



MARKET ANALYSIS FOR ILLICIT ALCOHOL IN SUB-SAHARAN AFRICA

A custom report compiled by Euromonitor International Consulting
for Anheuser-Busch InBev (**AB InBev**) and related subsidiaries

September 2018

Pan-African Regional Overview – Final

ABInBev



 **INTRODUCTION**

 **REGIONAL ANALYSIS**

 **PRODUCT ANALYSIS**

 **APPENDIX**

 **ABOUT EUROMONITOR INTERNATIONAL**

SCOPE

Scope and objective alignment

Category coverage

- Counterfeit and illicit brands
 - Substitution/refill
 - Industrial manufacturing of illicit brands
- Smuggling
 - Ethanol as raw material
 - Finished product
- Illicit homebrew
- Tax leakage
- Surrogate

Alcohol type coverage

- Distilled
- Fermented

Country coverage

- Ghana
- Nigeria
- South Africa
- Tanzania
- Mozambique
- Uganda
- Zambia

Project background

- Illicit alcohol trade poses a substantial health threat to consumers, while the **economic consequences for alcoholic drinks companies and governments** are equally significant.
- Anheuser-Busch InBev (AB InBev) and related subsidiaries are aware of the **damage being done to their business by illicit activities**. To combat this more efficiently, the company wishes to gain additional knowledge regarding the **details and volumes of illicit trade**.

Client objectives

The main objective of this project is to **understand the shape of all types of illicit alcohol trade in seven African countries, focusing on the year 2017**.

Key points to be researched are:

- Calculate the **market volume, value, and fiscal loss** attributed to illicit alcohol sales;
- **Segment** illicit alcohol **sales by type**;
- Qualify **trends and drivers** related to the illicit alcohol market;
- Understand **supply chain structure and dynamics**.

DEFINITIONS

Project definitions (1)

Category	Definition
Licit Alcohol	Alcoholic beverages that are legally tax-compliant in terms of paying the correct excise and other duties as required by the country in which the beverages are sold.
Illicit Alcohol	The non-payment of relevant excise and other duties to be fully tax-compliant. Illicit alcohol can also lack other official requirements within a specific market. Some of the most important requirements that may be lacking include necessary health permits and compliance with the local laws and norms applicable to the alcoholic beverage production process, including ingredients.
Informal Alcohol	Alcohol sold through informal channels mainly in premises which are unlicensed, unregulated (on-/off-trade) and very basic structures with few amenities, targeted towards lower-income and unemployed patrons in both urban and rural regions. Examples include open market stalls, kiosks, bars, unnamed outlets, and mobile sellers. In emerging markets, the informal distribution segment is very significant across categories; this is therefore a major focus of this study. Within informal distribution, both licit and illicit alcoholic beverages can be sold; this study will analyse only the distribution of illicit alcohol.

DEFINITIONS

Project definitions (2)

Category	Subcategory	Definition
Counterfeit and Illicit Brands	Substitution/refill	Illicit alcohol sold as licit brands or empty bottles of legitimate products refilled with cheaper alcohol
	Industrial manufacturing of illicit brands	Manufacturing of illicit branded or unbranded alcohol
Smuggling	Ethanol as raw material	Illicit imports of ethanol as a raw material
	Finished product	Illicit imports of alcoholic beverages
Illicit Homebrew	Illicit homebrew (distilled/fermented)	Illicit alcoholic beverages made for commercial purposes
Surrogate	-	Alcohol not meant for human consumption (eg pharmaceutical alcohol) diverted to the alcoholic beverages market
Tax Leakage	-	Legally-produced alcohol on which the required taxes have not been paid in the country of production

Abbreviations:

HL - Hectolitre

LAE - Litres of alcohol equivalent

EUROMONITOR INTERNATIONAL APPROACH

Project research methodology

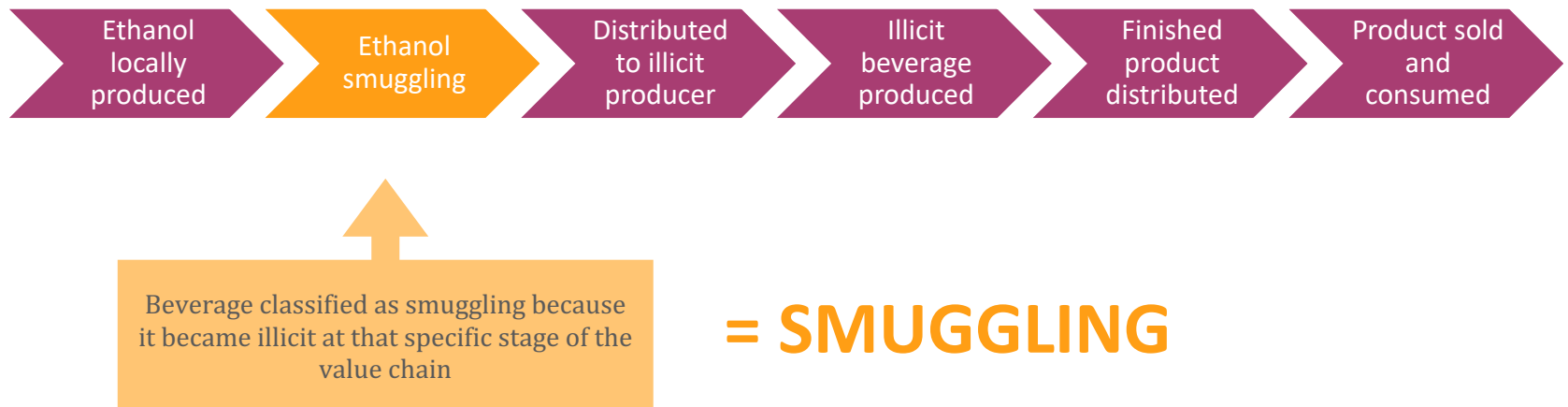
- A review of **relevant legal information** and **available statistical sources** provide Euromonitor International with a **starting point**.
- Full **alignment on all definitions** ensure cross-country comparison with other illicit alcohol trade studies, e.g. for Ghana, Mozambique, Nigeria, South Africa, Tanzania, Malawi, Uganda and Zambia.
- Euromonitor International **regional/country research project managers visit countries** to engage with **government ministry officials and other important stakeholders in the supply chain**. **Extended interviews** with the supply chain allow Euromonitor International to gather information from those who know the market best.



EUROMONITOR INTERNATIONAL APPROACH

Value chain analysis used to avoid double counting

- In many cases, illicit alcoholic beverages can fall into more than one category. To **avoid double counting** and to better understand each of these categories, Euromonitor International has **designated each product to the category in which it first enters the illicit alcohol market** of any given country.
- For example, if an illicit homebrew beverage is created from smuggling ethanol, then for the purposes of this study it is considered smuggling because the **alcohol became illicit the instant it entered the country without paying the due taxes**, prior to the homebrew production and distribution process.
- This example (illustrated below) helps explain the **Euromonitor International category classifications for this project**:





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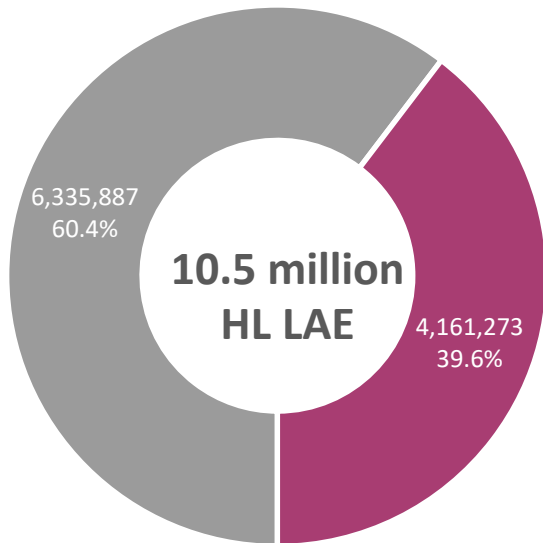
 **ABOUT EUROMONITOR INTERNATIONAL**

LICIT AND ILLICIT MARKET OVERVIEW

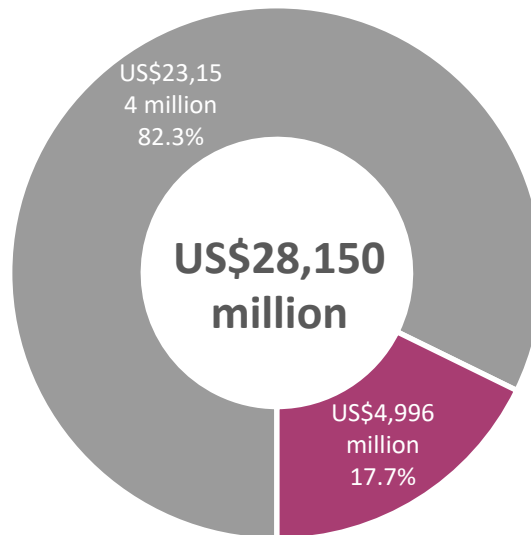
More than one third of all alcoholic beverages by volume consumed are illicit across the seven markets

The total alcoholic beverages market in the seven countries in sub-Saharan Africa* amounted to 10.5 million HL LAE in volume in 2017, 39.6% of which comprised an illicit market in counterfeit and illicit brands, smuggling, and commercial therefore illicit sales of fermented and distilled homebrew as well as tax leakage from undeclared production. The illicit market generated sales close to US\$5 billion in 2017. Non-commercial volumes represents 44.4% to commercial (illicit) volumes (HL LAE) in 2017.

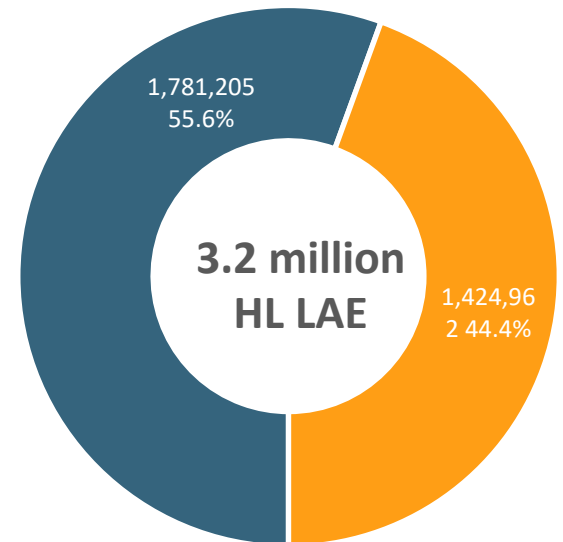
Licit vs and Illicit Alcoholic Beverages Market* Volume (HL LAE) 2017



Licit and Illicit Alcoholic Beverages Market Value (US\$'mn) 2017



Commercial** vs Non-Commercial Volume (HL LAE) 2017



■ Licit Market ■ Illicit Market

■ Commercial ■ Non-commercial

Source: Euromonitor International

Note: *Regional market summary includes seven countries: Ghana, Mozambique, Nigeria, South Africa, Tanzania, Uganda and Zambia

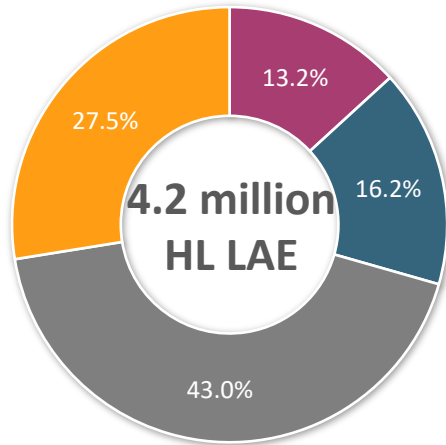
** Commercial (illicit) and non-commercial volumes represent homebrew volumes only



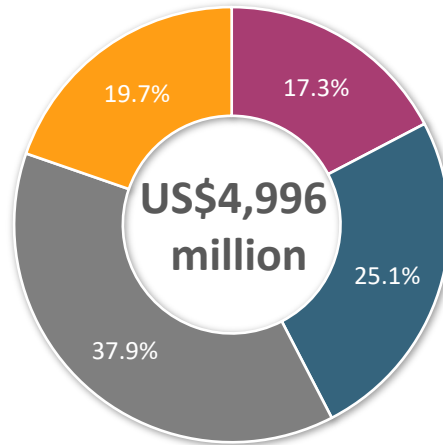
ILLICIT ALCOHOL CATEGORIES

Wide availability of affordable illicit homebrew appeals to consumers

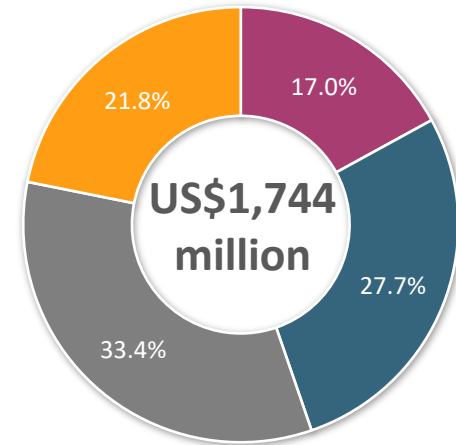
Illicit Market* Volume by Category (HL LAE), 2017



Illicit Market Value by Category (US\$'mn), 2017



Fiscal Loss by Category (US\$'mn), 2017



■ Counterfeit and Illicit brands
 ■ Smuggling
 ■ Illicit Homebrew
 ■ Tax Leakage

Source: Euromonitor International

Note: *Regional market summary includes 7 countries: Ghana, Mozambique, Nigeria, South Africa, Tanzania, Uganda and Zambia.

In 2017, commercial sales of fermented and distilled homebrew was the largest contributor to volume (HL LAE), value and fiscal loss value with smuggling the second largest illicit category across the seven countries in value and fiscal loss terms. Exploitation of lax enforcement and weak control by the authorities of distilled homebrew and illicit low-cost packaged spirits is a key driver for illicit consumption. High levels of poverty and easy access, in both rural and urban areas, continue to stimulate demand for unregulated, low-cost alcohol including illicit unpackaged opaque beers in Zambia and Uganda.

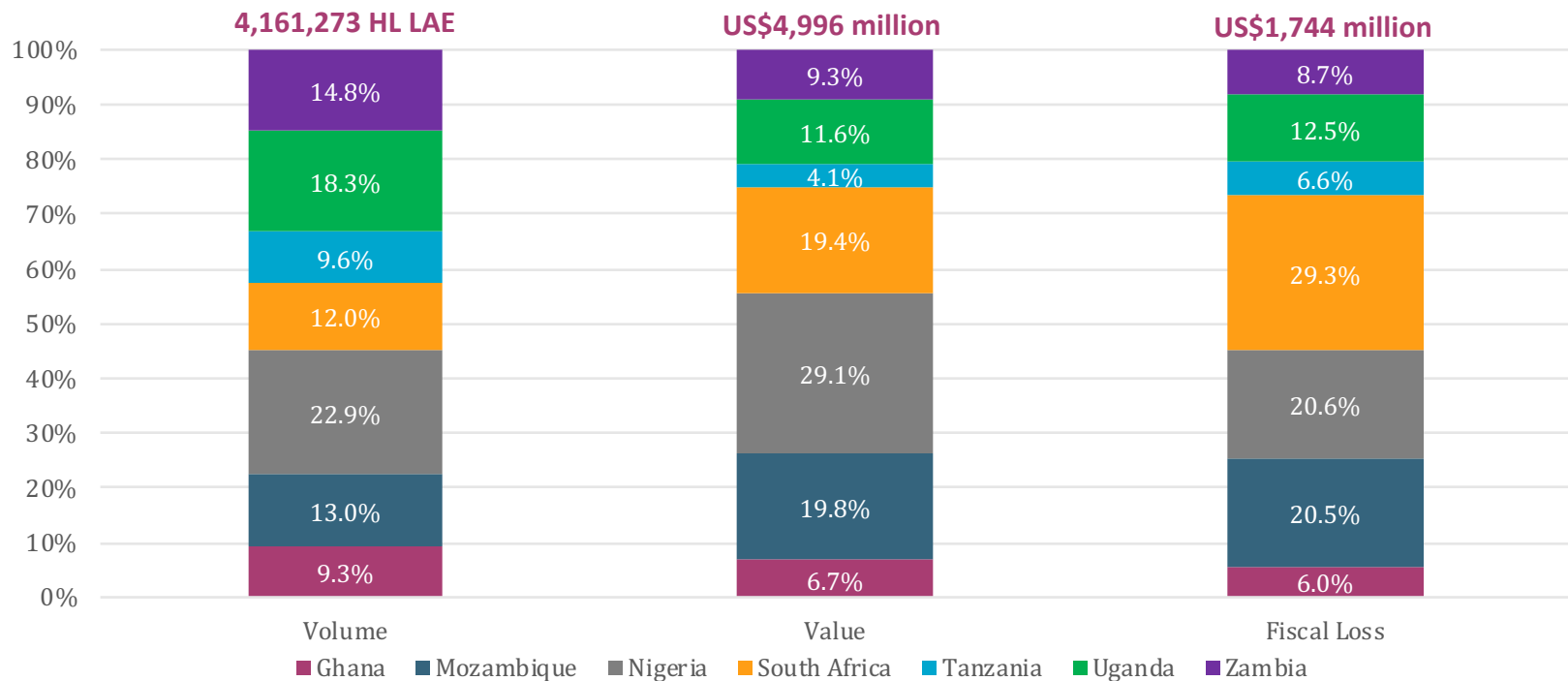


ILLICIT ALCOHOL BY COUNTRY

Nigeria contributes the most to illicit trade in volume and value

Nigeria outstrips all markets in volume and value generation from illicit alcohol trade in 2017. The value and fiscal loss variance by country is directly influenced by population size, the product categories affected, local prices, and market-specific excise and customs duties. For example, Mozambique almost matches Nigeria in fiscal loss but does so from a production base of about half of the Nigerian illicit volume due to larger concentration of spirits production and far higher excise rates. Uganda is the second largest consumer in illicit volume term but by value and fiscal loss it is the fourth largest.

Illicit Market in Volume (HL LAE), Value (US\$'mn) and Fiscal Loss (US\$'mn), 2017



Source: Euromonitor International



MAIN FACTORS

What are the main factors that affected the illicit market in 2017?

Factors facilitating consumption:

- **Conversion to ethanol-based spirits production:** The ease of dilution and flavouring of pure ethyl alcohol is increasingly attractive as a base ingredient in illicit spirits. Production is simple. Smuggling of ethanol is increasing as access to raw ingredients within the country such as palm trees comes under environmental stress and the by-products of sugar processing are diverted to biofuel production.
- **Rising excise duty:** Affordability is a key driver of illicit alcohol sales. Inflation and rising excise duty is now pricing consumers out of the market for licit alcohol (example in South Africa and Mozambique). Persistent and widespread poverty underpins low levels of affordability of licit products.
- **Lack of enforcement of regulation:** Countries like Nigeria, Zambia and Uganda tend not to have strong, systematic enforcement of alcohol production and high penalties for illicit activities. For the authorities, tackling illicit alcohol is often a low priority and politicians and ministries may be compromised or complicit in the illicit activity. There is also a lack of concerted cooperation, mutual support and information sharing across various state and civil organisations to tackle illicit alcohol activities including distribution by cartels.

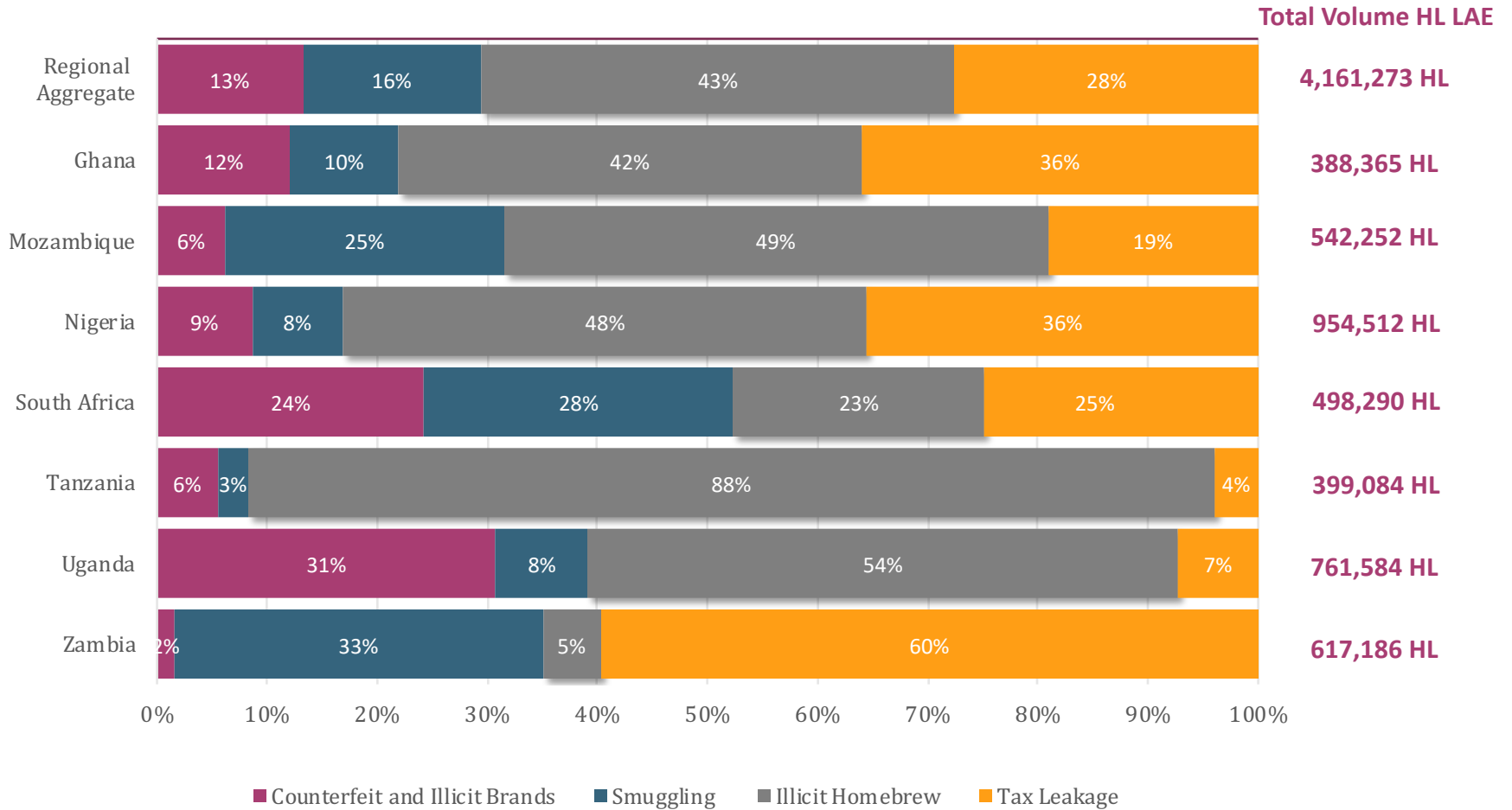
Factors weakening consumption:

- **Focused attention on points of illegality:** Tracking, tracing and control of locally-produced or imported ethanol (example South Africa) and outputs such as molasses from local sugar industries are important. These ingredients are used for distilled homebrew and industrial-scale counterfeit spirits. Another example is the banning of sachets use in Tanzania which has weakened illicit consumption. However the recent introduction of excise tax stamps for tracing alcoholic beverages across the supply chain in Ghana and Mozambique to reduce illicit activity, has not clearly shown to be effective.
- **Changing official attitudes to illegality:** Focused and pervasive enforcement and demonstrable, high penalties for illegal distributors and retailers can have a rapid impact on the attitudes of sellers of illicit alcohol, reducing their willingness to participate in the illicit supply chain.
- **Grassroots activism:** The lack of urgent enforcement of regulations has spurred the development of local district initiatives to curb the invasive effects of easy access to low-cost, strong, illicit alcohol. District authorities in Nigeria and Uganda are successfully tackling the issue in their areas.

ILLICIT VOLUME BY CATEGORY

Illicit commercial homebrew consumption is high across the region

Share of Illicit Market Volume (HL LAE) by Category, 2017



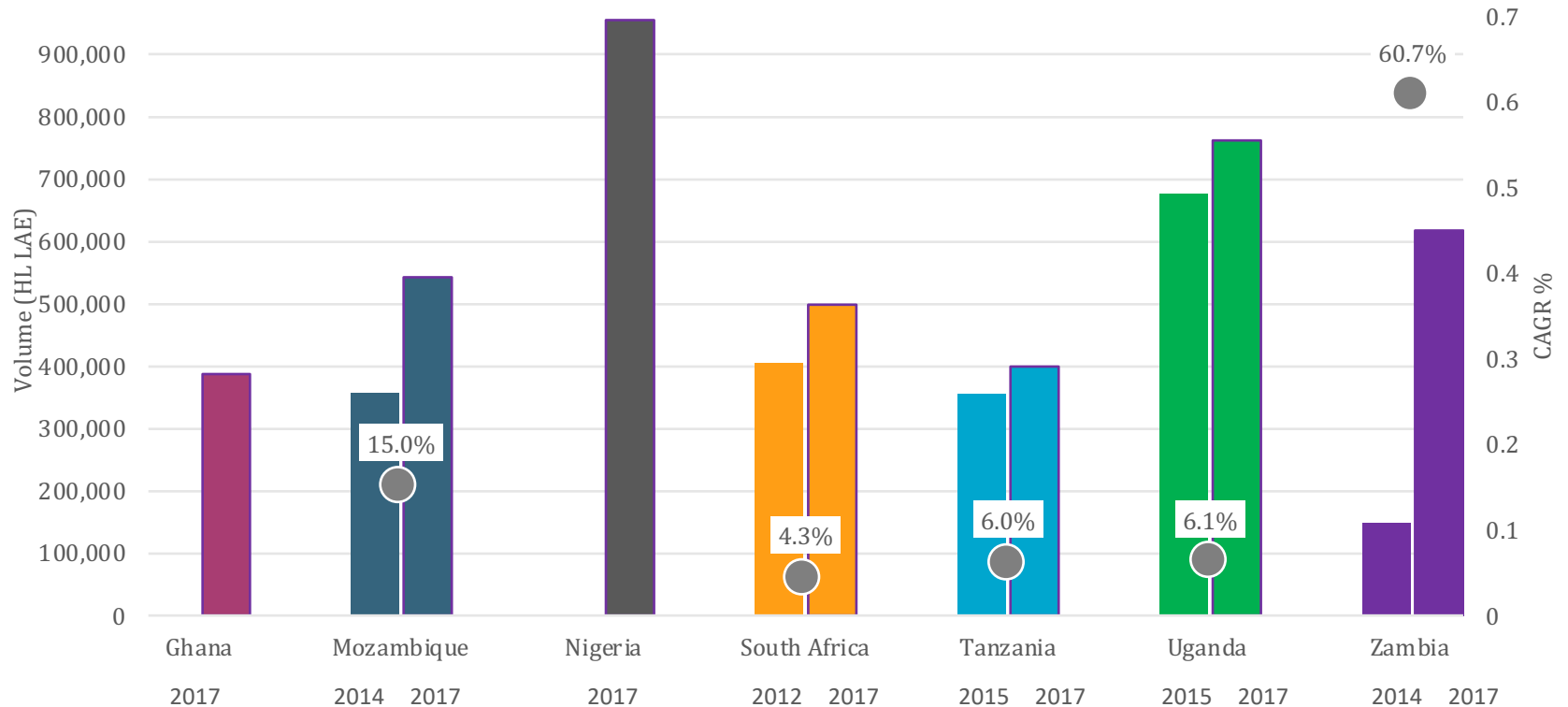
Source: Euromonitor International

ILLICIT VOLUME GROWTH

Illicit market sales continue to expand with growth fuelled by increasing production of illicit spirits and smuggling

Nigeria is now the largest market by illicit LAE volume, reflecting, in part, its very large population. The illicit market continues to increase in volume with growth strongest in Zambia, driven mainly by enormous expansion in demand for smuggled alcohol. The growth in volume during 2014 to 2017 in Mozambique is due to growing demand for, and the wide availability of cheap illicit, unpackaged spirits with strong alcohol content.

Illicit Market Growth by Volume (HL LAE) 2012-2017



Source: Euromonitor International

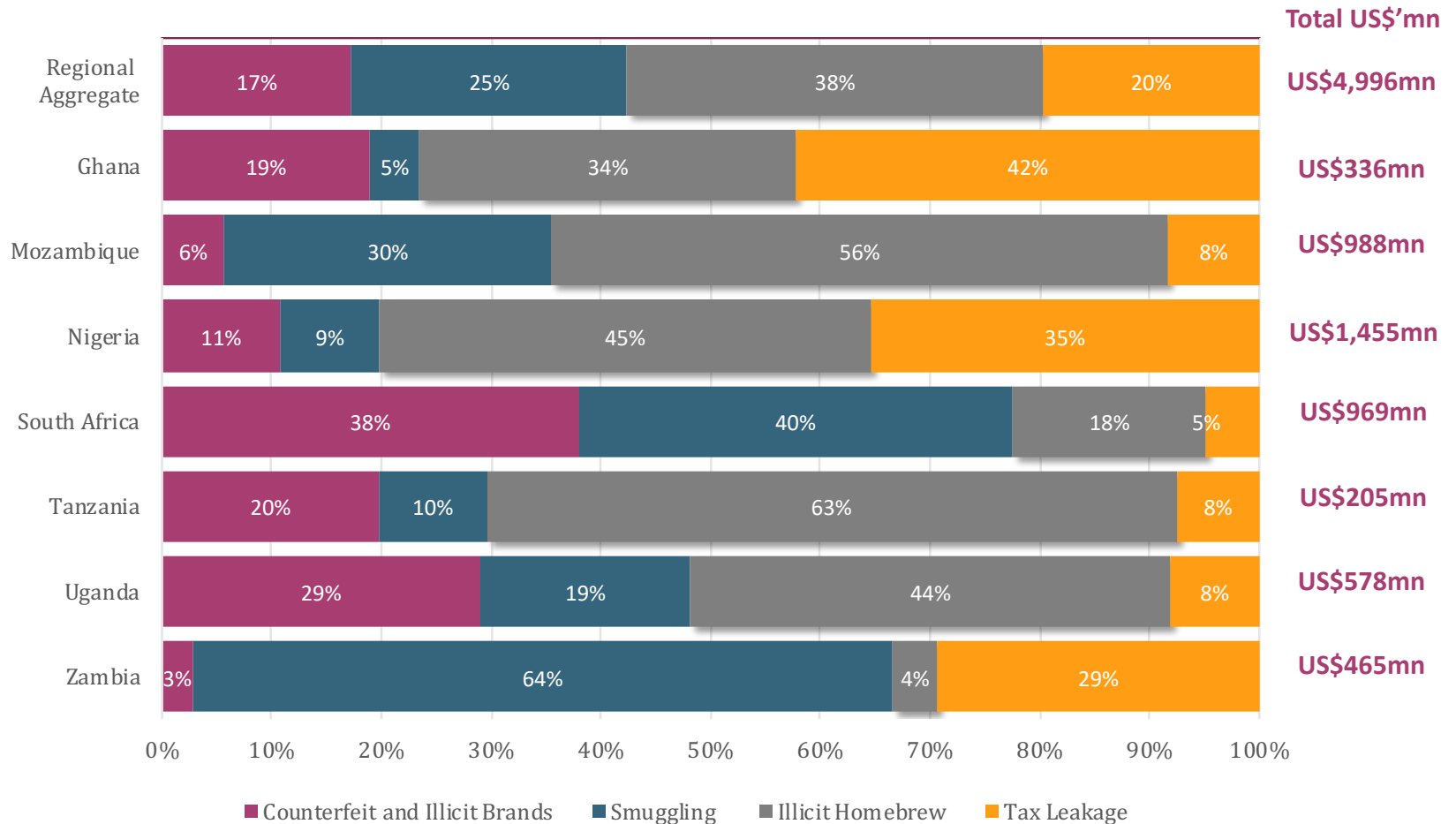
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ILLICIT VALUE BY CATEGORY

Smuggling activity value is mainly driven by demand for premium spirits

Share of Illicit Market Value (US\$'mn) by Category, 2017



Source: Euromonitor International

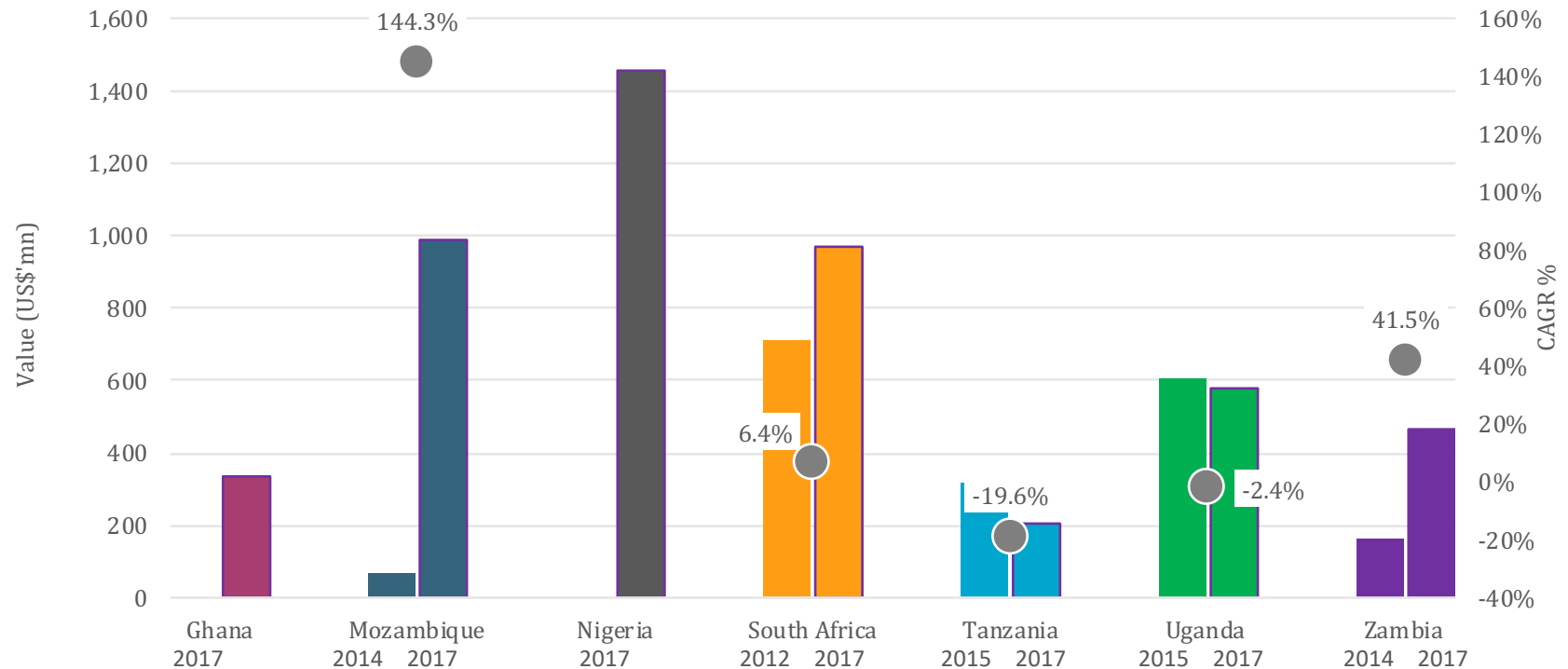


ILLICIT VALUE GROWTH

Illicit value growth varies due to differing consumption and illicit pricing patterns

Mozambique saw very strong growth in sales of illicit alcohol over 2014-2017 as licit prices moved beyond the reach of the vast layer of population living below the poverty line. Zambia also showed a strong rise in value with a vast increase in the consumption of affordable illicit alcohol. The increased value in South Africa was mainly due to average unit price increases in local ZAR currency terms for packaged illicit spirits (counterfeit and smuggled) over this period. In Tanzania, the banning of sachet spirits in 2017 has reduced sales of counterfeit alcohol products compared to 2015.

Illicit Value Growth (US\$'mn) 2012-2017



Source: Euromonitor International

Note: Simple average calculation used, constant currency 2017 real terms, on-/off-trade price variations and proportionality



PRICING

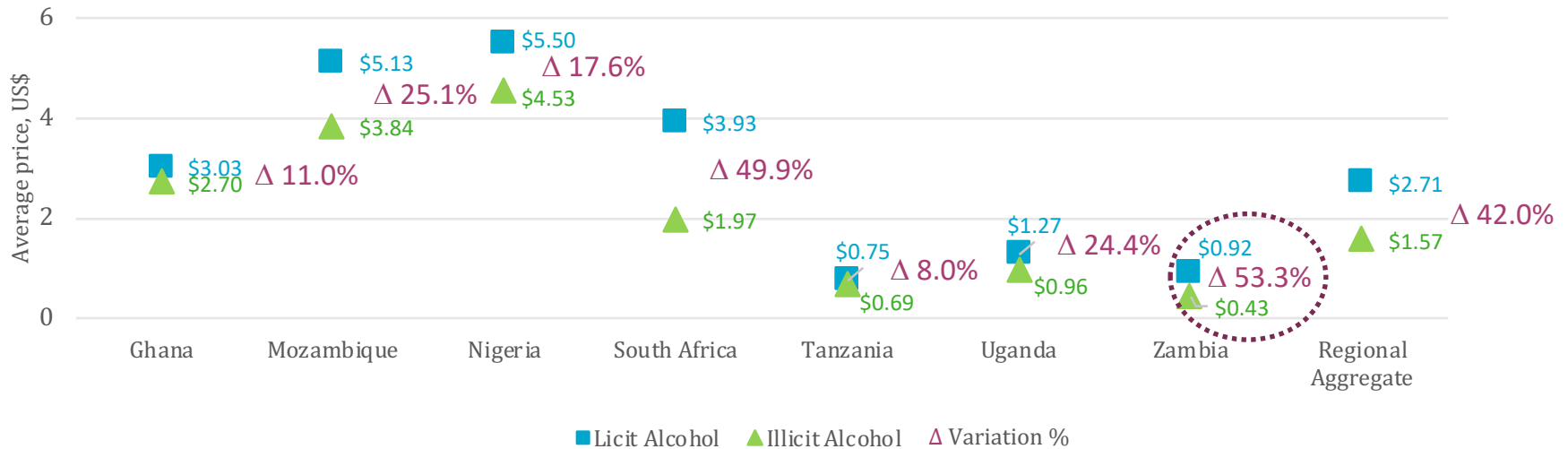
Zambia and South Africa have the highest price variance

- Cheaper prices and affordability are among the main drivers behind the purchase of illicit alcohol in the region.
- Zambia and South Africa have the highest overall price variation.
- Differentials in price are highest for packaged spirits which dominates across most illicit categories including counterfeit, smuggling and tax leakage.

Variance % between illicit and licit prices, 2017* **

42.0%

Average Retail Prices per Litre (US\$), 2017



Source: Euromonitor International

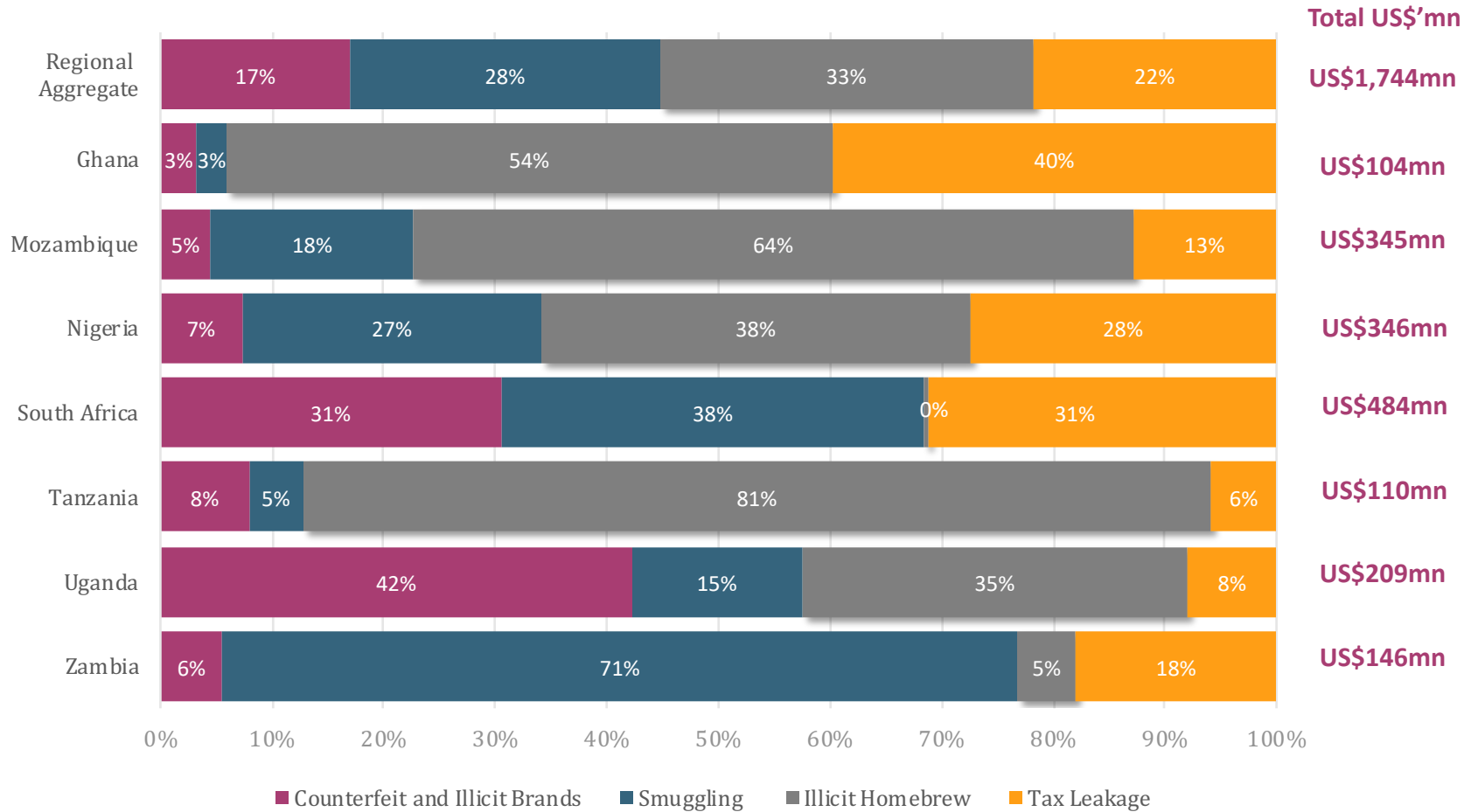
Note: *Simple average category calculation using licit and illicit average prices per beverage type. Does not include reference to on-/off-trade price variations and proportionality.

** Ethanol not included.

FISCAL LOSS BY CATEGORY

Illicit commercial homebrew generated the largest fiscal loss to the state in 2017

Fiscal Loss by Category, 2017 (US\$'mn)



Source: Euromonitor International



FISCAL LOSS DRIVERS

Fiscal loss driven by the higher excise rates for licit packaged spirits which was strongly impacted by illicit activities in all markets

Country	Largest beverage type (HL LAE)	% of largest beverage type in illicit market (HL LAE)	Largest beverage type fiscal loss 2017 (US\$'mn)	Largest beverage type share of total fiscal loss (%)
Ghana	Spirits	86%	US\$62.2 million	60%
Mozambique	Spirits	76%	US\$177.3 million	51%
Nigeria	Spirits	93%	US\$316.2 million	91%
South Africa	Spirits	46%	US\$299.4 million	62%
Tanzania	Spirits	73%	US\$107.1 million	97%
Uganda	Spirits	72%	US\$195.6 million	93%
Zambia	Opaque beer	55%	US\$1.6 million	2%

- Tax rates vary by region and market. Most markets reviewed have a tax structure that includes **ad valorem and specific taxes**, which entail higher taxes for beverages with higher alcohol content.
- The combination of high consumption and wide penetration of high-alcohol-content beverages drives much of the fiscal loss in **Nigeria**.
- **In Zambia**, where unpackaged opaque beer with a lower level of alcohol content is the largest illicit product consumed, the lower excise duty related to this product generates one of the smallest fiscal losses across the region.

 Highest  Lowest

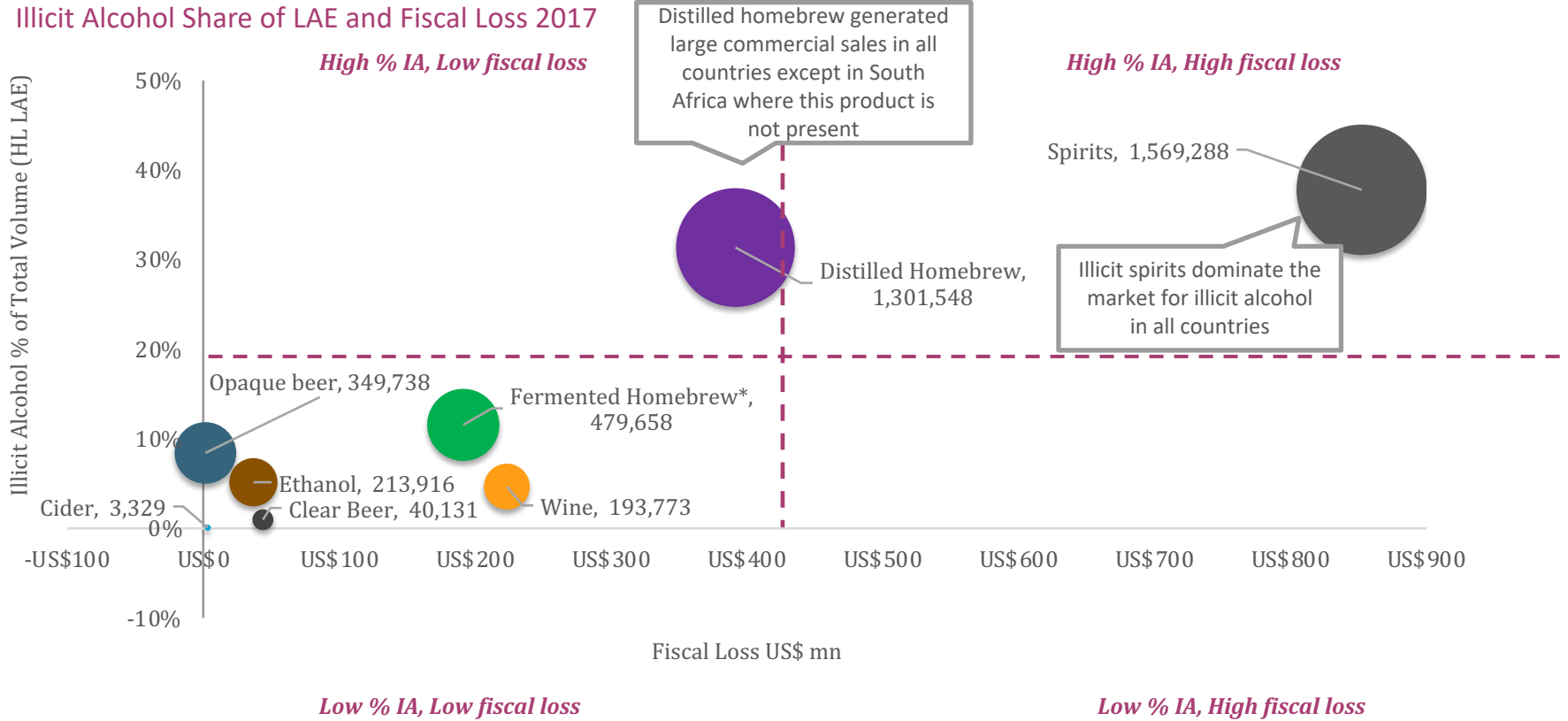
Source: Euromonitor International
Note: Fiscal loss relates only to excise taxes.

FISCAL LOSS

High fiscal loss in 2017 is driven by large volume sales of illicit spirits

In 2017, the high value fiscal loss from the illicit production and sales of packaged spirits was a major feature of all markets. Around half of the total fiscal loss was due to underdeclared, smuggled and counterfeit spirits alone. Commercially- and illicitly-produced distilled homebrew comprised a further 31% of fiscal loss. The sales of fermented homebrew generated an additional 11% of fiscal loss.

Illicit Alcohol Share of LAE and Fiscal Loss 2017



Source: Euromonitor International

Note: The size of the bubble indicates the volume in HL LAE of illicit alcohol in the market

* Fermented homebrew excludes Ghana (palm wine) as no fiscal loss applied on illicit volumes

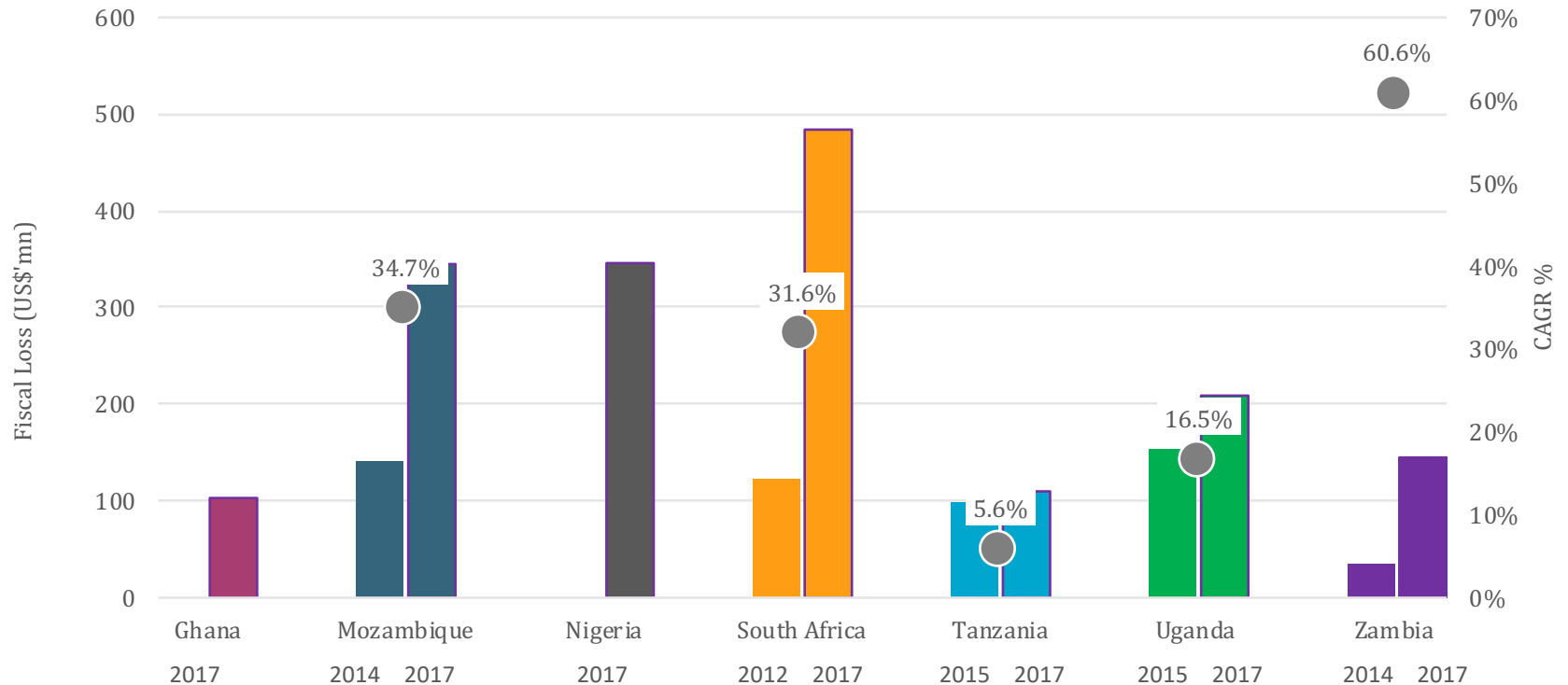
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FISCAL LOSS GROWTH

Illicit activity adapts to local conditions leading to a shift in focus to higher-margin spirits in Mozambique, Uganda and Zambia, in particular

Fiscal loss* in Mozambique has increased due to a switch in focus from production of counterfeit beer to production of low-cost ethanol-based spirits. Smuggling of beer has also decreased with an increase in fermented homebrew as a low-cost substitute. South Africa's fiscal loss increased due to increased illicit spirit volumes in counterfeit and smuggling activities and rising excise rates. In Zambia, industrial production of low-cost spirits ramped up as new, unregistered distilleries opened in 2016/2017 and smuggling levels increased to meet a surge in demand for premium spirits. Vast smuggling of premium wine was also a strong feature of the Zambian market in 2017.

Fiscal Loss growth (US\$'mn) 2012-2017



Source: Euromonitor International

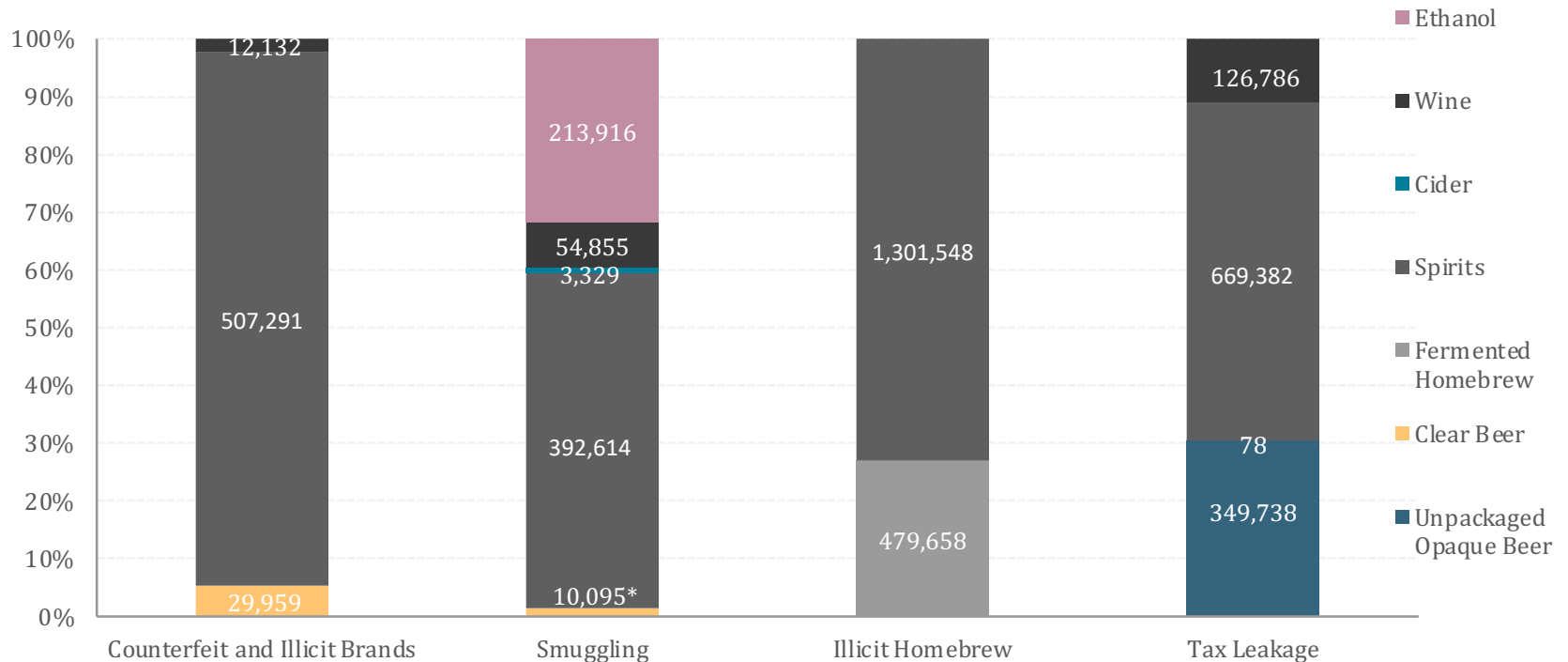
Note: *Simple average calculation used, constant currency 2017 real terms, on-/off-trade price variations and proportionality.

ILLICIT CATEGORIES BY ALCOHOL TYPE

Illicit distilled spirits is the dominant form of illicit alcohol

Spirits sales dominate within all categories of illicit trade in alcohol, capturing 68% of total illicit sales across these markets. Fermented homebrew made on a commercial scale, is the second largest form of illicit alcoholic beverage by volume HL LAE (21% of total sales).

Illicit Alcohol Market Volume (HL LAE) by Alcohol Type, 2017



Source: Euromonitor International

Note: *Includes smuggled packaged sorghum beer (South Africa)

Surrogate excluded as it is nascent

© Euromonitor International

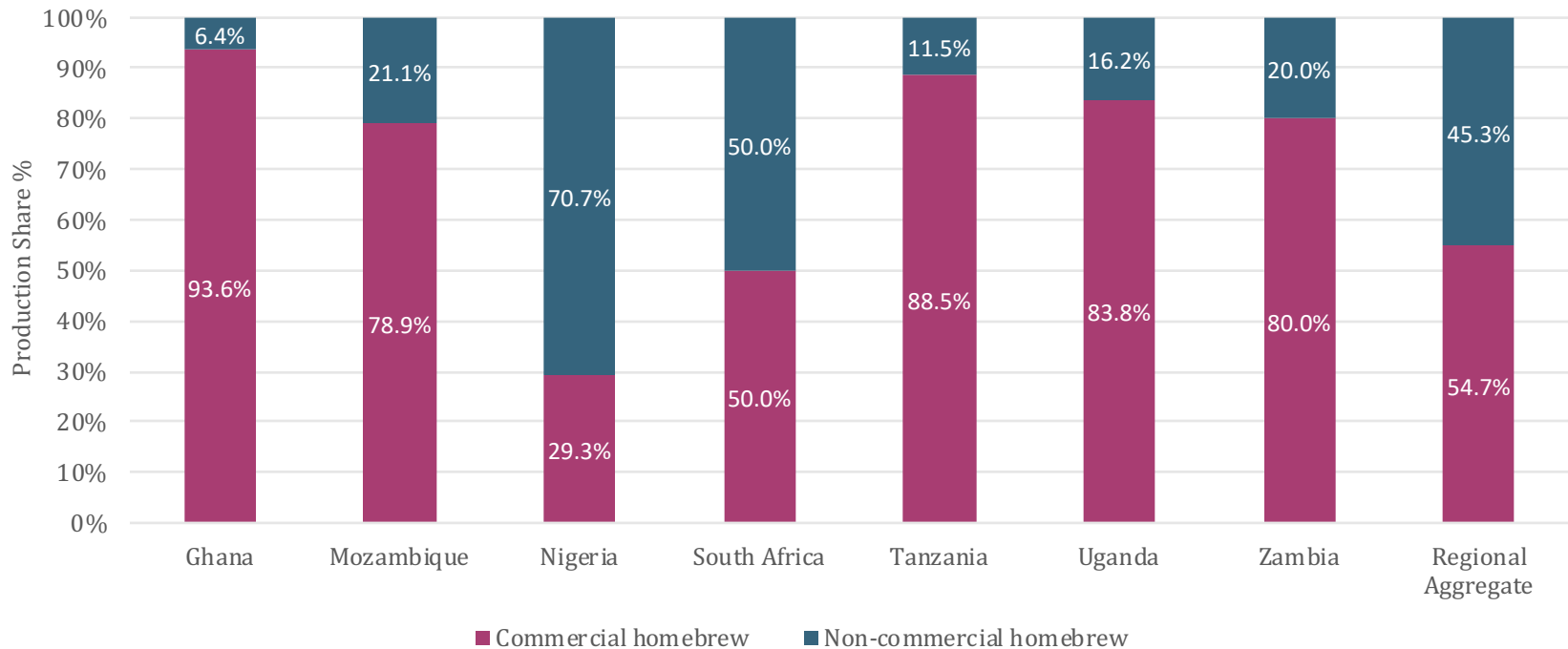


COMMERCIAL VS NON-COMMERCIAL HOMEBREW

Ghana and Tanzania lead the region in commercial sales of homebrew

The relationship between commercial and non-commercial production of homebrew reflects a complex set of influences within each market. Nigeria demonstrates a low level of commercial homebrew because of the strong position that household brewing holds within its culture. In Ghana, Tanzania and Uganda, there is a very strong commercial market for both illicit fermented and distilled homebrew. Across the region, an estimated 55% of all homebrew is sold commercially with 73% of this volume (HL LAE) from distilled and 31% from fermented volume sales.

Commercial Homebrew vs Non-commercial Homebrew Volume (HL LAE), 2017



Source: Euromonitor International



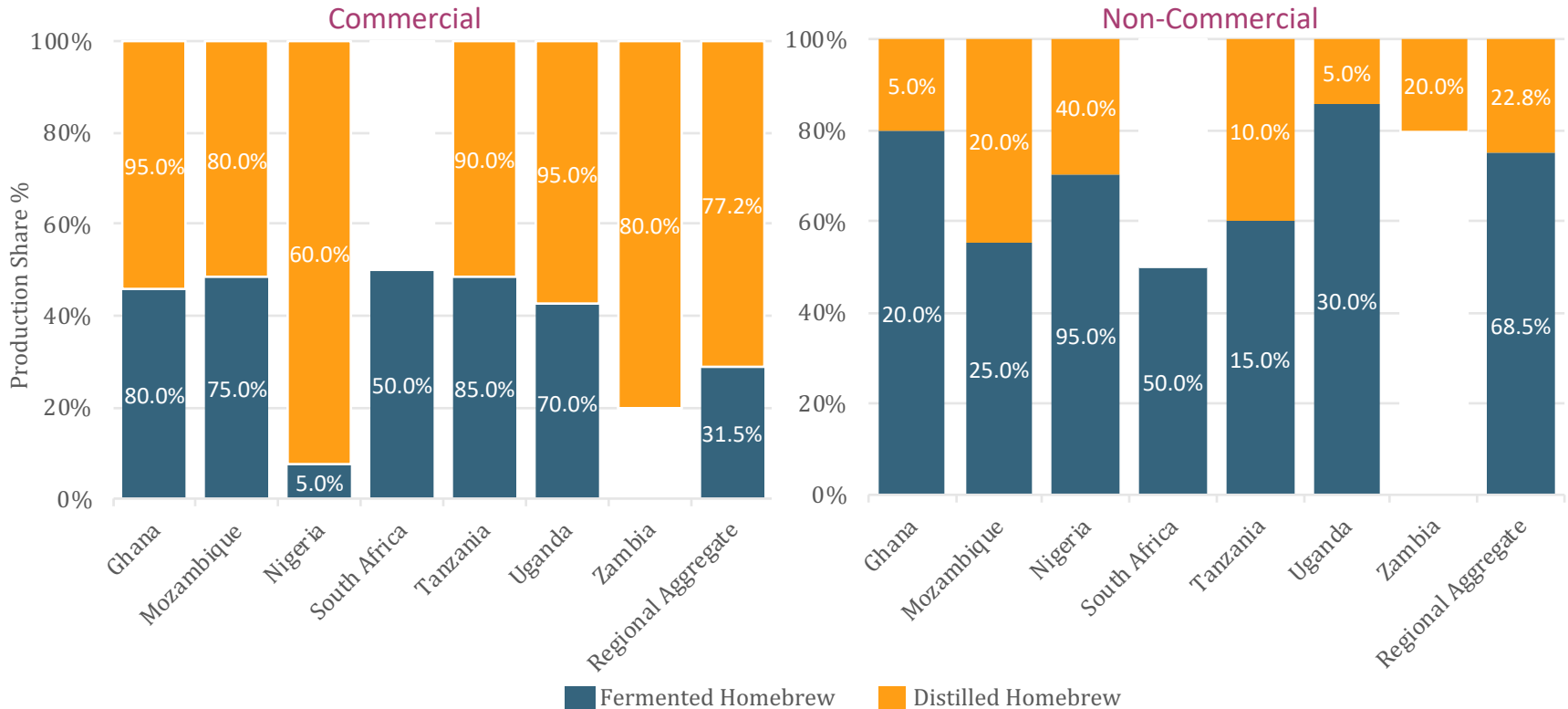
COMMERCIAL AND NON-COMMERCIAL PRODUCTION AND CONSUMPTION

Fermented homebrew for personal use dominates household production

Fermented homebrew dominates household production in many countries and is generally of low alcoholic strength. It is often used as a nutritious supplement in areas of food supply instability, playing a central role in the diet of the widespread poor rural and urban regional population.

Distilled homebrew is also made for domestic consumption but its potential to generate income means that much of the production of this beverage is for commercial sale.

Production of Fermented Homebrew vs Distilled Homebrew Volume (HL LAE), 2017



Source: Euromonitor International

© Euromonitor International



SIZE AND SHAPE

Zambia has the highest per capita consumption of illicit alcohol driven by a very low per litre cost

Country	Illicit alcohol % of total market (LAE)	Illicit alcohol volume (HL LAE)	Per capita consumption total alcohol (LAE/year)*	Per capita consumption illicit alcohol (LAE/year)*	Average illicit price per litre (HL volume terms)	Fiscal loss (US\$'mn)	Largest illicit category by volume	% of largest category of illicit market
Ghana	45.0%	388,365	4,86	2.19	US\$2.70	US\$104.3 million	Illicit homebrew	42.0%
Mozambique	73.0%	542,252	4.53	3.31	US\$3.84	US\$344.8 million	Illicit homebrew	49.4%
Nigeria	36.2%	954,512	2.47	0.89	US\$4.53	US\$346.0 million	Illicit homebrew	47.6%
South Africa	14.6%	498,290	8.51	1.24	US\$2.01	US\$484.0 million	Smuggling	28.0%
Tanzania	54.7%	399,084	1.26	1.26	US\$0.69	US\$110.4 million	Illicit homebrew	87.7%
Uganda	63.3%	761,584	5.37	3.40	US\$0.96	US\$209.4 million	Illicit homebrew	53.6%
Zambia	69.5%	617,186	9.40	6.53	US\$0.43	US\$145.5 million	Tax leakage	59.7%

Nigeria is the largest volume consumer of illicit spirits but its large population, comparative to other countries, shows that this market is relatively undeveloped in terms of per capita consumption. Nigerian consumers also pay the highest average price per litre for illicit alcohol.

In comparison, Zambia (where 70% of total LAE consumption is of illicit alcohol) currently has the lowest cost per litre for illicit alcohol as well as the highest consumption per capita per year.

Source: Euromonitor International, Passport

Note: *Per capita consumption is calculated based on base year population aged 15 and over

 Highest  Lowest



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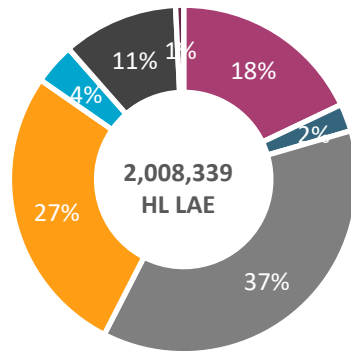
 **ABOUT EUROMONITOR INTERNATIONAL**

SPIRITS

Illicit spirits outsell licit with illicit distilled homebrew a mainstay in many markets



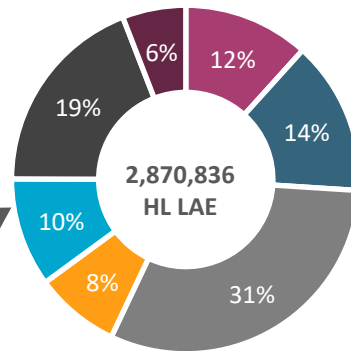
Licit Spirits Market Volume (HL LAE)*, 2017



- Ghana
- South Africa
- Zambia
- Mozambique
- Tanzania
- Nigeria
- Uganda

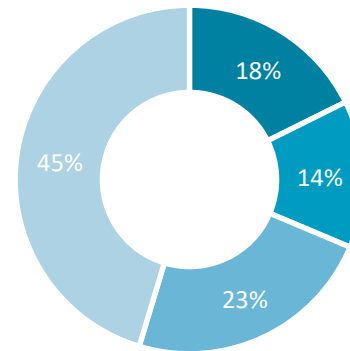
- **Affordable alternatives to licit sales** come from many sources including smuggled and refilled premium brands as well as the large-scale production and sale of low-priced spirits.
- **Distilled homebrew** is particularly important in the Nigerian market as is **tax leakage** as a source of fiscal loss. Distilled homebrew is also important in Uganda, Ghana, Tanzania and Mozambique.
- **Smuggling of spirits**, particularly strong in South Africa, occurs in all markets.

Illicit Spirits Market Volume (HL LAE), 2017



- Ghana
- South Africa
- Zambia
- Mozambique
- Tanzania
- Nigeria
- Uganda

Categories of Illicit Spirits (HL LAE), 2017



- Counterfeit
- Smuggling
- Tax Leakage
- Illicit Homebrew

Source: Euromonitor International
 Note: *Includes distilled homebrew volume

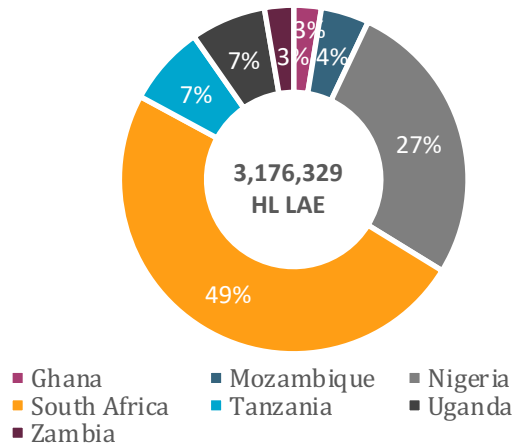


BEER

Licit clear beer sales dominate the market with counterfeiting through substitution the main source of illicit beer

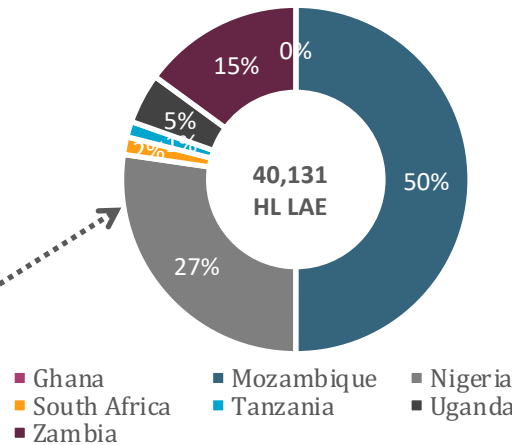


Licit Beer Market Volume (HL LAE), 2017

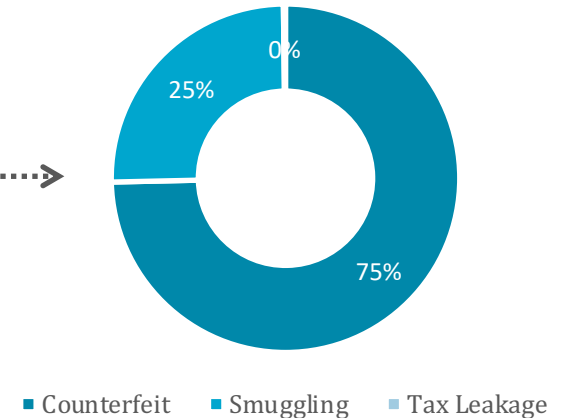


- **The licit market at three million HL LAE** captures 99% of the total market with the illicit market dominated by **counterfeiting**.
- **Counterfeit beer** appears in Mozambique and Nigeria, consisting of the rebottling of economy brands into more upmarket bottles prior to sale.
- **Smuggling of beer**, much of it from South Africa, moves through Zambia to Tanzania and onwards to Uganda. A small amount of sorghum beer is smuggled into South Africa.

Illicit Beer Market Volume (HL LAE), 2017

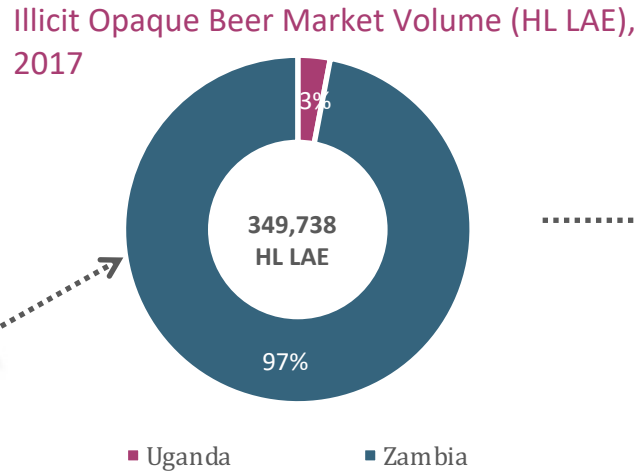
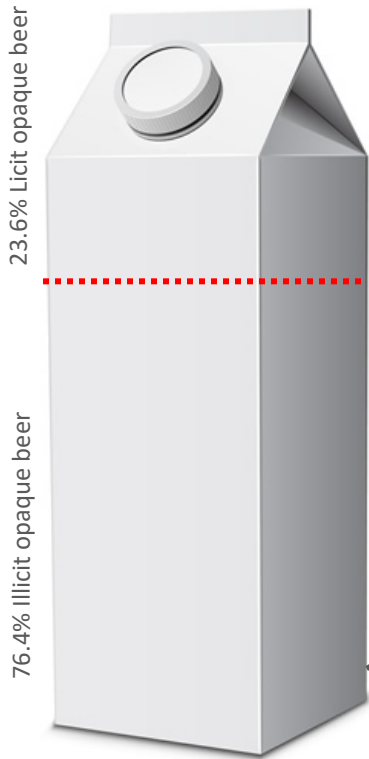
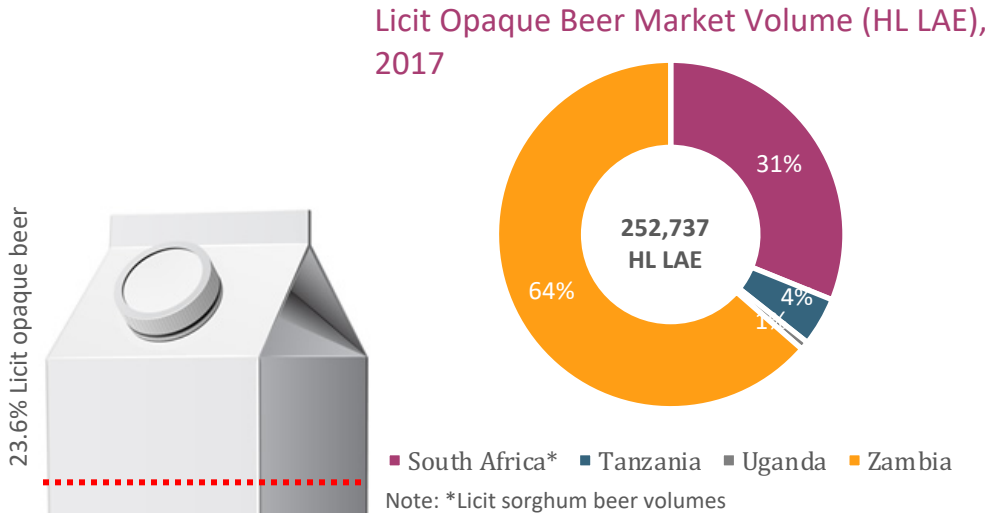


Categories of Illicit Beer (HL LAE), 2017

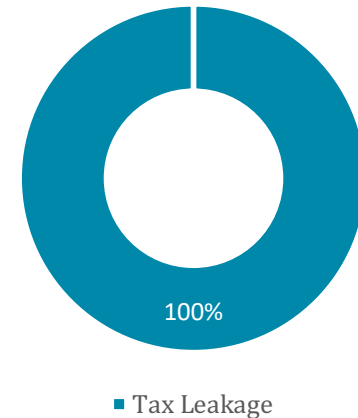


OPAQUE BEER

Opaque beer, in its unpackaged form, is predominantly a product of the illicit market



Categories of Illicit Opaque Beer (HL LAE), 2017



- The **illicit market** for unpackaged opaque beer is popular in the Ugandan and Zambian markets only.
- It is the only type of beverage where illicit sales surpass those of (packaged) licit.
- In many countries, **licit opaque beer** is part of a strategy to create an affordable alternative for low-income consumers and often attracts low or no excise duty.
- However, the market, derived solely from tax leakage due to undeclared sales of **powdered opaque beer**, remains attractive to the rural and urban poor because of its low price.

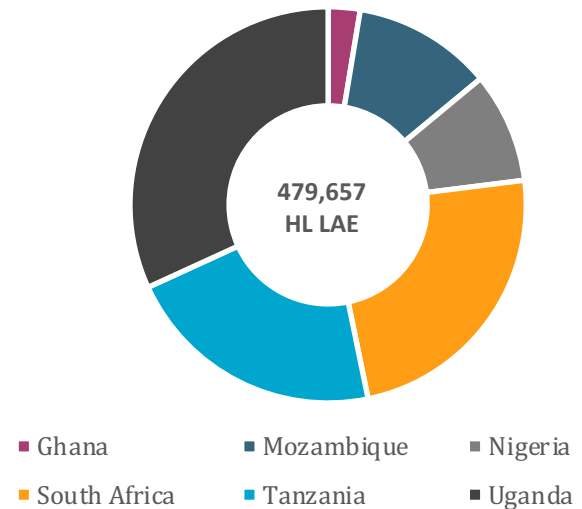


FERMENTED HOMEBREW**Fermented homebrew is embedded in all cultures**

- **Fermented homebrew** appears in almost all markets and is a **traditional beverage** prepared for ceremonial and traditional cultural events. It is made from fruits, grains, bread, and sorghum, using local recipes handed down through families.
- An estimated **479,657 HL LAE** is sold commercially in rural and urban areas across the region. The product has a short shelf life and is not transported over long distances as fermentation continues to change the taste. As a result, it is usually sold on/close to the premises where it is produced. It offers an affordable source of alcohol to low-income consumers.
- Sales are strongest in **Uganda, South Africa and Tanzania**, with these three countries accounting for 77% of total regional sales.



Malwa drinking in Uganda

Illicit Fermented Homebrew Volume (HL LAE), 2017

Source: Euromonitor International



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FISCAL APPROACH TO EXCISE: GHANA**GRA escalates the implementation of tax stamp regulations**

- From 1 January 2018, **excise tax stamps** on selected excisable products **are required** in Ghana. **All imported or locally-produced alcohol** must have a **tax stamp affixed** before it is delivered ex-factory, cleared from a port of entry or presented for sale at any commercial level in Ghana.
- In addition, **all importers and manufacturers** including any foreign manufacturer which supplies goods to an importer of the affected products are **required to register** with the Ghana Revenue Authority (GRA).
- The GRA has notified all traders that it will **prosecute all businesses** that do not comply with the excise stamp regulations. It has started **to seize produce** for sale without stamps and will escalate the policy to **include prosecution** of non-compliant businesses and operators as the initial implementation period comes to a close.
- Sanctions for non-compliance include a fine of up to 300% of the duties and taxes avoided or imprisonment of five years or both.

- To address concerns during the initial implementation stage, the GRA will subsidise 100% of costs of implementation for the first six months followed by a further six months of 50% subsidy.
- Traders complain that poor access to government labelling facilities in Tema are impeding trade and delaying their ability to manufacture and sell their produce.

Claimed benefits by the state for using tax stamps:

- Alcohol can be tracked and traced from production to receipt by the customer
- Codes can be authenticated by law enforcement by using an app on a smartphone
- Codes can validate legitimate importation or production
- Low cost of implementation
- Product diversion can be detected
- Organised crime and illicit trade detection



FISCAL APPROACH TO EXCISE: MOZAMBIQUE**Mozambique inches forward to applying fiscal stamps for beer**

- **Physical excise tax stamps** were first **introduced in 2016** but the Tax Authority extended the deadline for stamps on alcoholic beverages until late 2017. Non-compliance after the deadline will incur a fine.
- The regulation currently applies to spirits and wine, with initial plans for its implementation on beer on 17 November 2017. These plans were postponed following protests from the local major producer, **Cervejas de Mozambique (CDM)**.
- In May 2018, **testing of stamp technology** commenced. However, a **digital stamp** rather than a physical stamp is being tested, following suggestions from manufacturers, which authorities predict will not slow down production or result in lower sales of beer.

- Beer manufacturers warn of fiscal loss if beer excise stamps are introduced.
- Production processes will slow with the introduction of the application or imprinting of a tax stamp.
- The Association of Alcoholic Beverage Producers and Importers (APIBA) estimates that the loss of revenue from beer, if physical fiscal stamps are applied, will reach MZN3 billion (or US\$50 million) per annum.
- The process of applying these stamps to beer may raise the end-consumer price of beer in the market, further depressing sales.

- A vibrant black market in tax stamps and counterfeit labelling exists in Mozambique.
- Authorities insist that a digital stamp would meet APIBA's concerns, but how it will be enacted and enforced remains to be seen.
- Interview sources state that further action is required for the development of enforcement capacity, reducing corruption among public officers, controlling stamps' authenticity, and tackling the stamps black market.



FISCAL APPROACH TO EXCISE: SOUTH AFRICA**Government's strategy is to raise excise duties, which is deemed ineffective****Making alcohol less affordable**

- The South African government has **focused on raising excise duties** as a means of combating excessive alcohol consumption and generating revenue.
- **Excise duties on alcohol have increased above the rate of inflation** since 2002 with **rises of 118% for beer and 187% for spirits** over the last 10 years.
- The **2018 Budget** increased **excise rates by 10% for beer and 8.5% for spirits**.

Benefits to illicit operators

- As most illicit alcoholic beverages produced are from unregistered entities, this strategy puts a **greater burden on the compliant and registered sector** of the industry.
- The inadequate enforcement of existing alcohol regulations combined with a high proportion of low-income consumers results in the **illicit market being strengthened by rising prices for licit alcohol**.

Illicit alcohol is typically cheaper than licit alcohol by 51% on average, with sugar-fermented ales up to 88% cheaper. The cheaper illicit prices, predominantly due to tax evasion, are appealing to poorer households and young people who are more susceptible to price changes.

Unless the government improves the enforcement of existing regulations on the production and distribution of alcohol, rising excise duties will provide additional incentives for illicit operators and force low-income consumers into the illicit market.

Tax stamps as an option to combat illicit trade of alcohol

The introduction of tax stamps as a track and trace method across the alcoholic beverage supply chain to combat illicit trade is not currently on the policy agenda in South Africa for the immediate future. However, tax stamps currently form part of the SARS feasibility project for fiscal marking of tobacco, and, if it comes to fruition, will be extended to all excisable goods. Tax stamps for alcohol have been implemented in several sub-Saharan African countries, such as Mozambique and Ghana, in 2017/2018 but the outcome to date does not advocate it as an effective solution. The tax stamps, however technologically sophisticated in design, have been shown to be easily counterfeited by criminal cartels while generating a significant cost burden on licit manufacturers. This leads to higher unit prices which, in turn, drives further illicit profit incentives for illicit players.

FISCAL APPROACH TO EXCISE: NIGERIA

Implementation of a new excise base for alcohol

State taxation priorities

- June 2018 saw the **introduction of a new excise regime** for locally-manufactured tobacco and alcoholic beverages.
- **Tax is on an ad quantum basis** with an expected increase in duty raised. Rates are notified until Budget 2020.

State budget priorities

- **To increase excise tax** on tobacco, cigarettes, and alcoholic beverages.
- **To reduce harmful behaviour** among consumers in regard to consumption of alcohol.

Revenue generation priorities

- **Overdependence on oil revenue** and a decrease in barrel prices has kickstarted a review of state revenue generation.
- Currently, only locally-manufactured goods are liable for excise duty but **amendments** to the Customs, Excise and Tariff Consolidation Act no 16 of 1997 **will make both locally-manufactured and imported goods liable for excise duty**.
- This is likely to **increase prices of alcoholic products** for consumers which could trigger declining sales and conversion to illicit alcohol sources.

Challenges

- Control of local market for cigarettes and alcohol
- Poor monitoring of illicit trade
- Diversifying state revenue generation sources
- High revenue leakage
- Abuse of regime as customs officers come to own valuation for excise duty

Supports

- Ongoing review of the VAT exemption list
- Shift from direct to indirect taxation systems
- Wide acceptance of excise as an effective method of discouraging harmful behaviour

FISCAL APPROACH TO EXCISE: TANZANIA

Key priorities include tackling illicit trade and supporting agricultural development through affordable alcohol

State development priorities

- Government initiatives consistently target **counterfeiting and illicit alcohol production**.
- In March 2017, the government **banned** the import, manufacture, sale and consumption of alcohol contained in **plastic bags or sachets**. The ban also aimed to prevent consumers aged **under 18** from **gaining access** to cheap alcohol.
- An **Electronic Tax Stamp (ETS)** management system was introduced for cigarettes, alcohol, juice and soft drinks in 2017 to indicate tax compliance from the production stage. It will replace the original paper system.

Coordinated action

- Coordinated activity by the Vice President's Office, the National Environment Management Council (NEMC), the Tanzania Food and Drugs Authority (TFDA), the Tanzania Bureau of Standards (TBS), the Tanzania Revenue Authority and the police is working to ensure enforcement of regulations, particularly the ban on sales of alcohol in sachets, and a clampdown on illicit alcohol factories.
- The state currently lacks a National Alcohol Policy.

Revenue generation priorities

- The state is heavily **reliant on a small number** of large breweries, manufacturers, importers and retailers of alcohol for revenue. Currently, excise and VAT returns for alcohol represent **4.6% of total state revenue** for tax as of Quarter 3 2017/18. Strategies to **widen the tax base** are needed to reduce the dependency on this method of deriving revenue.
- Current **excise duties strongly favour beverages made from local raw ingredients**, attracting lower rates of excise duty.
- The Confederation of Tanzanian Industries (CTI) is seeking a **removal of excise duty on beer** made from local raw material. It also seeks a reduction in excise duty on **RTD alcoholic drinks** in line with beer with a similar alcoholic content.
- Strong arguments **against raising excise rates or utilising fiscal stamps** are demonstrated by the support given by manufacturers to the use of local raw ingredients and the support for the agricultural development it engenders. Low-priced clear beers and ciders are currently **encouraging consumers to switch to licit forms** of alcohol consumption.

FISCAL APPROACH TO EXCISE: UGANDA

Challenges exist in collecting excise tax revenue

State development priorities

- Investment in **public infrastructure**
- A recovery in **manufacturing** and construction
- Development of financial, **trade** and communications services

State budget priorities

- Prioritise **VAT and income tax** collection
- Collection from individuals and **small businesses**
- Control of the fast-growing informal sector
- Effective **implementation of tax policies**
- Tackling **tax avoidance and collusion**

Revenue generation priorities

- Nearly **45% of corporate tax revenue** in Uganda comes from fewer than **30 major corporations** with the majority of these being multinational companies. Large **alcohol beverage manufacturers** are included in this exclusive club.
- The URA is focused on **increasing the tax base** and the number of individuals registered for tax, and generating revenue to support government investment priorities.
- The Ugandan government has introduced a new tax law (implemented from July 2018) targeted towards the country's many individuals who subscribe to social media and mobile banking services. The tax will be deducted by service providers from the account of subscribers, from where it will be remitted to the government. The URA projects revenue of US\$100 million for the 2018 tax year from "social media tax".

Challenges

- Low collaboration among institutions
- Low motivation among staff
- Alleged corruption at many levels
- Low tax base due to high levels of poverty
- Low public confidence in institutions

Supports

- The development of oil resources may alleviate some of the budgetary stress
- In 2017, the World Bank resumed lending to Uganda

FISCAL APPROACH TO EXCISE: ZAMBIA

A new national alcohol policy will shortly be followed by tighter regulation of alcohol consumption

State development priorities

- In May 2018, the government approved a **National Alcohol Policy (NAP)**, in development since 2009.
- Its main objective is the **limitation of excessive alcohol consumption** with new legislation on production, sales and consumption expected shortly.
- The **National Health Policy 2017-2021** is focused on strengthening legislation to **reduce alcohol abuse** and its effects on families and the community.
- A new **Alcohol Bill** is expected to focus on **regulation of consumption** of alcohol among young people with the key objective of lowering alcohol abuse.

Revenue generation priorities

- To date, the government has focused on **raising excise duty** on alcohol as a method of **controlling the use and abuse** of these beverages. The implementation of **tax stamps is not currently publicly discussed**.
- One section of the NAP targets **tougher alcohol taxation** and the **generation of additional income** to support alcohol abuse prevention and treatment programmes.
- It also includes a focus on the **regulation of alcohol advertising** and promotion, **unregulated production** and its formalisation with **public health as the guiding principle**.
- In late 2017, the Local Government Minister called on the government to **shift responsibility to the retailer** to curb sales of illicit alcohol and control access to alcohol among young consumers.
- **The inspection service** of the Zambia Bureau of Standards is to be established shortly as a **separate entity** with its own powers.

Liquor Licensing

- Current law regulates age limits for drinking alcohol as well as restricted hours for the sale of alcohol.
- The law is currently implemented in prosecutions for operating outside stipulated hours, illicit production of alcohol, and cleanliness of outlets.
- Fines are low for offenders.
- The production, importation, packing, distribution, selling and consumption of Tujili jili, alcohol packed in small sachets, was banned by the Ministry of Local Government and Housing through a Statutory Instrument in April 2012.

TAXATION

Country import and excise duty, 2017

Import Duty

Country	Ghana	Mozambique	Nigeria	South Africa	Tanzania	Uganda	Zambia
Clear beer	20.0%	15.0%	20.0%	5.0%	25.0%	25.0%	25.0%
Cider	20.0%	20.0%	20.0%	25.0%	25.0%	25.0%	25.0%
Wine	20.0%	20.0%	50.0%	25.0%	25.0%	25.0%	25.0%
Spirits	20.0%	20.0%	50.0%	ZAR1.54/litre	25.0%	25.0%	25.0%
Ethanol	10.0%	8.0%	20.0%	ZAR3.17/litre	25.0%	25.0%	5.0%

Source: Euromonitor International

Excise Duty

Country	Ghana	Mozambique	Nigeria	South Africa	Tanzania	Uganda	Zambia
Clear beer	47.5%	40.0%	20.0%	US\$0.32	US\$0.32	60.0%	40.0%
Cider	17.5%		20.0%	US\$0.32	US\$0.19		60.0%
Wine	22.5%	50.0%	20.0%	US\$0.27	US\$0.98	60.0%	60.0%
Spirits	25.0%	65.0%	20.0%	US\$5.66	US\$1.45	80.0%	60.0%
Ethanol	0.0%	40.0%	0.0%	US\$12.64		100.0%	0.0%

Source: Euromonitor International





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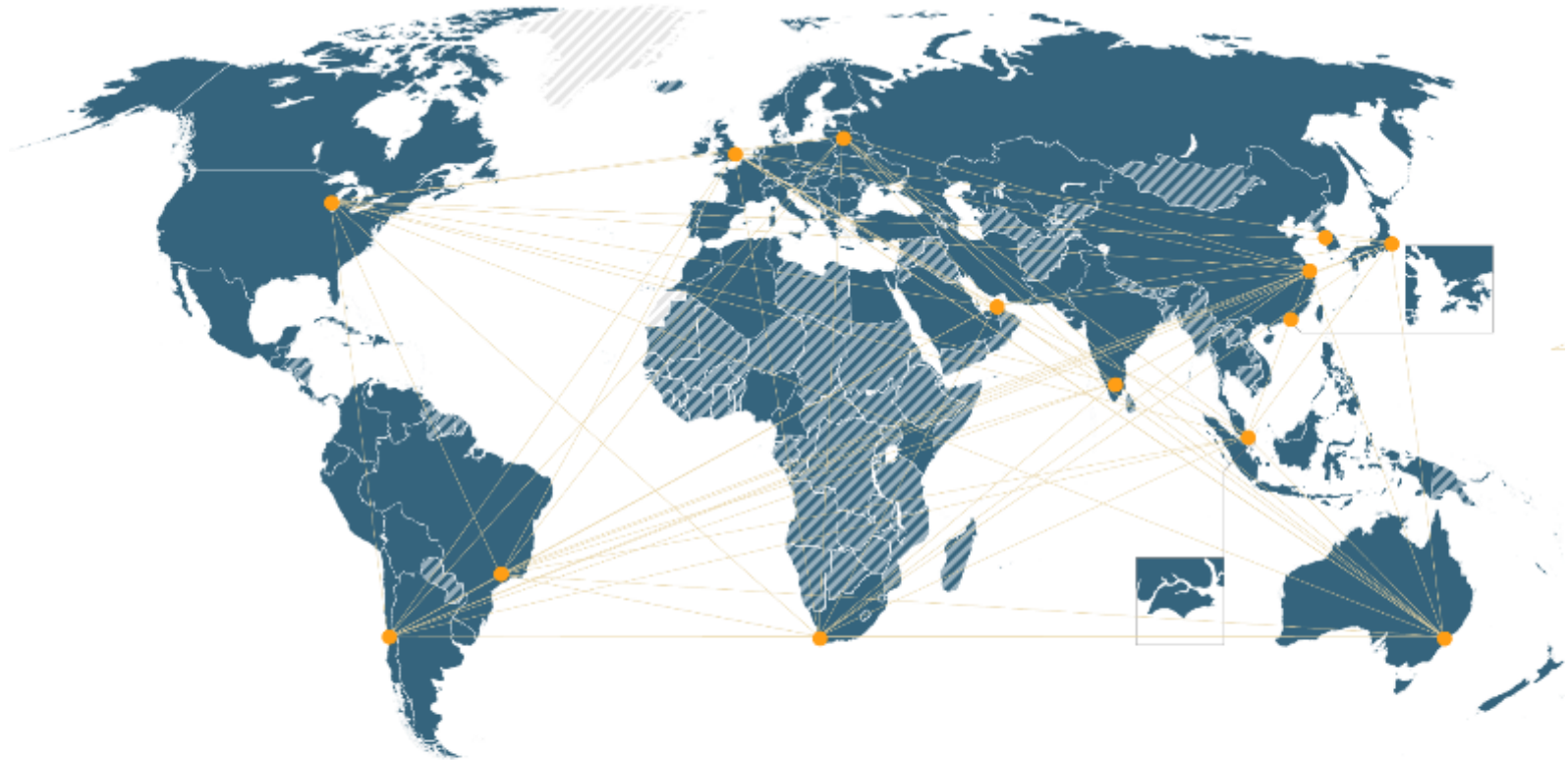
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Euromonitor International network and coverage



14 OFFICE LOCATIONS
London, Chicago, Singapore, Shanghai, Vilnius, Santiago, Dubai, Cape Town, Tokyo, Sydney, Bangalore, São Paulo, Hong Kong and Seoul

100 COUNTRIES
in-depth analysis on consumer goods and service industries

+ 210 COUNTRIES
demographic, macro- and socio-economic data on consumers and economies



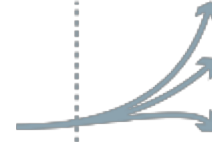
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Custom solutions and capabilities



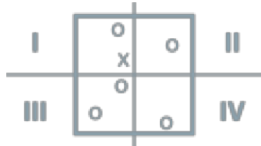
Category evaluation

Sizes, shares, growth
Segmentation
Market entry strategy



Forecasting

Launch, sales, demand, lifecycle
Success/failure probabilities
Determine risk exposure



Competitive intelligence

Profiling
Benchmarking
Partner evaluation



Scenario analysis

Market simulations
Portfolio analysis
Test business cases



Innovation

NPD business case
Consumer insights
Product claims



Consumer analytics

Customer profiling
Income distribution models
Purchasing behaviour



Route to market

Production, imports, exports
Supply and value chain
B2B and B2C channels



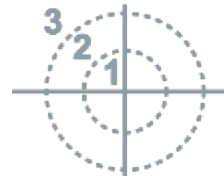
Marketing analytics

Marketing effectiveness
Substitutes and complements
Price and channel strategy



Macro

Opportunity frameworks
PEST
Quarterly tracking



Visualisation

Discovery, sharing, communication
Market attractiveness planners
Performance monitoring





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