

## Health taxes in the region: Lessons from Kenya, Tanzania and South Africa

### Bottom line

African countries have learned what works in health taxation. **South Africa** has shown that a sugar-sweetened beverage (SSB) tax can reduce sugar purchases by half. **Kenya** has shown that digital tax stamps and a single, uniform cigarette excise rate can reduce illicit trade and increase revenue — and that the tobacco industry will lobby relentlessly to undermine enforcement.

**Tanzania** has shown the cost of the opposite path: a multi-tier excise that protects domestic tobacco interests has left tax share well below WHO benchmarks and allowed industry to capture most of each rate hike. Simple, inflation-indexed structures backed by a digital tax stamp system that is completely independent from industry deliver both fiscal and health returns.

### South Africa: the SSB evidence base

South Africa was the first country in sub-Saharan Africa to tax sugar-sweetened beverages, implementing the Health Promotion Levy on 1 April 2018.<sup>1,2</sup> The National Treasury's original 2016 proposal envisaged a 20% rate; following industry consultation it was halved to ZAR 0.021 (~USD 0.0013) per gram of sugar above a 4 g/100 ml threshold, a proportion that works out to approximately 10% of the cost of the most popular brand.<sup>1,3</sup> One study, using data on roughly 3,000 households, found that after the levy, sugar from taxed beverages dropped by 51%, calories by 52% and volume by 29% per capita per day.<sup>4</sup> Reductions were largest among lower-income households, consistent with international evidence that SSB taxes are progressive in health terms because price sensitivity and disease burden both fall harder on poorer consumers.<sup>2,4</sup> Industry response included reformulation: the relative reduction in sugar content of taxable beverages exceeded the volume reduction, indicating that producers cut sugar to drop below the threshold.<sup>4</sup> The levy generated ZAR 7.9 billion (~USD 477m) in its first three fiscal years and has averaged approximately ZAR 2.3 billion (~USD 139m) per year since.<sup>5,6</sup> The cautionary tale is one of erosion: National Treasury has not raised the HPL since 2019, and a moratorium on increases since 2023 has reduced the effective tax because of inflation, costing an estimated ZAR 15 billion (~USD 905m) in foregone revenue and weakening the health benefit.<sup>6</sup> The lesson: design an SSB excise that is sugar-content based, set at a meaningful rate per gram or ounce from the start, and, critically — embed automatic inflation indexation in the legislation so that political inertia cannot quietly undo the policy.

### Kenya: tax stamps and the long fight for a single rate

Kenya offers two intertwined lessons: one on enforcement infrastructure and one on tax structure. In November 2013, the Kenya Revenue Authority introduced the Excisable Goods Management System (EGMS), a digital tax stamp regime initially covering tobacco and alcohol that allows verification of duty payment at any point in the distribution chain.<sup>7,8</sup> Within three years, the Kenya National Bureau of Statistics reported a 76% increase in legitimate cigarette and cigar sales; overall tax compliance expanded by an estimated 45% in 2014 alone.<sup>8</sup> Real cigarette excise revenue showed a statistically significant increase following implementation, while combined excise revenue on tobacco and beer grew 13.3% in 2016/17.<sup>7,8</sup> The structural story has been more complex. The Excise Duty Act 2015 simplified cigarette tax to a uniform specific rate, but in 2017 the Treasury yielded to industry pressure and reintroduced a two-tier system that taxed filtered and

plain cigarettes differently — encouraging smokers to trade down rather than quit.<sup>9,10</sup> After eight years of civil society advocacy, the Tax Laws (Amendment) Act 2024 finally re-harmonized the rate at KSh 4,100 (~USD 32) per mille, closing the loophole.<sup>11</sup> Industry estimates that illicit cigarettes still account for approximately a quarter of the Kenyan market, a reminder that stamps must be paired with sustained enforcement and regional cooperation.<sup>12</sup> The lesson: the Digital Tax Stamp procurement is a foundation, and needs to be paired with a single, uniform excise structure protected in legislation and supported by a revenue authority that has the budget for ongoing enforcement.

### **Tanzania: the cost of letting industry shape the tax**

Tanzania is a cautionary case. As a major tobacco-leaf-producing country, it has long allowed industrial-policy considerations to shape its excise design: cigarettes are taxed under a three-tier specific structure that distinguishes filtered, unfiltered and 'other' products, and excise on imported tobacco is set roughly three-and-a-half times higher than on domestic.<sup>13,14,15</sup> The fiscal results are unimpressive — total tax share of the cigarette price has stagnated at approximately 43%, against a WHO benchmark of 75%.<sup>16</sup> Most of each rate hike is captured by industry rather than government: after a roughly 20% excise increase in 2023, Tanzania Cigarette Company — the JTI subsidiary that dominates the legal market — reported 2024 revenues up 22% and net income up 74%, gains the company itself attributed to its own price adjustments after the tax change.<sup>17</sup> The tiered structure makes this possible because smokers can shift to cheaper brands rather than quit, so prices rise but consumption does not fall.<sup>18</sup> The lesson: resist proposals that link health-excise rates to domestic content or product type, as these are loopholes that lead to revenue leakage and undermine the health benefit of taxation. Industrial policy belongs in industrial-policy instruments; health excises should be simple, uniform, and benchmarked to retail price.

**What the three cases say together.** Across different country contexts, effective health taxes include three design principles: (i) simple, uniform, specific excise structures (per stick or gram of tobacco, gram of alcohol, and ounce or gram of sugar) that resist industry capture and limit consumer trade-down; (ii) automatic inflation indexation that prevents quiet erosion of real tax rates; and (iii) a digital stamp and enforcement system that is completely independent of industry and protects revenue and health.

## References

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