance increased by 45% (African Tax Administration Forum, 2016), while its costs went down (Ngeywo and Kenya Revenue Authority, 2015). The latest excise revenue trend supports these results: cigarette and cigar excise tax revenue increased by 20% (7% in real terms) from 2013 to 2015 (Fig. 1), (Kenya National Bureau of Statistics, KNBS, 2016).

T&T systems similar to the one adopted in Kenya are the key requirement of the WHO FCTC Protocol to eliminate illicit trade in tobacco products. The Kenya experience demonstrates that even a lower middle-income country is capable of successfully implementing such system. This can encourage other countries to sign and ratify the Protocol, which will come to force once ratified/acceded to by 40 states. The presence of T&T systems in more countries will only enhance the effectiveness of such systems.

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