Webinar Series Synthesis Report

Filling the Coffers Post-COVID through Pro-Health Taxes
The COVID-19 pandemic has brought a glaring focus on the interdependency between health and economic security. Globally, countries are both mobilizing domestic resources and increasing their reliability on external financing to mitigate the economic shocks resulting from the pandemic. The health sector in many low and middle income countries is facing a disproportionate impact of the pandemic induced economic crisis due to decreasing tax revenues and increasing debt obligations; cumulatively adding to the fiscal pressure on public health expenditure. It is hence imperative for countries to explore designing different financing arrangements that can have multiple impacts on both revenue raising and social welfare, with particular relevance to pro-health taxes or health taxes as a policy instrument to fill revenue gaps.

In this webinar, international experts explored the potential of health taxes as a fiscal measure in meeting shortfalls in government revenues for financing health, as well as the secondary benefits that can arise from having these measures in place. Government experts from finance and health shared their experiences of champions and opponents of implementing Health taxes in their country. The event is second in a series co-hosted by The World Bank and The Global Fund. It is preceded by the “Economic Impact of the COVID-19 Pandemic: Implications for DRM for health” held in June 2020 on Fiscal and Monetary Policies in the COVID-19 Response: Exploring the effects on Health Financing.

Lessons and Key Takeaways
- The COVID-19 pandemic has both a broad economic and health impact
- Globally, increasing fiscal pressures on governments due to decrease in public revenues, and offsets with deficit financing will increase debt obligations and further spur economic crisis and fiscal tightening
- Potential for more revenue generation from increases in tobacco and alcohol taxes, as well as novel (mainly excise) taxes such as on sugary drinks, plastic bags and fossil fuels.
- There are clear linkages between health taxation, increased government revenues and health outcomes
- Political economy factors are important in mobilizing health taxes
- Health taxes are proven to be net progressive, and illicit trade arguments are often overstated
- Soft earmarking is more beneficial than hard earmarking because it is closer to standard budgetary processes
- However, more health taxes don’t necessarily mean more revenue for health

Future Discussion
- How to structure earmarks with a focus on soft earmarking and designing appropriate tax structures and frameworks suitable for country specific conditions
- Enabling collaboration between Ministry of Health and Ministry of Finance in a fiscal constrained environment

Webinar recording can be accessed [here](#) | Background Materials can be accessed [here](#)
Opening Remarks
- Dr. Ajay Tandon, Lead Economist, World Bank
- Dr. Somil Nagpal, Senior Health Specialist, World Bank

Overview Presentation
- Dr. Michael Borowitz, Chief Economist, The Global Fund
- Dr. Kate Mandeville, Senior Health Specialist, World Bank
- Ms. Ceren Ozer, Senior Governance Specialist, World Bank
- Dr. Evan Blecher, Economist, World Health Organization

Country Discussants
- Mexico - Dr. Adolfo Martinez Valle, Professor and researcher at the Policy, Population and Health Research Center of the National Autonomous University of Mexico and the Convener of the Joint Learning Network
- Philippines - Dr. Eduardo P. Banzon, Principal Health Specialist, Asian Development Bank
- India - Ms. Sheena Chhabra, Senior Health Specialist, World Bank

Commentary
Dr. Meera Shekar, Global Lead on Nutrition, World Bank

Closing Remarks
Dr. Toomas Palu, Adviser on Global Health Coordination, World Bank
DISCUSSION

Sugar, rum and tobacco, are commodities which are no where necessaries of life, which are become objects of almost universal consumption, and which are therefore extremely proper subjects of taxation. .......


Even before the pandemic, general government revenues were relatively low in many low and middle-income countries. Tax revenue collection rates are especially low, often far below the 15% of GDP benchmark that has been identified as necessary for sustainable growth and development across countries. Shortfalls in revenue collection are due to challenges in collection of both ‘direct’ taxes (e.g., taxes on income and profits) as well as ‘indirect’ taxes (e.g., taxes on consumption of goods and services). Improving tax revenue collection can occur on a number of fronts, including efficient design and implementation of value-added taxes, improving property taxation, and increasing the base for taxing income from firms and individuals. It is also an opportune time for countries to consider significantly ramping up ‘pro-health taxes or health taxes’. “Health taxes”, sometimes known as sin taxes, are taxes imposed on products that have a negative public health impact, such as taxes on tobacco, alcohol, sugar-sweetened beverages- and can even extend to environmental taxes on pollution that damage health (fossil fuels) or social security contributions that are levied in relation to health. The primary objective of introducing a health tax is to improve population health through reduced consumption of unhealthy products. The secondary objective to raise overall government revenues, Importantly, a health tax does not necessitate that related revenue is earmarked for the health sector.

The economic justification of health taxes or taxing unhealthy products such as alcohol, tobacco and sugar sweetened beverages (SSBs) is well established, and includes the market failures inherent in their consumption, including externalities (e.g. healthcare costs to society), internalities (individuals’ discounting of later costs), and information asymmetry (lack of awareness of risks, pervasive marketing, and industry-influenced research distorting decision-making). Their contribution to the disease burden on account of growing consumption particularly in low- and middle-income countries is a strong rationale behind health taxes. In addition, the pursuit of Universal Health Coverage (UHC) involves significantly reducing out-of-pocket payments and guaranteeing financial and social protection; and is fundamentally based on the country’s capacity to raise general revenue.

Health taxes are garnering significant support in the international community as an untapped potential for plugging revenue shortfall in the times of serious fiscal crunch caused due to COVID-19 economic crisis. The main arguments raised by the global panelists in the webinar were to make a strong case for utilizing health taxes as an effective policy instrument to overcome market failures. It was also discussed that health taxes can promote healthy behaviour and generate significant revenues in challenging tax administrations, low capacity and current cash strapped environments. The Bloomberg – Summers Task Force for Fiscal policy on Health estimated the impact of a 20% and 50% increase in health taxes as below (See table 1):
The South African experience was raised by presenters to demonstrate that health taxes are a noteworthy contributor to government revenue: Excise tax revenues from alcohol, tobacco products SSB’s accounted for 3.6% of total government revenue in 2020/2021. Estimates of potential revenue are projected to be larger in low income countries, and countries can experiment with various tax designs such as specific taxes, ad valorem taxes, or some combination of the two (mixed or hybrid systems). The effectiveness of the tax design is largely dependent on the accountability and transparency of the tax administration agency as well as their technical and human capacity to implement. The presenters also made a very strong case for soft earmarking revenue proceeds from health taxes as opposed to hard earmarking that potentially reduces fiscal flexibility since it follows a formal process that more or less bypasses the budget. Soft earmarking does not use a formal process and proceeds from the tax thus transit though the central treasury account and are fully subject to annual parliamentary review. Although, earmarking revenue from health taxes reduces fiscal flexibility, but soft earmarking may support political economy by supporting consensus building among citizenry and promoting citizen engagement in the budget process hence improving transparency and flexibility.

The panelists also countered arguments that implementing health taxes encourage illicit trade and are regressive. There is significant evidence that when medical expenses and gains in working life are taken into account, health taxes are generally progressive in the long-term, hence rendering the arguments against health taxes unsubstantiated.

The webinar greatly benefitted from the country experiences of Mexico, Philippines and India where the discussants shared experiences of champions and opponents in the implementation of health taxes in their countries.

The Mexican congress passed legislation imposing taxes on SSBs and energy-dense foods of low nutritional value to counter the looming health crisis due to increasing obesity levels in the population as well as generate tax revenues in parallel. These taxes have been successful in increasing revenues and reducing consumption by raising the price of the products taxed. Although traditionally, there has been strong political will to allocate more resources to health including higher earmarked taxes, the recent pandemic makes it highly unlikely for the Mexican congress to reverse the downward trend in health taxes that has been seen in the past 2 years.
Table 2: Health Taxes Implemented in Mexico

<table>
<thead>
<tr>
<th>Product</th>
<th>IEPS*(special Consumption Tax)</th>
<th>Expected revenues (US$ billions)</th>
<th>Effects on Consumption</th>
<th>Earmarked for health</th>
<th>Annual consumption rates (&lt;15 years of age)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beverage with alcohol 14% - more than 20%</td>
<td>25-50% of retail price</td>
<td>NA</td>
<td>NA</td>
<td>General government health spending</td>
<td>4.4 liters per capita</td>
</tr>
<tr>
<td>Cigarettes, cigars and other tobacco (2010)</td>
<td>69% of retail price</td>
<td>2.5</td>
<td>-4.66%</td>
<td>General government health spending</td>
<td>7.7 cigarettes (daily)</td>
</tr>
<tr>
<td>Sugar-sweetened beverages (2014)</td>
<td>10% of retail price</td>
<td>1.3</td>
<td>-0.89%</td>
<td>Revenue generating purposes rather than for health</td>
<td>163 liters per capita</td>
</tr>
</tbody>
</table>

* IEPS: Special tax for production and services

The Philippines Sin Tax Law (STL) of 2012 raised and simplified tobacco and alcohol excises, increasing government revenues, and helped the Philippines move towards UHC. The initial legislation allowed for an 80% allocation of incremental STL revenue to National Health Insurance Program and the remaining towards medical assistance and Health Facilities Enhancement Program (HFEP), which funds additional infrastructure investments in underserved areas. However, although recent revised legislations (TRAIN law) allowed for an increase in tax revenues, it has become difficult to track the increased incremental sin tax revenue and its allocation to the heath sector. Going forward, open and systematic monitoring will be critical to the success of the STL and ensuring its effective implementation.

Table 3: Health taxes Legislation in Philippines

Incremental Revenues for UHC and Health

<table>
<thead>
<tr>
<th>Republic Act 10351</th>
<th>Republic Act 10963</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sec. 8 (C): “After deducting the allocations under Republic Act Nos. 7171 and 8240, ...”</td>
<td>Not more than seventy percent (70%) to fund:</td>
</tr>
<tr>
<td>Eighty percent (80%) of the remaining balance for:</td>
<td>• Infrastructure projects such as, but not limited to, the Build, Build, Build Program</td>
</tr>
<tr>
<td>• Universal health care (UHC) under the National Health Insurance Program (NHIP)</td>
<td>• Military infrastructure</td>
</tr>
<tr>
<td>• Attainment of the Millennium Development Goals</td>
<td>• Sports facilities for public schools</td>
</tr>
<tr>
<td>• Health awareness programs</td>
<td>• potable drinking water supply in all public places…”</td>
</tr>
<tr>
<td>Twenty percent (20%) for:</td>
<td>Part of the remaining thirty percent (30%) may fund social mitigating measures and investments in health, targeted nutrition, and anti-hunger programs for mothers, infants, and young children, among others.</td>
</tr>
<tr>
<td>• Medical assistance</td>
<td></td>
</tr>
<tr>
<td>• Health Enhancement Facilities Program (HEFP)</td>
<td></td>
</tr>
<tr>
<td>funds health facility construction and renovations, and medical equipment</td>
<td></td>
</tr>
</tbody>
</table>
Although there are state variations, the COVID-19 pandemic has to large extent fast-tracked the Indian government’s commitment towards fiscal reforms with regards to the heath sector particularly the Goods and service tax (GST) that channels central funds through state treasuries, allowing for greater flexibility in the state role in allocation of funds for health care. This is significant since health is a state subject in the federal context. The health and education cess tax revenue that is 4% of individual income tax was approximately US $ 6200 million in 2018-19. India has been ambitious with its heath taxes on caffeinated beverages, tobacco products, alcohol and sugary drinks by imposing high tax structure on such products. Interestingly, the state of Kerala has also imposed 14.5% tax on junk food. Since alcohol taxes constitute a significant proportion of indirect state tax revenue, almost 16 states have notably increased the existing taxes and excise duty on liquor to mobilize additional Covid revenue with Andhra Pradesh state hiking 75% excise duty on alcohol.

Table 4: State-wise post COVID Pro-Health Taxes

<table>
<thead>
<tr>
<th>States</th>
<th>Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>~75% hike in excise duty on alcohol; targeting additional revenue of US $ 1285 m per annum</td>
</tr>
<tr>
<td>Arunachal Pradesh</td>
<td>25% increased cess on liquor: Estimated additional revenue of US$ 120 m per annum</td>
</tr>
<tr>
<td>Assam</td>
<td>25% increased cess on liquor: Estimated additional revenue of US$ 140 m per annum</td>
</tr>
<tr>
<td>Delhi</td>
<td>Special Corona Fee of 70% on maximum retail price (MRP) of liquor – mobilised approximately US$ 30 m until the first week of June 2020. Later withdrawn. Instead VAT increased from 20% to 25%</td>
</tr>
<tr>
<td>Karnataka</td>
<td>6% hike on excise duty announced in the 2020-21 budget. In addition 11% COVID-19 fees has been levied.</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>25% increased cess on liquor: Estimated additional revenue of US$ 19 m per annum</td>
</tr>
<tr>
<td>Odisha</td>
<td>50% Special COVID-19 fee on MRP for the year 2020-21</td>
</tr>
<tr>
<td>Punjab</td>
<td>Additional excise duty of 20 cents to 70 cents depending on liquor brand – with a target of collecting additional INR 21m</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>35% hike in excise duty on IMFL, 40 per cent on other liquor categories</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>15% hike in excise duty on IMFL, with a target of collecting additional US$ 357 m</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>14-70 cents on MRP, hoping to generate additional amount of US 336 m</td>
</tr>
<tr>
<td>Uttarakhand</td>
<td>Price of liquor increased by 30 cents to US$ 3 per bottle</td>
</tr>
</tbody>
</table>
The table below summarizes the efforts of the countries in the implementation of health taxes, the revenue raised, and the impact of the revenue on public spending for health, if any.

**Table 5: Overview of DRM Efforts by Country**

<table>
<thead>
<tr>
<th>Country</th>
<th>DRM Effort</th>
<th>Impacts of revenue on target</th>
<th>Impacts on public spending for health</th>
<th>References [LINK/QR CODE]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>Special Consumption Tax earmarked for central government health spending imposed on beverages, tobacco (2010) and SSB (2014)</td>
<td>Increase in revenue collection for the government</td>
<td>Currently, revenue collected from these taxes is not set aside for any particular type of expenditure.</td>
<td>World Bank Discussion Paper 2016</td>
</tr>
<tr>
<td>Philippines</td>
<td>Sin Tax Law, 100% incremental alcohol tax revenue and 85% incremental tobacco tax revenue (2012) RA 10963 or The Tax Reform for Acceleration and Inclusion (TRAIN law) (passed 2018)</td>
<td>80% of incremental revenues goes to premium for poor and 20% to DOH. Increased DOH budget fourfold from 2012-2018</td>
<td>Sustained reprioritization: Public spending per capita increased from US$20 per 2012 to US$41 in 2016</td>
<td>WHO Earmarking for Health, 2017 JLN blog post</td>
</tr>
<tr>
<td>India</td>
<td>Health and education cess of 4% is levied on individual income tax Goods and Service Tax (GST) on caffeinated beverages was increased from 18% to 25% + 12% cess in the 37th GST Council meeting in 2019 Tobacco products: 28% + up to 290% cess depending on the product Alcohol: not brought under GST, but VAT and excise duty is applicable Sugary drinks: 28%</td>
<td>Health and education cess collection in 2018-19 was ~ US $6200 m</td>
<td>Until 2016-17-3% education cess was levied to which 1% cess was added for mobilizing additional resources for health and the ambit was widened to include health. Unclear on the allocation of GST revenue from SSB, alcohol and tobacco</td>
<td><a href="https://www.gst.gov.in/">https://www.gst.gov.in/</a></td>
</tr>
</tbody>
</table>

In conclusion, what remains important is to ensure that any incremental revenues are directed towards improving human capital outcomes as far as possible. There is also tremendous scope for research and discussion amongst global counterparts in the health and finance departments regarding designing appropriate tax frameworks and structures suitable for country specific environments.
Annex.1: Webinar Presentations

Economic Impact of COVID-19 on Fiscal Space

Ajay Tandon
Lead Economist
Global Practice on Health, Population, Nutrition
World Bank
July 2020

Deep Global Economic Contraction is Occurring

Unemployment and poverty rates expected to rise; sectors such as tourism, hospitality, trade may continue to be affected longer; adverse effect on household income, public revenues; income inequality expected to increase... non-COVID health service utilization also declining.
Projected Impact on Public Revenues

Low Income

Upper middle income

High income

Projected Impact on Per Capita Public Revenues

Public revenues per capita 1950-2004, India

Public revenues per capita 1950-2004, Philippines

Public revenues per capita 1950-2004, Mexico

Source: IMF, World Bank

Source: IMF, World Bank

Source: IMF, World Bank
Projected Impact on Public Financing

Projected Impact on Per Capita Public Spending
Public Debt Levels Expected to Increase

Public debt levels expected to cross 60% of GDP in low- and middle-income countries, and 70% of GDP in high-income countries.

Summary: A Crisis for Health Financing

A massive global economic contraction is occurring, causing a rise in unemployment, poverty, inequality as well as declining public revenues, remittances, and household incomes.

Most countries have significantly increased borrowing to mitigate the effects of the crisis; as a result, rising debt levels will likely imply fiscal pressures for many years to come.

Without pro-active reprioritization, public financing for health will stagnate/decline across many low- and middle-income countries, risking reversal of years of progress made towards UHC.

Cutting unproductive spending, increasing public revenues (including via pro-health taxes), and debt relief measures will all be needed to be looked as possible options for fiscal space, including for health.
Filling the Coffers Post-COVID through Health Taxes

Ceren Ozer (World Bank), Kate Mandeville (World Bank), Evan Blecher (World Health Organization), Michael Borowitz (The Global Fund to Fight AIDS, Tuberculosis, and Malaria)

The Joint Learning Network

July 2, 2020

What are health taxes?

- Health taxes are imposed on products that have a negative public health impact (e.g. taxes on tobacco, alcohol, sugar-sweetened beverages, fossil fuels).
- These taxes result in healthier populations and generate revenues for the budget even in challenging tax administration and low capacity environments.
- Health-related taxes or pro-health taxes can be defined much more broadly:
  - Environmental taxes as pollution can damage health
  - Social security contributions (SSC) levied in relation to health
What’s the link between taxes and health?

- Tax revenues above 15 percent of a country’s gross domestic product (GDP) are a key ingredient for economic growth and, ultimately, poverty reduction. About 2/3 of developing countries are below this ratio.

- Covid-19 crisis is further exacerbating inadequate tax revenues, expect to see lower tax revenue-to-GDP ratios across the world.

- Another key risk: at least in short-term, countries may shift focus from SDGs to just staying afloat fiscally.

- We know that achievement of Universal Health Coverage (UHC) implies significantly reducing out-of-pocket payments and guaranteeing social protection; studies show that and this is highly correlated with country’s capacity to raise general revenue.

- Four pathways between taxes and health outcomes (and SDGs in general):
  - taxes generate the funds that finance health expenditures;
  - taxation affects overall equity and economic growth;
  - taxes influence people’s behavior and choices;
  - fair and equitable taxation promotes taxpayer trust in government and strengthens social contracts that underpin development.

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Consumption of these products is increasing in many countries...

Calories sold per capita per day from sugary drinks in 2018 versus 2009, by World Bank income group

...which prevents return on investments into human capital

Number (in millions) of overweight children under 5 years old, by World Bank income group (2000–2018)

Source: UNICEF, WHO, and World Bank 2019

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Health taxes are a bold and effective policy intervention to correct market failures...

- **Externalities**: tobacco, alcohol, and sugary products impose high external costs on society that are not reflected in the prices charged
- **Internalities**: discounting of future consequences due to time-inconsistent preferences, habit strength, addictiveness of nicotine and sugar
- **Insufficient information**: lack of awareness of risks, pervasive marketing, and industry-influenced research distorting decision-making
...with substantial revenue and health impact

Bloomberg-Summers Task Force on Fiscal Policy for Health estimated the impact of health tax increases that would result in a 20% and 50% increase in prices over a 50 year period:

<table>
<thead>
<tr>
<th></th>
<th>2018 US$ billions of excise tax revenue</th>
<th>Years of life gained (1000s)</th>
<th>Value for money: years of life/revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco</td>
<td>1,987 50% increase 3,625 50% increase</td>
<td>160,724 20% increase 401,836 50% increase</td>
<td>80,888 20% increase 110,851 50% increase</td>
</tr>
<tr>
<td>Alcohol</td>
<td>9,428 20% increase 17,778 50% increase</td>
<td>227,421 20% increase 546,745 50% increase</td>
<td>24,122 20% increase 30,754 50% increase</td>
</tr>
<tr>
<td>SSB</td>
<td>724  952 20% increase 59,762 50% increase</td>
<td>24,355 50% increase 59,762 50% increase</td>
<td>33,640 50% increase 62,775 50% increase</td>
</tr>
</tbody>
</table>

Source: Summan et al., 2020

"Countries can save millions of lives if they take action. Despite the clear and growing body of evidence, industry opposition to smart health policies will continue to mislead the public about the harmful effects of their products. That makes it all the more important for the international community to support countries in adopting effective, evidence-based health taxes that will save lives."

Mike Bloomberg

Many governments are taking advantage of this opportunity to fill their coffers...

..with potential for more revenue generation

- Main taxes are: CIT, PIT, VAT, customs duties, fuel excises
- For LICs and MICs, health taxes can represent a larger share of revenues given lower tax-to-GDP ratios.
- Calculation of health tax potential needs to take into account administrative capacity and local conditions

Source: Patrick Petit, Senior economist, IMF, pps from the Collaborative on Domestic Resource Mobilization Under JLN’s Revisiting Health Financing Technical Initiative Meeting, April 16-17, 2018

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With COVID-19, the time is health taxes is now

- Urgent need for revenue generation: *Global Economic Prospects* report estimates a 5.2% contraction in global GDP in 2020. Tax revenues will decline faster than GDP.

- Fiscal space and human capital investment: As fiscal space shrinks, risk is investment in human capital will decline. In the coming months, countries will have to make difficult expenditure choices as they seek to restore fiscal space.

- Consumption of these products or associated conditions are independent risk factors for COVID-19, e.g. smoking and obesity

- Health taxes which improve health outcomes and help raise revenue in short term could decrease health system impact of future waves
Health taxes can be designed in a number of ways...


...that are effective at reducing consumption...

South Africa: price per cigarette pack (decomposed) and total cigarette sales, 1961-2020

Notes: VAT = Value Added Tax, GST = Goods and Services Tax. Source: University of Cape Town
South Africa: excise tax per pack and excise tax revenue, 1961-2020

...and generating revenue

South Africa excise tax revenues, 2020/21

<table>
<thead>
<tr>
<th>Product</th>
<th>Excise revenue (billions Rands)</th>
<th>US$ (billions)</th>
<th>% of general tax revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer</td>
<td>16.5</td>
<td>31.1</td>
<td>1.8</td>
</tr>
<tr>
<td>Wine</td>
<td>5.3</td>
<td>14.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Spirits</td>
<td>9.3</td>
<td>2.9</td>
<td>0.2</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>14.5</td>
<td>84.4</td>
<td>4.9</td>
</tr>
<tr>
<td>Other tobacco</td>
<td>0.4</td>
<td>0.6</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: National Treasury, Budget Review (2020)
Won’t health taxes encourage illicit trade?

**Example: South Africa**
- Industry overstates estimates of illicit trade compared to independent studies
- Creates a narrative that it is growing at an alarming rate or a result of the recent tax increase

![Graph showing trends in illicit market penetration and smoking prevalence](source)

*Median from survey of media reports citing the industry*

**Don’t health taxes hit the poorest hardest? (i.e. regressive)**
When medical expenses and gains in working life are taken into account, health taxes are generally *progressive in the long-term*

25% tobacco price increase

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete pass through South Africa</td>
<td>-0.10%</td>
<td>-0.15%</td>
<td>-0.15%</td>
<td>-0.20%</td>
<td>-0.15%</td>
<td>-0.30%</td>
<td>-0.20%</td>
<td>-0.30%</td>
<td>-0.25%</td>
<td>-0.15%</td>
</tr>
<tr>
<td>Considering price elasticity South Africa</td>
<td>-0.10%</td>
<td>-0.15%</td>
<td>-0.15%</td>
<td>-0.20%</td>
<td>-0.15%</td>
<td>-0.30%</td>
<td>-0.20%</td>
<td>-0.30%</td>
<td>-0.25%</td>
<td>-0.11%</td>
</tr>
<tr>
<td>Reduction in Medical expenses South Africa</td>
<td>0.91%</td>
<td>0.57%</td>
<td>0.44%</td>
<td>0.43%</td>
<td>0.26%</td>
<td>0.16%</td>
<td>0.09%</td>
<td>0.03%</td>
<td>0.01%</td>
<td></td>
</tr>
<tr>
<td>Gains in years of working life South Africa</td>
<td>0.15%</td>
<td>0.16%</td>
<td>0.16%</td>
<td>0.16%</td>
<td>0.18%</td>
<td>0.21%</td>
<td>0.17%</td>
<td>0.16%</td>
<td>0.08%</td>
<td>0.14%</td>
</tr>
<tr>
<td>Net effect South Africa</td>
<td>0.91%</td>
<td>0.57%</td>
<td>0.44%</td>
<td>0.43%</td>
<td>0.26%</td>
<td>0.16%</td>
<td>0.09%</td>
<td>0.03%</td>
<td>0.01%</td>
<td>0.14%</td>
</tr>
</tbody>
</table>


Note: Table assumes a 25% price increase, and medium-bound elasticities. Deciles were created using per capita household expenditure.

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Other common arguments against health taxes

Health taxes....

➢ cost jobs, harm businesses, and slow the economy
➢ encourage illicit trade
➢ harm a country’s Doing Business rating
➢ are discriminatory
➢ are unconstitutional or illegal

Does earmarking make health taxes more effective?

- **Earmarking**: dedicating the proceeds of a tax to a specific expenditure
  - **Hard earmarking**: uses a formal process that more or less bypasses the budget
  - **Soft earmarking**: does NOT use a formal process and proceeds from the tax thus transit though the central treasury account and are fully subject to annual parliamentary review

- In practice we see a wide range of practices from very soft to very hard

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**How is earmarking applied?**

<table>
<thead>
<tr>
<th>Types of earmarked sources</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income/ payroll taxes of general revenue</strong></td>
<td>60+ countries: Most prevalent form, often used to fund social health insurance</td>
</tr>
<tr>
<td></td>
<td>35 countries: tobacco tax revenues</td>
</tr>
<tr>
<td></td>
<td>9 countries: alcohol revenues</td>
</tr>
<tr>
<td><strong>Consumption taxes</strong></td>
<td>e.g. Gabon, Bolivia, Bhutan</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Sparkes, Cashin and Bloom, WHO Symposium on Health Financing for UHC, 2017
Earmarking revenue from health taxes will reduce fiscal flexibility, but soft earmarking may support political economy

– There is no guarantee that earmarking will increase financing: prospect of short-term increase in fiscal space for health but issues arise with fungibility in the longer-term
– Most effective when earmarking practices are closer to standard budget processes
– Soft earmarking can help with:
  • consensus building among citizenry,
  • citizen interest/engagement in budget process, budget transparency

The time for health taxes is now

• COVID-19 has created an urgency and a policy window
  – Significantly reduced fiscal space going into COVID-19
  – Countries will have to mobilize an effective fiscal response
• Wealth of evidence and transferable lessons across health taxes
  – Building on many years of research and implementation of tobacco taxes
  – New frontiers
• Partner support is aligned
  – Including WB, WHO, Accelerator for Sustainable Health Financing
  – Including fiscal policy experts
Filling the Coffers Post-COVID through Health Taxes

Thank You!

For more information, see the JLN Health Taxes Knowledge Package

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**Median Tax Revenue by Country Group, 2000-2018 (Percentage of GDP)**

![Graph showing median tax revenue by country group from 2000 to 2018. The graph compares Low Income Developing Countries (LDCs), Middle Income Countries (MICs), and Developed countries over the years.]

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World Health Organization  The Global Fund  World Bank Group
Median Tax Revenue by Type of Tax, 2017, Percentage of GDP

How countries use earmarking for health

Countries earmark and apportion revenues from indirect taxes.
Countries earmark all or a portion of excise taxes on alcohol sales.
Countries earmark revenues from taxes on other goods that can separately affect health (e.g., sugar-sweetened beverages).
Countries earmark all or a portion of revenue generated from losses.
Countries introduced an earmarked levy or foreign personal income transfers and mobile phone company revenues.

Sin and sugar taxes for UHC

- Republic Act (RA) 10351 (passed 2012)
  - Rationalized and increased excise taxes for tobacco and alcohol products (fermented liquors, distilled spirits and wines)
- RA 10963 or The Tax Reform for Acceleration and Inclusion (TRAIN law) (passed 2018)
  - Increased excise taxes on tobacco and alcohol products, and sweetened beverages
    - 0.12 USD Per liter for beverages sweetened with caloric or non-caloric sweeteners except high fructose
    - 0.24 USD per liter for beverages sweetened with high-fructose corn syrup.
- RA11346 (passed in 2019)
  - Increased excise taxes on cigarettes, vapes, and e-cigarettes; and alcohol products
  - Continued the allocation of Universal Health Care (UHC) of RAs 10351 and 10963

Incremental Revenues for UHC and Health

Republic Act 10351

Sec. 8 (C): “After deducting the allocations under Republic Act Nos. 7171 and 8240, . . .

- Eighty percent (80%) of the remaining balance for:
  - Universal health care (UHC) under the National Health Insurance Program (NHIP)
  - Attainment of the millennium development goals
  - Health awareness programs
- Twenty percent (20%) for:
  - Medical assistance
  - Health Enhancement Facilities Program (HEFP)
    - funds health facility construction and renovations, and medical equipment

Republic Act 10963

- Not more than seventy percent (70%) to fund:
  - Infrastructure projects such as, but not limited to, the Build, Build, Build Program...
  - Military infrastructure
  - Sports facilities for public schools
  - Potable drinking water supply in all public places . . .”
- Part of the remaining thirty percent (30%) may fund social mitigating measures and investments in health, targeted nutrition, and anti-hunger programs for mothers, infants, and young children, among others.
**Mexico:**

**COVID-19: An opportunity for implementing pro-health taxes in Mexico?**

Dr. Adolfo Martínez Valle

JLN DRM collaborative webinar July 2, 2020
Background: Mexico in a snapshot

Fragmented and underfunded health care system

<table>
<thead>
<tr>
<th>Key indicators</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Life expectancy</td>
<td>72.2 years</td>
</tr>
<tr>
<td>Overweight and obesity</td>
<td>72 %</td>
</tr>
<tr>
<td>Spending</td>
<td>1,138 US$</td>
</tr>
<tr>
<td>Public as % of GDP</td>
<td>2.5</td>
</tr>
<tr>
<td>Out-of-pocket</td>
<td>43%</td>
</tr>
</tbody>
</table>

COVID-19 pandemic

- Tax revenue collection rate is 14.6% GDP on average in the last decade
- Economic effects will lead to deep recession in 2020
- Nearly 21,000 US$ income per capita
- Nearly half of population living in poverty will increase
- Government’s delay in introducing social distancing & reluctance to provide fiscal stimulus will worsen the economic situation

Current pro-health taxes implemented: three examples

<table>
<thead>
<tr>
<th>Product</th>
<th>IEPS* (Special Consumption Tax)</th>
<th>Expected revenues (US$ billions)</th>
<th>Effects on consumption</th>
<th>Earmarked for health</th>
<th>Annual consumption rates (&lt;15 years of age)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beverage with alcohol 14% - more than 20%</td>
<td>25-50% of retail price</td>
<td>NA</td>
<td>NA</td>
<td>General government health spending</td>
<td>4.4 liters per capita</td>
</tr>
<tr>
<td>Cigarettes, cigars and other tobacco (2010)</td>
<td>65% of retail price</td>
<td>2.5</td>
<td>-4.66%</td>
<td>General government health spending</td>
<td>7.7 cigarettes (daily)</td>
</tr>
<tr>
<td>Sugar-sweetened beverages (2014)</td>
<td>10% of retail price</td>
<td>1.3</td>
<td>-0.89%</td>
<td>Revenue generating purposes rather than for health</td>
<td>163 liters per capita</td>
</tr>
</tbody>
</table>
COVID-19: a window of opportunity?

**Favor**
- There is political will to allocate more resources for health through this type of taxes
- Other sources of revenues are not feasible after the COVID-19 impact on the economy
- Congress is currently discussing options, including higher earmarked taxes

**Against**
- Although COVID-19 has risen the need to allocate more resources for an underfunded health system, the federal government has not reverted the downward trend in its two years in office
- Moreover, the federal government has other priorities

India:

**FILLING THE COFFERS POST-COVID THROUGH PRO-HEALTH TAXES**

Sheena Chhabra
Senior Health Specialist
Global Practice on Health, Population, Nutrition
World Bank

JLN for Universal Health
Thursday, July 2, 2020
India: Country profile

- India is the 2nd most populous country in the world after China
- Socio-demographic indicators mask variations across state, geography (rural and urban) and gender
- Per capita GDP projected to decline by -6%, one of the largest contractions the country has ever seen, and -11% compared to trend growth rates over 2009-2019.
- Revenue contraction also expected (~2% of GDP) as well as a rise in the overall deficit
- India's health system has made significant progress on many indicators
- But there are large, persistent health gaps among states
- Low levels of public financing for health and high levels of out-of-pocket (OOP) financing for health

<table>
<thead>
<tr>
<th>Demography</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (in billion)</td>
</tr>
<tr>
<td>Decadal growth rate</td>
</tr>
<tr>
<td>Population density per sq.km</td>
</tr>
<tr>
<td>Sex ratio</td>
</tr>
<tr>
<td>Population &lt;35 years</td>
</tr>
<tr>
<td>Literacy</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size (2019): US$ trillion</td>
</tr>
<tr>
<td>Annual average growth rate</td>
</tr>
<tr>
<td>Fiscal deficit as % of GDP (2019-20)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Health</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMR (2016)</td>
</tr>
<tr>
<td>MMR (2014-16)</td>
</tr>
<tr>
<td>TFR (2016)</td>
</tr>
</tbody>
</table>

COVID-19 in India: Current Situation

- Globally, pandemic has peaked in many countries and the locus is shifting to South Asia and Latin America.

- **India** has now overtaken Russia to have the third highest number of daily cases in the world (behind Brazil and USA).

- Incidence was localized to large extent in urban densely-populated clusters: Delhi, Mumbai, Chennai but is spreading to rural areas.

- Almost 16,500 deaths in total due to COVID-19 in India to date. Per capita rates low in India.

- Transmission has picked up since the lockdown – one of the most stringent globally – was relaxed.
Has COVID-19 stalled or fast-tracked reform processes?

- Country has witnessed significant reforms in the last 5 years:
  - Introduction of Good and Service Taxes
  - Transfer of all central funds through the state treasuries, instead of direct transfers to societies
  - Increased tax devolution to states (32% to 42%) providing greater flexibility to states

- Though COVID may have disrupted the economy, reforms are likely to continue:
  - Reforms in the economy, renewed focus on local manufacturing and production, liquidity support to industries, special packages for micro, small and medium enterprises
  - Commitments to upscale public investments in health, specially in secondary level hospitals, infectious disease management and pandemic preparedness, and public health laboratories
  - Unprecedented measures to shore additional revenues to account of shortfalls

Pro-health taxes prior to COVID - an overview

- Health and education cess of 4% is levied on individual income tax
  - Until 2016-17: 3% education cess was levied to which 1% cess was added for mobilizing additional resources for health and the ambit was widened to include health
  - The education and health cess and GST is levied and collected centrally by the Government of India
  - Actual collection is 2018-19 under this head was INR 43,315 crores (~ US $ 6200 m)

- In 2016 Kerala was the first state in India to introduce fat tax of 14.5% on junk food

- Different tax rates:
  - GST on caffeinated beverages was increased from 18% to 25% + 12% cess in the 37th GST Council meeting in 2019
  - Tobacco products: 28% + up to 290% cess depending on the product
  - Alcohol: not brought under GST, but VAT and excise duty is applicable
  - Sugary drinks: 28%

- Taxes on alcohol are collected by state governments – this constitutes a large share of indirect taxes of the state
Increase in taxes on liquor post COVID - a snapshot

Almost 16 states have significantly increased taxes and excise duty on liquor to mobilize additional revenues.

<table>
<thead>
<tr>
<th>States</th>
<th>Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>~75% hike in excise duty on alcohol: targeting additional revenue of US$ 1285 m per annum</td>
</tr>
<tr>
<td>Assam</td>
<td>25% increased cess on liquor: Estimated additional revenue of US$ 120 m per annum</td>
</tr>
<tr>
<td>Delhi</td>
<td>Special Corona Fee of 70% on MRP of liquor – mobilised approximately US$ 30 m until the first week of June 2020. Later withdrawn. Instead VAT increased from 20% to 25%</td>
</tr>
<tr>
<td>Karnataka</td>
<td>6% hike on excise duty announced in the 2020-21 budget. In addition 11% COVID-19 fees has been levied.</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>25% increased cess on liquor: Estimated additional revenue of US$ 10 m per annum</td>
</tr>
<tr>
<td>Odisha</td>
<td>50% Special COVID-19 fee on MRP for the year 2020-21</td>
</tr>
<tr>
<td>Punjab</td>
<td>Additional excise duty of 20 cents to 70 cents depending on liquor brand – with a target of collecting additional INR 21m</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>35% hike in excise duty on IMFL, 40 per cent on other liquor categories</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>15% hike in excise duty on IMFL, with a target of collecting additional US$ 357 m</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>14-70 cents on MRP, hoping to generate additional amount of US 336 m</td>
</tr>
<tr>
<td>Uttarakhand</td>
<td>Price of liquor increased by 30 cents to US$ 3 per bottle</td>
</tr>
</tbody>
</table>

THANK YOU
Annex.2: List of Participants

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