Summary of Proceedings
“Win-Win for Public Health & Domestic Resources Mobilization Conference”

Organized by the World Bank Group Global Tobacco Control Program, in collaboration with the World Health Organization (WHO), and with support from the Bill & Melinda Gates and Bloomberg Foundations

2017 World Bank Group (WBG)-International Monetary Group (IMF) Spring Meetings.

April 18th and 19th, 2017

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Welcome and Introduction

Patricio V. Marquez, Lead Public Health Specialist and Co-Coordinator WBG Global Tobacco Control Program.

The conference, on April 18th and 19th, 2017, was part of the 2017 World Bank Group (WBG)-International Monetary Fund (IMF) Spring Meetings. It was organized by the World Bank Group Global Tobacco Control Program, in collaboration with the World Health Organization (WHO), and with support from the Bill & Melinda Gates and Bloomberg Foundations. The conference aimed to move tobacco taxation to the mainstream of the global development agenda by raising its profile before ministers of finance, ministers of health, other high level government officials, international development aid agencies, foundations, and civil society. As an African proverb states, individuals can travel fast on their own but will get farther if they travel with a group. In this spirit, the conference was centered around the sharing of country experiences on reforming the structure and rates of tobacco taxes, lessons learned, challenges, and results achieved. Thirty countries attended and participated in eleven plenary panels, as did representatives of regional organizations and civil society, including think tanks and academics. The panels were supplemented by keynote and other special presentations.

The agenda of the conference is attached as Annex 1.

1 Participating countries include: Armenia, Azerbaijan, Bangladesh, Bosnia & Herzegovina, Botswana, Brazil, China, Colombia, Ethiopia, Gabon, India, Indonesia, Kazakhstan, Lesotho, Mexico, Moldova, Mongolia, Montenegro, Myanmar, Nigeria, Norway, Pakistan, Philippines, Senegal, Sierra Leone, South Africa, Tonga, Turkey, Ukraine, United States, and Vietnam, in addition to the West African Economic and Monetary Union (WAEMU), the Caribbean Economic Community (CARICOM), the African Union Commission (AUC), and the European Commission (EC).
The link to a video with some key messages from the conference at the WBG site is:


The link to the conference site, where documents and presentations have been placed, is:


Tim Evans, Deborah Wetzel, Sudharshan Gooptu, World Bank Group (WBG); William Savedoff, Moderator, Center for Global Development; Shiyong Wang, Rapporteur, WBG

The opening panel set the stage for the conference, invoking key themes that were then discussed in depth in other sessions. The main objective of tobacco taxes is to reduce or prevent tobacco use, protect the health of the population by reducing health risks associated with tobacco use, the onset of tobacco-related diseases, premature mortality and disability. They also provide the fiscal ‘externality’ of higher tax revenues. The impact of tobacco taxes on improving health also results in reducing health care expenditures, particularly the impoverishment impact of out-pocket payments associated with the treatment of tobacco-related diseases, increased productivity, and increased healthy life expectancy. But tobacco taxes have too often “fallen between the cracks” of health and finance. They also raise important issues of political economy, given the economic and political influence of the tobacco industry in most countries. Senior managers of World Bank Global Practices on health, nutrition and population, governance, and macroeconomics and fiscal management emphasized how they were committed to working together on tobacco taxation as a multisectoral effort. World Bank Group support includes the provision of technical assistance for the undertaking of tax policies assessments, including modelling work to estimate the impact of tobacco tax reforms on prices, consumption, and domestic revenue mobilization under different policy scenarios, as well as helping countries with capacity building, evidence, and facilitating learning among countries. Speakers stressed the need for building strong political coalitions that can mobilize political support to fight tobacco addiction and can resist industry lobbying. Speakers noted that additional revenue from higher tobacco taxes could contribute to expand the fiscal space to finance priority investments and programs that benefit the entire population, including the scaling up of universal health coverage or other pro-poor uses. However, international norms and good practice on tobacco taxation need to be adapted to take account of country specificity.
Keynote Presentation 1: Global Effects of Smoking, Quitting, and of Taxing Tobacco.

Prabhat Jha, University of Toronto.

Commentators: Haruna B Jibril, Botswana; Juan Arturo Sabines Torres, Mexico; Aliona Serbulenco, Moldova; Anselmo Hennis, PAHO/WHO; Jill Farrington, EURO/WHO, Feng Zhao, Moderator, WBG; Renzo Sotomayor, Rapporteur WBG.

The presentation provided a broad survey, supplement by an extensive set of charts and graphs, of worldwide evidence of effects of tobacco consumption on health and of tobacco taxes on tobacco consumption. It shows that tobacco kills more than half its confirmed users prematurely at a rate of about 5 million deaths per year, costing an average loss of two decade of life for those who die prematurely and an average loss of one decade for confirmed smokers overall. He has estimated that the tobacco industry profits are equivalent to US$10,000 per death.

However, premature death is not a given. Cessation by age 40, for example, avoids 90% of the excess risk of continued smoking, and even quitting by age 50 or 60 reduces the risks of death. Tobacco is a big cause of poverty, and tobacco control reduces poverty. The poor win rather than lose with tobacco control policies. Because the poor smoke more and are more price responsive, eliminating mortality from tobacco would reduce by about half the inequality in adult mortality among socioeconomic groups. Excise taxes are the most important intervention to reduce consumption but increases must be large (substantial and not gradual), and smart (simplify taxes to prevent downward substitution). A tripling of the excise tax on cigarettes worldwide would cut consumption by one third and avoid about 200 million deaths in the remainder of the 21st century. Large and smart tax increases should be accompanied by complementary tobacco control measures.

Plenary Panel 1: Tobacco Taxation, Tax System Reform, and Fiscal Consolidation: Recent Country Experiences.

Arman Poghosyan, Armenia; Luis Fernando Villota Quiñones, Colombia; Veronica Vragaleva, Moldova; Jeremias Paul, WHO, Philippines; Oksana Syvak and Konstantin Krasovsky, Ukraine; James Brumby, WBG, Moderator, Roberto Iunes, WBG, Rapporteur.

Specific country circumstances are important, but all country experiences evidence the win-win-win nature of tobacco taxation: good health outcomes and equity and fiscal gains. Tobacco taxes work. Countries need to have a clear strategy that relies on solid analytical work, identifies champions and leaders and builds coalitions. They need to make tobacco taxes simple (structure matters) and to stand up to the challenges that will be placed by the tobacco industry.
The countries in the panel had all made major efforts to increase and reform tobacco taxes. Moldova showed best practice in moving from just an ad valorem tax to a three-component structure that added both specific and minimum excise taxes per 1,000 cigarettes. Tobacco taxes went from 1 to 6 percent of taxes from 2009-2016. Colombia also combined specific and ad valorem taxes and has shown best practice in indexing tobacco excise taxes to inflation plus 4%. It earmarks part of tobacco tax revenues to health. Armenia has rapidly increased tobacco taxes, again combining ad valorem and excise taxes, reaching 1.3% of GDP in 2017. Philippines shows best practice in reducing 4 tiers of taxes to 1 – so maximizing health benefits. Tobacco tax revenues increased by 1.5 times in 3 years and were used to triple the health budget and the number of people covered by health subsidies. The Finance Ministry saw earmarking as theoretically bad but pragmatically as a necessary part of the political process of getting support for sharp tax increases. Tobacco prevalence declined from 30 to 24 percent. Ukraine’s 10-fold increase (in current prices) in tobacco taxes from 2008-2015 contributed substantially to a 40 percent decrease in consumption, even more so among the young. They also contributed to decreases in diseases related to secondary smoking, such as sudden infant death syndrome, and even in fires.

Remarks by Keith Hansen, Vice President, Human Development, WBG; Moderator Sheila Dutta, Senior Health Specialist, WBG.

Tobacco presents a case of unique harm and unique opportunity. Tobacco, like carbon, requires special taxes because they are so noxious. But in addition tobacco is the only product that kills when used as directed. Even its confirmed users try to quit. Unlike most health or other interventions, the World Bank Group discusses with countries, it generates additional domestic resources. Tobacco taxes offer a unique policy offer. It gives fast and measurable benefits – the higher the tax increases the bigger the health and fiscal benefits. It is increasingly the poor who smoke. So tobacco taxes have equity benefits and also reduce chances of catastrophic health events. Not making rapid progress on tobacco taxes is the equivalent of an “own goal” in soccer. The World Bank Group is committed to support tobacco taxes as a key element of its policy dialogue, analysis and operational tools.

PLENARY PANEL 2: Country Evidence: The Economic Cost of Smoking and the Benefits of Tobacco Taxes on Averting Health Harm.

Mark Goodchild, WHO; Xin Xu, CDC; Stephane Verguet, Harvard University: Laura Webber, U.K. Health Forum. Comments by: Jeyhun Mammadov, Ministry of Health, Azerbaijan; Shi Qi, National Health and Family Planning Commission of China; Bekir Kenkinkilik, Public Health Institution, Turkey; Sione Hufanga, Ministry of Health, Tonga. Enis Baris, Moderator, ECA HNP GP Program Manager, WBG; Dorothee Chen, Rapporteur, Health Economist, WBG.

This session presented evidence from surveys and simulations of the economic cost of smoking and the benefits of tobacco taxes at global and country levels. Today, 25% of men
and 5.4% of women smoke daily globally. Progress in reducing smoking prevalence has slowed down over the last ten years relative to the previous 15 years, indicating the need to double our efforts. In 2015, 11.5% of global deaths were attributable to smoking (more than half in just four countries – USA, China, India and Russia).

Caring for those dying or severely ill from tobacco is expensive, with the share of health care in total government budgets rising when tobacco-related diseases and deaths do. The total economic cost of smoking -- from health expenditures and productivity losses together -- was estimated at 1.8% of the world's annual GDP, with almost 40% of this cost in developing countries. Within these totals, health care costs are relatively more important in rich countries, with productivity losses more important in developing countries.

Commentators highlighted the need to continue to provide decision-makers and populations with solid evidence, based as much as is feasible on local data, as well as with brief and convincing messages. To do so, there is a need to better understand the deceptive manipulation of data and analysis used by the tobacco industry.

The China case study presented in this panel dealt with regressivity. In China, tobacco tax increases would be progressive, because poor households have markedly more price elastic demand. A 50% increase in tobacco price through excise tax would lead to a massive estimated 231 million years of life gained over 50 years, a third of which would be in the lowest income quintile. In contrast, only 14% of additional tax revenues would come from the lowest income quintile. The lowest income quintile would also capture 74% of the benefits from protection against the financial risk of catastrophic health events.

**Plenary Panel 3: Are Tobacco Taxes Regressive?**

*Frank Chaloupka, University of Illinois; Alan Fuchs, WBG; Rouselle Lavado and Moritz Meyer, WBG. Comments: Roxana Quader, Bangladesh; Diogo Henrique Tomaz Afonso Alves, Brazil; Blanca Llorente, Colombia; Paul Isenman, Moderator, formerly WBG; Francisco Meneses, Rapporteur, Duke University.*

The session offered presentations that provided a broad review of the global evidence. The analyses of Chile and Armenia, as well as the comments from Bangladesh, Brazil and Colombia, showed that while country income and other socio-economic situations vary widely, their experience is also consistent with the points below. Tobacco taxes are widely considered to be regressive, since the poor spend a higher share of their incomes on tobacco than do the rich. Too often, the analysis stops there. However, it is smoking, not tobacco taxes, that is highly regressive. Lower income groups (the lowest or second lowest income quartiles depending on the country) tend to smoke more. So they both suffer more than the rich from tobacco-related diseases and premature death and to have less money available for non-tobacco family needs. In contrast, increasing tobacco taxes is highly progressive for several reasons. First, the higher price elasticity of demand (price responsiveness) of the poor means that in comparison with the rich they reduce tobacco consumption
proportionately more and so increase tobacco spending proportionately less. So higher tobacco taxes are on the margin increasingly less regressive. In some cases, such as Turkey, they are even progressive. Second and most important, their higher price responsiveness means that the poor get a disproportionately high share of the health benefits of reducing tobacco consumption. This is simply ignored in conventional fiscal analysis of regressivity. Among five Asian countries, the share of taxes paid by the poorest quintile to the health benefits they received ranged from 1.5:1 in India to almost 10:1 in Thailand. Third, the disproportionately high health benefits to the poor also contribute to higher productivity in their work and to longer work lives. Fourth, the poor benefit disproportionately also from reduced financial risk of the catastrophic health events that often drive families into poverty. This increased resilience contributes directly to Sustainable Development Goal (SDG) 1 on poverty eradication (and effect on education of children). Fifth, reducing spending for tobacco frees up household financing for high priority, or at least less noxious, uses. Tobacco is, after all, the only mass market consumer product that when used as directed kills more than half its confirmed users, a large share of whom would pay a lot to be freed from their tobacco addiction. Sixth, revenue from tobacco taxes can be, and very often is, used for health and other pro-poor expenditures. Seventh, as reported in the case of Ukraine in Plenary Panel 1, the poor (with their higher smoking rates) benefit most both from the reduced risk of fires or of consequences of second-hand smoke. Eighth, the points above contribute to meeting several SDGs. The reduced risk of falling into poverty contributes to SDG 1 on eliminating poverty. Freeing up family spending contributes to SDGs 2 and 4 on hunger and education. And the highly progressive distribution of health benefits contributes to SDG 10 on reducing inequalities. Other estimates presented show that tobacco accounts for half of adult mortality differences by socio-economic status. So, in sum, it is smoking, not tobacco taxes, that are highly regressive. Increased tobacco taxes are highly progressive.

**Plenary Panel 4: Tobacco Tax Harmonization under Regional Economic and Political Pacts**. Regional integration: Is tax harmonization a natural next step?

**Sophia Delipalla, Macedonia University, Greece; Annerie Bouw, European Commission; Assane Diouf, Senegal; Karl Theodore, University of the West Indies, Trinidad and Tobago. Estelle Dauchy, Moderator, Campaign for Tobacco Free Kids (CTFK); Darko Paranos, Rapporteur, WBG.**

There are strong reasons for harmonizing excise taxes on tobacco products. Harmonization avoids distortions and tax erosion from illicit trade or from legally buying in neighboring countries, thus raising both tax revenues and the health benefits that come from tax increases. It eliminates tax competition (a race to the bottom in terms of health as well as revenues) and increases overall revenues. Regional economic and political pacts offer a way of achieving harmonization of tobacco excise taxes at lower political and administrative cost, building on existing institutional, analytic, tax, implementation and advocacy structures. However, most economic and political pacts do not have the
mechanisms for mandatory joint standards and enforcement of the European Union, which has seen rapid progress both among its members and among candidate countries. In other cases, such as CARICOM, changes in tobacco taxes still need to be agreed to by individual countries. So there is more need for country-specific data and analysis as well.

April 19th, 2017

Plenary Panel 5: Tobacco Farming and Tobacco Affordability: What Do We Know?


This session was based on case studies from Indonesia, China, Tanzania and Kenya. In general, tobacco is a crop of middling profitability, depending on national and local circumstances. Demand for tobacco farming has not yet declined to any significant extent but is expected to as tobacco control programs make progress. In most cases tobacco farmers already adjust the share of their land allocated to tobacco in response to market forces. And losses of income and employment in most countries would be low as well as gradual, permitting transfer to other crops or other employment. However, in some countries there is an important group of farmers who are dependent on the tobacco industry, which provides credit for inputs -- leaving farmers indebted -- and purchasing at guaranteed prices. This dependency explains why they do not shift to other crops that at first glance look more profitable. Crop substitution also has a gender dimension, as poor tobacco farmers in Africa are primarily women, and they suffer from the health hazard of green tobacco disease. So small tobacco farmers would need special help, whether on technical and institutional aspects of crop substitution or on getting social protection through conditional cash transfers to facilitate substitution. Diagnosing and addressing emerging problems is particularly important because the tobacco industry makes use of negative effects on small tobacco farmers as a way of generating political opposition to tobacco tax increases.
A companion study on China provides dramatic evidence of the need to take account in tobacco tax policy of changes in affordability of cigarettes – i.e. of changes in per capita income as well as of inflation – in understanding changes in tobacco consumption. Adjusting taxes for inflation is by no means sufficient. China’s sustained rapid growth means that the average priced cigarette was 1.85 times more affordable in 2016 than in 2001. And cheap brands were 2.09 times more affordable. This has an important effect on increasing tobacco consumption, since even a 10% increase in cigarette affordability will result in a 6% increase in cigarette consumption.

**Keynote Presentation 2: Lessons from the United States’ and Norway’s Experience with Tobacco Taxes.**

Jason Furman, Former Chairman of the United States President’s Council of Economic Advisors and Senior Fellow, Peterson Institute. Bjørn-Inge Larsen, Secretary General, Ministry of Health and Care Services, Norway. Bert Hofman, Commentator, WBG. Alexander Kremer, Moderator, WBG; Rapporteur Rosa Sandoval, Rapporteur, PAHO/WHO

Tobacco taxation policies have been effectively used in the United States, where the price elasticity of demand was a surprisingly high 0.5%, and in Norway to reduce tobacco consumption. Tobacco taxes are not regressive. In fact, they are very progressive. Tax increases should be high, consistent, and indexed above the inflation level.

Both experiences highlight the benefits of earmarking as a way of responding to objections to tax increases, particularly in the face of industry lobbying. In the United States, soft earmarking for health insurance for children permitted more than tripling the federal excise tax in the face of industry lobbying against tax increases. This led to a 15% decline in smoking among the young and saved 50-75,000 lives, although this gets little public recognition. The commentator added that he had formerly opposed all tax earmarking but that he was convinced of its desirability for tobacco control, including as a way to increase progressivity. Lessons learned in the United States were the need to index tax increases at least to inflation and to apply them equally to all tobacco products to avoid substitution from more expensive to lower-priced cigarettes.

Norway also shows the importance of viewing taxes as part of a broader tobacco control strategy. Public approval for banning smoking in public places grew rapidly from 45 to 90 percent. This included strong approval from daily smokers, showing how smokers want to quit. Other steps were plain packaging, mass media campaigns, and smartphone apps – which were more effective than hotlines to encourage quitting. Norway also shows the importance of increasing taxes faster than purchasing power.
Special Presentation 1: Tobacco Tax Policy Reform as part of Macro Fiscal Reforms supported under WBG Development Policy Operations (DPO): An Overview from Colombia’s Experience

Jasmin Chakeri, WBG and Roberto Iunes, WBG; Patricio V. Marquez, Moderator, WBG.

World Bank Group support for tobacco taxes goes well beyond health projects. There is increasing use of tobacco taxes as integral parts of Development Policy Operations (DPOs), as well as in operations with a longer time frame including Program for Results (PforR). DPOs provide general budget support based on agreed policy programs. In Colombia, the focus was on fiscal sustainability and competitiveness, particularly to support the implementation of the recently-signed and approved Peace Agreement ending more than 60 years of civil war in the country. Tobacco taxes, which had been low, were increased sharply, particularly through rapid increases in specific excises. There was also indexing at 4% over inflation, which serves as an excellent example for other countries for addressing the ‘affordability’ issue that arises when excises increase less rapidly than current incomes. Revenues were earmarked mostly for health. Tax reforms were accompanied by stronger tax administration and anti-contraband measures. There was close collaboration among World Bank Group macro-fiscal, trade & competitiveness and health teams as well as with their Colombian counterparts. There was priority attention to evidence needed to inform public opinion, challenge interest groups opposed to tax increases, and reassure decision makers of the theoretical and empirical soundness of the basis for their decisions.

Special Presentation 2: Tobacco Taxation and Control in Sub-Saharan Africa: A Perspective from the African Union Commission (AUC).

Ambassador Chihombori Quao, AUC Ambassador to the United States; Patricio Marquez, Moderator, WBG; Alejandra Garcia-Meza, Rapporteur, George Washington University.

Ambassador Quao, who is a physician, gave a stirring presentation on the dangers of the tobacco epidemic to Africa, the need for strong cross-sectoral action, including the key step of raising tobacco taxes, and the increasing priority being given to it by the African Union Commission. She said that “there is not a single cell [in the body] that is not affected by smoking”. It is not only a drug but a gateway drug. In African villages, out of ignorance, young people start smoking at 5 and 7 years of age, the same way people once did in the United States. The epidemic in Africa is not understood and not discussed enough. This issue is being addressed at the African Union Commission level and is being taken very seriously. They understand the impact tobacco can have on both economic development and the health status of their countries.
Taxation is the way to help slow down the prevalence of new users and to cut down on those who already smoke. Sustainable development is not consistent with the current trends of cigarette smoking in Africa. Some countries already have strong programs that ban advertisement and support other tobacco-control policies. She hopes that all countries will do the same. She concluded by expressing her hope that Africa is beginning to turn a corner and that it will get to a point where African countries can say “cigarettes no more”.

**Plenary Panel 6: Tobacco Taxation and Control: Lessons from Country Experiences.**

**China:** Shi Jian, China; Shri Devi Prasad Misra, India; Jose Luis Pedraza Cervantes, Mexico; Mpho Vincent Legote, South Africa; Sione Vave Faleafa, Tonga; Mustafa Utku Özmen, Turkey; Doan Thi Thu Huyen, Vietnam; Nigar Nargis, Moderator, American Cancer Society; Patricia Sosa, Rapporteur, Campaign for Tobacco Free Kids (CTFK).

In Mexico the adoption of a tobacco tax to reduce consumption has served as a model for taxing other products that threaten public health (junk food and sugar beverages). The Mexican Finance Ministry opposes earmarking of tobacco taxes, which would be enough to cover only US$1.8 of the US$3 billion health budget. In Tonga, the biggest challenge is the sale of local tobacco, Tapaka Tonga, since it is sold by farmers informally on their own farms and in local shops. In 2014, Tonga also adopted non-tobacco tax measures including a smoking ban, a minimum age of 18 for purchasing tobacco products, and a ban on sale of individual cigarettes.

In Turkey, the tobacco tax quadrupled and consumer price almost doubled between 2005 and 2016. These tax increases have successfully reduced consumption among low- and middle-income smokers, although not among those consuming premium brands, whose higher incomes made them less price responsive. Turkey illustrates the broader need to reconcile diverse interests: finance officials focus on revenues and stability; health officials and NGOs focus on reducing consumption; economic officials focus on production; and the industry focuses on increasing consumption.

In South Africa tobacco tax has reduced consumption although the government lacks data to assess the impact of illicit trade. In 2015, it removed the VAT, and decided to focus solely on excise tax, with a tax burden of 40%. This would be adjusted based on retail price and inflation. The tax is collected at the point of manufacturing and importation. As a result of the tax increase, South Africa experienced a dramatic increase in the revenues.

In Vietnam, excise taxes earmarked to fund a “National Tobacco Control Fund” allowed the Ministry of Health to fund initiatives for awareness of the harms of tobacco and for smoke-free public areas and to expand access to cessation programs. This is a first step in translating policy to reality at the local level in a country with one of the highest smoking rates among men in the world. In India, the tax structure is complex with a variety of measurements used to assess taxes, including length of cigarettes and size of filter, and with a variety of other taxes at the state level. India also taxes locally produced bidis,
hookahs and chewing tobacco. This variety of cigarette ‘tiers’ and products makes it difficult to tax to reduce consumption, since smokers shift from one product to another.

**Keynote Presentation: Tobacco Taxation and Financing for Development.**

*Masood Ahmed, president of the Center for Global Development, and former IMF Director, Middle East and Central Asia Department. Paul Isenman, Moderator, WBG consultant; Omer Ramses Zang Sidjou, Rapporteur, WBG.*

Mr. Ahmed drew on his personal experience as IMF regional director to regret that tobacco taxes are too often not even part of the conversation in circles where tax policy is discussed and set. There is need for greater recognition by development and finance leaders that tobacco excise taxes are an extremely effective way to reduce tobacco consumption and mobilize domestic revenues. It is important to counter key objections raised by policy makers. One such objection is that tobacco taxes will not make a significant contribution to total tax revenues. Mexico and Poland are among the examples that have shown significant revenue gains. A second objection is that tobacco taxes are regressive, when in fact evidence shows that the poor benefit more than the rich. A third objection is that tobacco taxes will cause increased illicit trade that countries cannot counter, when the evidence is that countries like Kenya and Brazil have done so and that price rises reduce consumption even in the face of some smuggling. The World Bank Group and IMF should build on real progress being made by many countries, put tobacco taxes more firmly at the forefront of their engagements, and play a lead role in a broader coalition to get tobacco taxes recognized as a top development priority. He ended by committing CGD to active participation in that coalition.

**Plenary Panel 7: How to Design and Enforce Tobacco Excises.**

*Patrick Petit and Janos Nagy, Fiscal Affairs Department, International Monetary Fund. Blanca Moreno-Dodson, Moderator, WBG; Violeta Vulovic, Rapporteur, WBG.*

The IMF has recently issued a ‘How to’ note, drafted by the presenters, on how to design and enforce tobacco excises. This note was issued in the context of the IMF’s commitment to supporting SDGs and the Financing for Development Addis Ababa Action Agenda to strengthen tax systems in developing countries. Potential revenue from the tobacco taxation is not as high as from major income or consumption taxes but has real potential and already accounts for over 1% of GDP in a number of countries. And it supports important public health objectives, both in the short and long-term. Key determinants of revenue potential are the price elasticity and current levels of tobacco excises as well as current levels of tobacco consumption and administrative capacity.

The IMF finds that earmarking of taxes increases budget rigidity and complicates budget management. However, it recognizes the political attractiveness of dedicating revenues from proposed tax increases to particular popular health or related programs. If earmarking
is used, it should preferably be “soft”, politically linking commitment to raise taxes to specific initiatives but without an accounting or legal link between the two.

Governments increasingly are using specific excise taxes, which are compatible with health objectives and are easier to manage than ad valorem excises. Ad valorem excises, have the advantage of de facto automatic adjustments for inflation. But similar periodic increases of specific excises could also be achieved by building the increases into excise legislation. The IMF has a preference for a gradual approach to tax increases and capacity building. Countries should focus on building their administrative capacity to more effectively enforce the tobacco tax policies through: strengthening the legal framework; empowering the excise administration to audit and conduct criminal investigations; penalizing illegal activity; sharing and using monitoring information; and working with regional and international organizations, including in implementing the Protocol to Eliminate Illicit Trade in Tobacco products.

**Plenary Panel 8: Tobacco Taxation and Illicit Trade: Are they Connected?**

*Latin America’s Experience: Enrique Fanta, WBG; Turkey’s Experience: Volkan Cetinkaya, WBG; Kenya’s Experience: Caxton Masudi Ngewo, Kenya; Philiso Phodiso Valashia, Commentator, Botswana; Matt Myers, Moderator, Campaign for Tobacco Free Kids; Magaly A. Clavijo, Rapporteur, WBG.*

Countering criminal networks and strengthening customs and tax administration are “win-win-win”- better health, more revenue, and less tax avoidance. However, there is a need to separate out facts from myths on illicit trade. The tobacco industry has used illicit trade as a reason to raise tobacco taxes slowly if at all. While illicit trade requires priority attention, country evidence shows that raising tobacco taxes nonetheless generates substantial additional government revenue. Evidence presented from Turkey, Kenya and Latin America showed clearly that the main cause of cigarette smuggling is not tobacco taxes but institutional issues that include: weak government enforcement capacity; overly complex tax systems; organized crime and corruption; complicity of the tobacco industry; and lack of sufficient regional and international cooperation.

These cases also showed how strengthening administration reduced illicit trade even with sharp tax increases. Turkey raised tobacco taxes to 8% of total revenues, three times the budget of the Ministry of Health and significantly reduced both consumption and illicit trade. The Kenya case was also an example of how the tobacco industry, which claimed that every tobacco control measure causes illicit trade, both provided misleading data to government and was complicit in illicit trade.

Experience in Latin America shows that strong professional customs administrations and good information technologies (IT) and registration systems provide the ability to identify and counter illicit trade actors. Some countries have improved this by having a single tax payer number, which aids efforts to “follow the money”. Electronic stamps are also important. However, weak coordination and sharing of information between tax and customs administrations, as well as in some countries corruption even at high levels, set back the continuing battle against illicit trade.

Nojibur Rahman, Bangladesh; Snjezana Brckalo, Bosnia and Herzegovina; Suhasil Nazara, Indonesia; Joel Oguima, Gabon; Motena Tsolo, Lesotho; Khin Yamon Aung, Myanmar; Toluwalola Kasali, Nigeria; Patricio V. Marquez, Moderator, WBG; Vandana Shah, Rapporteur, Campaign for Tobacco Free Kids (CTFK).

The rich diversity of country experience strongly reaffirmed key points coming from previous conference sessions. Simplification and use of specific excise taxes, including reduction of ‘tiers’ of price levels, as in the Philippines and Pakistan, are a priority for increasing health benefits and revenues. World Bank Group technical support had helped in such design issues in a number of countries. Taxes should cover other tobacco products as well as cigarettes, as in Myanmar. Tobacco industry intervention to discourage sharp increases and improvements in structure of tobacco taxes was widespread. The industry used misleading arguments and data to claim that the effect would be losses in jobs and in revenue and increases in illicit trade. But funds not spent on tobacco would be spent on other goods and services, creating other jobs directly and through their multiplier effect.

Tax revenues had become a major part of overall tax revenues in those countries that had acted boldly to raise tobacco taxes and to strengthen tax administration to ensure compliance. These additional taxes can be used, as in the Philippines and a number of other countries, to support other health programs, including the expansion of health insurance coverage. This helps strengthen coalitions, including with civil society organizations, to favor tobacco tax increases and to resist industry lobbying. Regional cooperation and pacts are important and need to be strengthened, including, for example by addressing the West Africa Economic Monetary Union (WAEMU) tax ceiling, which constrained Senegal’s bold increases in tobacco taxes. Tobacco taxes should have multi-year roadmaps, as in Indonesia and should be integral parts of broader tobacco control strategies, as in Vietnam.

Plenary Panel 10: Some Perspectives for the Future

Slavea Chankova, The Economist; Michael Myers, Rockefeller Foundation; Sheila Dutta, Moderator, WBG.

It was emphasized the progress that has been made, initially slowly and recently more rapidly, since the landmark report of the U.S. Surgeon General in 1964. A striking slide demonstrated graphically that although tobacco taxes were the most effective means to reduce tobacco consumption, overall progress in reducing consumption between 2007 and 2014 was strongly influenced by whether complementary steps for tobacco control were introduced. The complementary steps covered included advertising bans, cessation programs, warning labels, and bans on smoking in public places. Turkey, which sharply
increased and reformed tobacco taxes, was the only country to take all the complementary steps covered, and it achieved one of the biggest declines in smoking.

Additional emphasis was placed on the importance of tobacco taxes in the context of broader tobacco control programs. It was reiterated the importance of additional evidence, citing the progress made in the United States after the spread of new knowledge on second-hand smoke. Like previous participants, presenters emphasized also the importance of dedicating resources from tobacco taxes as crucial for generating political support. Dedicating resources for health programs and for complementary programs affecting health in other sectors helped mobilize constituencies, including civil society organizations and religious leaders, to counter political and industry resistance.

**Closing Session: The Way Forward and WBG Commitment**

**Tim Evans, Senior Director, WBG;**

**Patricio V Marquez and Blanca Moreno-Dodson, Moderators WBG.**

Tim Evans thanked all participants and thanked the Bill & Melinda Gates and Bloomberg Foundations for their support to the conference. He emphasized some of the key themes that had emerged from the conference. Tobacco taxes are strikingly effective in reducing the enormous disease and death toll caused by smoking. They are a necessary but not sufficient part of broader national tobacco control programs. Attention to detail is important in planning and implementation, for example in the structure of tobacco taxation and in tax administration. How tobacco taxes are used is also critical to obtaining political support for moving forward. They should be seen, for example, as health promotion or health dividend taxes.

However, it was advised that is important to rise “above the weeds” and make sure there is broader recognition and political support for tobacco control as a ‘best buy’ for health and for development as a whole. Its major objective is reduced disease and death and improve the overall social and economic well-being of countries. Country evidence also shows that it can make a major contribution to domestic resource mobilization and so can get strong support from finance ministries. And it is crucial to meeting Sustainable Development Goals (SDGs), both for improving health and for combatting poverty. Country strategies for tobacco taxes should be integrated into broader tobacco control strategies and should establish specific targets to mobilize political support and drive action. These targets should include reduction in smoking prevalence, lives saved, revenue increases, and incremental dividends for health and other development programs.

The World Bank Group is committed to providing support for the planning and implementation of country strategies for tobacco control through its operations, analysis, technical assistance and shared learning. Success also requires strong commitment by top leadership at both country and global levels. World Bank leadership will work closely with
leadership of other development institutions to this end. And it will seek to convene Finance Ministers to inform them and get their commitment to tobacco control. The World Bank Group is looking forward to working with the conference participants and with their countries and institutions in this crucial common effort.

Special thanks was conveyed to World Bank Group staff who were working hard to support country efforts, citing strong progress that some countries, including Ukraine, Moldova, Colombia, Kenya, Armenia and the Philippines, have made. The importance of shared knowledge and of solidarity among those working on tobacco taxes at country level was also emphasized. What is done at global level is significant only to the extent that it makes a positive difference in what gets accomplished at country level, and in particular in how it helps those – children, men and women – who will suffer from tobacco-related diseases, premature death and lasting disability as a result of their having been deliberately addicted to tobacco.