Center for Global Development

Domestic Resource Mobilization for Low-Income Countries through Health Taxes

Summary of Discussions from a Workshop held on May 16, 2019 at the Center for Global Development, London, UK

Welcome, overview and introductions

The purpose of the workshop was to enable experts from health, tax and domestic resource mobilization (DRM) perspectives to join in examining the key questions of whether pursuing this line of research was worthwhile, and if so, what kinds of initiatives would make sense given the range already planned or underway.

On the experiences, perspectives and interests of participants[1]

Participants described their current roles and interests in relation to health taxes. Key points made were:

- Analyses have shown that 'health taxes' can raise significant revenues, especially in relation to user fees. Evidence from middle-income countries shows that health taxes raise significant revenues; simulations show that significant revenues can also be raised from health taxes in low-income countries.
- Claims that health taxes are regressive fail to incorporate the health benefits from reduced consumption
- Excise taxes are probably easier to collect in low governance settings. However, tax administration is a 'missing link' in the health taxes agenda.
- WHO has become been following the health tax debates and had become more active since the 2014 WHA Resolution on Non-Communicable Diseases (NCDs), though WHO treats health taxes as a 'health intervention'. WHO would like to look at taxation more broadly, to embrace the financial and economic aspects, not just the cost-effectiveness arguments.
- A substantial proportion of financing for SDGs in LMICs will need to come from DRM – the issue is how to expand it. There are many different mechanisms for raising taxes but despite technical assistance the results have been poor, and the missing link is essentially political will. A key issue is how these excise taxes can be mobilized appropriately, especially in fraught political environments and where a substantial proportion of the population is poor.

[1] Participants are listed at the end of this document

On how CGD could position itself to add value in this space

Attendees were asked to consider whether there were particular areas that weren't currently being handled by an existing group, and which CGD (with others) could explore. A key issue was whether the focus should be on reinforcing existing initiatives, or whether there is scope for a new institutional arrangement or initiative. Key points made were:

- In ongoing work, the biggest gap is related to improving tax administration. There are questions about how and by whom taxes are collected, and political sensitivities because of the coercive aspect to collection and enforcement. Enforcement is important, and particularly the political will to drive it.
- While WHO is receiving many requests to support improved administration of health taxes (including from middle income countries such as from China, the Gulf Cooperation Council, Malaysia, and Montenegro, amongst others), the World Bank, IMF, and other multilateral organizations are not. While the World Bank has a clear view of the value of health taxes in improving health, it has less clarity about them as a form of DRM.
- CGD could consider compiling what it means to raise health taxes for revenue rather than public health goals, and the implications of this for spending in other areas. This is difficult to assess in a dynamic environment, such as in countries where GDP is growing more than 5% per year.
- CGD could help create a new initiative to encourage and empower policy entrepreneurs in the countries to think more seriously about health taxes across institutions.
- The role of a new initiative should be to provide information and options. The decisions countries need to make relate to questions of policy such as whether population health or revenue raising should be the primary goal, whether or not to earmark, and how to design such taxes.

On making the case for health taxes

- While Ministries of Health and many advocates typically favoured earmarking, some participants thought that DRM should not be discussed in the context of individual sectors, and that earmarking for health would not benefit the sector because of fungibility.
- It was suggested that issues of whether health or revenue should be the goal, or whether or not earmarking should be involved, were essentially political decisions that countries need to make, and that the TA role is to provide information and present options for consideration.
- The preponderance of evidence is that enough is known about the toxic effects of alcohol, sugar and sugar-sweetened beverages (SSBs), and even of salt, to justify taxing them all now.
- A recent paper on how low-income countries (LICs) could raise more revenue had identified eight categories of so-called 'dangling fruit' taxes, with health taxes among the easiest to collect.
- The promise of revenue could be used to begin conversations with Ministries of Finance, in order to draw them into broader discussions about health and NCDs.

- With respect to the issue of increasing reliance on health taxes, Treasuries prefer taxing something that is stable and growing (like sales or income) to something that is supposed to decline eventually (like smoking). This is not an argument against proceeding, but a recognition that it makes it a harder sell, especially when industry responds so quickly.
- International technical assistance appears to have been catalytic for many tobacco control initiatives, for example in the Philippines. There the narrative isn't about earmarking so much as offering to finance health insurance as a way to mobilize health groups for the political battles.
- Tobacco taxes in general tax-based health systems can be likened to risk-adjusted premiums, getting higher risk people (i.e., smokers) to pay more into the system that covers their healthcare costs.
- In some countries efforts to raise health taxes are increasingly being opposed with arguments related to 'freedom' and over-control by government.
- It may be possible to build interest among African treasury and tax officials by getting a few to take the first step. Other countries are more likely to follow because they pay attention to the policies of fiscal or tax people in neighbouring countries.
- Where there is public anger directed toward transnational corporations not paying taxes, health taxes could be portrayed as a way to tax them.
- The revenue potential in LICs is fairly low and this could make it harder to gain attention. A collaboration between the Ministries of Finance (MoF) and Ministries of Health (MoH) is ideal.
- Any new tax will have unintended consequences. It is important to note studies of the effects of excise taxes and VAT on cash poor families, and the need to consider how to compensate them.
- It is more difficult to make the argument for health taxes using a prevention argument than after the epidemic is generalized, as in the Philippines. This is particularly so in LICs, where health ministries are still dealing with the burden of communicable diseases.
- There are multiple options for engaging with governments on health taxes, including:
    - mobilizing advocacy for health taxes among NGOs and Ministries of Health before approaching fiscal policy people; or
    - arguing that countries need health taxes to offset the impact of losing foreign aid in the coming years; or
    - linking health tax efforts to the arguments made by those advocating for greater attention to Non-Communicable Diseases (NCDs).

On some current initiatives

- The Southern African Development Community (SADC) is addressing health taxes under its integration program.
- The International Tax & Investment Center (ITIC) has developed a policy paper on sugar-sweetened beverages (SSBs), and the African Tax Administration Forum (ATAF) and African Union (AU) are also interested.
- There are several other regional initiatives underway, including through the Economic Community of West African States (ECOWAS), East African Community (EAC), SADC, and French African cooperation; through the Inter-American Center of Tax Administrations (CIAT) in Latin America; the Association of Southeast Asian Nations (ASEAN) in Asia; and the Africa Centres for Disease Control & Prevention in Addis Ababa.
- AU also has a DRM initiative and is endorsing health insurance (labour taxes) at the same time. This is despite general expert opinion that health care access should not be financed by labour taxes and that access should not be linked to contributing labour taxes.
- In general, however, tobacco and other health taxes are not on the radar in national agendas in Africa because consumption of commercial tobacco and sugary beverages is still fairly low, albeit increasing rapidly.

On political strategies, coalitions and dealing with industry

- The health priority setting community has had extensive experience in managing difficult stakeholders, such as the pharmaceutical industry. They have technical guidance and procedures to help countries build resilience.
- The Framework Convention on Tobacco Control and associated documents provide guidance for public officials in international organizations and governments. They also provide external political support to help stakeholders in dealing with tobacco corporations. But there were no equivalents for alcohol or sugary beverages.
- There were mixed views on when and how to engage with industry.
- More work is needed on alcohol, including case studies, and a landscape analysis of the civil society groups working on it. Alcohol is more complicated to tax, especially in Africa where about half the market is informal, and there is no civil society.

On hypothecation and linking taxes with UHC

- Hypothecation is not popular with finance ministries for various reasons but they are willing to consider 'soft earmarking.' The downside of 'soft earmarking' is that it can reduce transparency.
- The SSB tax legislation had passed in South Africa with 'soft earmarking', in the form of a 'commitment' to spend more on health, and this had been acceptable both to the Treasury and the MoH.
- A small share of the tobacco tax in Thailand is hypothecated for a very important and underfunded preventive care health fund.
- The UK Soft Drink Industry Levy was put forward primarily as an effort to reduce consumption, and only secondarily for revenue raising. It led to wholesale formulation changes which achieved the health aims but was a poor source of revenue.

On the usefulness of simulations

- The utility of simulations is dependent on the purpose for which they are undertaken. If for awareness raising, then a general exercise is worthwhile, but should incorporate differences in capacity constraints and thus be more realistic.
- The value of simulations depends on the audience. WHO already has a tax model (TaXSiM) for tobacco, as does the University of Cape Town (TETSIM). PAHO is developing similar models for SSBs and alcohol.
- Simple models are fine, but more complex models are also needed to address distributional impacts, variations in elasticities across population subgroups, the distribution of the tax burden (i.e., between producers, retailers and households); and short and long-term impacts (the latter being less clear).
- It is important to look beyond cost effectiveness to cost-benefit analysis, because the opportunity costs might well lie outside the health sector.
- It is also important to look at the tax administration question from a societal perspective. Voluntary compliance is accepted as the best way forward, but to gain that degree of compliance people must feel that the tax system is fair, and that the health benefits really merit popular support. This might require public awareness programs.
- While Treasury and MoFs would be comfortable with models similar to those of the Tobacco Atlas presenting, for example, the Philippines' experience is likely to be more convincing. Tax authorities 'followed the money' and favoured simple metrics, particularly where data already exist as part of business models.

Summary of key points

- *Technical assistance should be demand-driven, so it’s critical to find ways to encourage finance and tax people in LICs to consider health taxes alongside other taxes, to get them on the agenda.*
- *Political issues are more important than technical design issues.*
- *While the revenue potential may be useful for engaging finance people, ultimately health taxes have to be adopted for the health impacts they offer, because the taxes are not sustainable in the long term*
- *The promise of revenue could also be used to draw MoFs into broader discussions about health and NCDs.*
- *There is value in communicating the second order effects of improving the health and lives of the population, and that the effects are progressive in the long run.*
- *Simulations need to be realistic if they are to be useful, and should only be undertaken where the audience is known.*
- *WHO is receiving a lot of requests for technical assistance, including on SSB taxes, but similar demand is not being experienced by ICTD, WB or IMF.*
- *Technical assistance is also needed in tax administration, including in enforcement, but ultimately effective enforcement requires political will.*
- *Efforts to raise health taxes are increasingly being resisted by industry, and LICs need support in pushing back.*
- *Hypothecation may be counterproductive, but soft earmarking may be useful in some circumstances.*

Participants

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