

Advancing public health and financing goals under the Universal Health Coverage (UHC) Agenda:¹

A Proposed Tobacco Tax and Illicit Trade Joint Learning Network (JLN) Module

Concept Note

Background

While international financial assistance is necessary to help countries translate into reality the vision for a world free of extreme poverty, where there is opportunity for all, it is recognized, as observed by country authorities and global experts², that domestic resources depend in large measure on economic growth. Growth, in turn, is supported by an enabling economic, social, and environment policy environment, including counter-cyclical fiscal policies, domestic resource mobilization, adequate fiscal space, and good governance.

In 2015, the “Financing for Development Addis Ababa Action Agenda” adopted at the Third International Conference on Financing for Development-- and later endorsed by the United Nations as part of the Sustainable Development Goals (SDGs) -- recognized that public policies and mobilization, and effective use of domestic resources, underscored by the principle of national ownership, are central to the common pursuit of sustainable development, including achieving the SDGs. Clause 32 of the Action Agenda states that price and tax measures on tobacco are viewed as an effective and important means to reduce tobacco consumption and health care costs, and represent a revenue stream for financing for development in many countries. The Action Agenda also stresses that the tobacco tax agenda is fully consistent with obligations acquired by 180 countries that are parties to the WHO Framework Convention on Tobacco Control (FCTC) (an additional seven countries have signed the FCTC but have not ratified it, and only nine countries are neither signatories or parties to the FCTC).

In this context, national governments with support from the development community need to redouble its commitment to raise taxes on tobacco products to achieve public health and fiscal goals.

The negative health, social and economic impacts of tobacco use is a significant global health challenge. Tobacco use is the main preventable cause of death. Each year, it kills nearly 6 million people, including more than 600,000 non-smokers who are exposed to second-hand smoke. Taxing tobacco is one of the most cost-effective measures to reduce consumption of this product that kill prematurely, make people ill with all kinds of tobacco-related diseases (e.g., cancer, heart disease, respiratory illnesses), and cost health systems enormous amounts of money for treating often preventable diseases. In addition, hiking tobacco taxes can help expand a country’s tax base to mobilize needed public revenue to fund vital investments and essential public services that benefit the entire population and help build the human capital base of countries, such as financing the progressive realization of universal health coverage and mental health scale-up.

¹ Prepared by Patricio V. Marquez, Lead Public Health Specialist, The World Bank Group, in consultation with Blanca Moreno-Dodson, Lead Economist, Economic Growth, Finance and Institutions (EFI) Vice-Presidency, The World Bank Group; WHO, Secretariat of the FCTC, UK Health Forum, University of Cape Town Tobacco Control Knowledge Hub, and American Cancer Society teams.

² See: “Taxing tobacco and the new vision for financing development”: <http://blogs.worldbank.org/voices/taxing-tobacco-and-new-vision-financing-development>, and “Plain packaging & tobacco taxes: an antidote for manipulation and deception”: <https://blogs.worldbank.org/health/plain-packaging-tobacco-taxes-antidote-manipulation-and-deception>. Also visit: WBG Tobacco site: <http://www.worldbank.org/en/topic/health/brief/tobacco>.

Indeed, of the various measures that reduce the demand for tobacco, the single most effective and sustainable method (in that it can be applied over and over) is increasing the excise tax. Higher excise tax increases the retail price of tobacco products, which makes them less affordable, which, in turn, decreases the demand for these products. Despite the addictiveness of nicotine, an increase in the retail price of cigarettes decreases the demand for cigarettes through a number of channels: (1) some smokers quit, (2) potential smokers do not initiate smoking, (3) quitters are less likely to relapse, and (4) remaining smokers reduce their consumption (IARC, 2011). Hundreds of studies from across the world have shown that the relationship between increases in the retail price and decreases in tobacco consumption is remarkably stable and predictable. A 10% increase in the real (inflation-adjusted) retail price has been shown to decrease tobacco consumption by between 4% and 8% (IARC, 2011).

Article 6, and the associated Guidelines, of the FCTC specify that Parties should use tax and price policies to reduce tobacco use. Many countries have raised the excise tax with very positive public health and fiscal consequences. However, a large number of countries seem reluctant to increase the excise tax on tobacco products. In some countries there is a lack of technical capacity in Governments (Ministry of Health, and even in the Ministry of Finance), with respect to tobacco taxation. In many countries the structure of the excise tax is less than optimal, e.g. a very complex tax structure which is subject to exploitation by the tobacco industry. In some countries the government has bought the industry's argument that an increase in the excise tax might result in a reduction in excise tax revenue, lead to a massive increase in illicit trade, or deprive the economy of many jobs.

While there is sufficient technical capacity in most high-income countries to improve excise tax structures and raise the tax levels, many low- and middle-income countries have expressed a need for technical support in this area.

The World Bank Group (WBG) is actively involved in supporting countries advance the implementation of the provisions included in WHO's FCTC, including providing technical support to countries proposing to raise tobacco taxes and improve tax administration under the WBG Global Tobacco Control Program. The Program assists selected countries in fostering and implementing tobacco tax reforms to achieve public health goals by reducing tobacco affordability and consumption, and controlling illicit trade on tobacco. The WBG teams engaged in this Program are multi-sectoral, and include specialists from the Health, Nutrition and Population (HNP) Global Practice (GP), Economic Growth, Finance and Institutions (EFI) Vice-Presidency, and Trade and Customs GP. The WBG teams are also working closely with other international partners. In accordance with the Financing for Development Addis Ababa Action Agenda, the WBG is also promoting raising tobacco taxes as a way to raise some domestic revenue for health and other priority investments.

The WBG Tobacco Control Team, along with partners such as World Health Organization (WHO), Secretariat of the FCTC, UK Health Forum, the University of Cape Town Tobacco Knowledge Hub, and the American Cancer Society, and funding support from the Bill & Melinda Gates Foundation and the Bloomberg Foundation, has been working with Ministry of Finance/Ministry of Health officials in many low and middle income countries to improve the effectiveness and efficiency of their tobacco tax systems and to address administrative concerns such as illicit trade. The *WHO Tobacco Tax Simulation model* (WHO TaXSiM), along with other models such as the UK Health Forum microsimulation model, are used as key analytical tool in support of these technical engagements.

The TaXSiM model describes the current market and tax situation for domestically consumed cigarettes, and then predicts the impact of tax changes on cigarette prices, consumption volumes, and tax revenues for the following year. These models are typically developed in close collaboration with the Ministry of Finance officials using administrative and market level data. A web-based version of TaXSiM has been to allow a wider range of stakeholders to use the model. This web-based model was specifically designed to

reflect a wide range of different tax systems in place throughout the world, and as such is a unique and innovative tool for stakeholders to use for both forecasting and educational purposes.

The UK Health Forum has developed an epidemiological microsimulation model that enables the future burden of behavioral risk factors such as smoking and related chronic diseases to be quantified. One output of this model is estimation of the impact of a range of interventions or 'what-if' scenarios on the incidence and prevalence of risk-factor related diseases in the future, e.g. tobacco taxation, alcohol and sugar-sweetened beverage taxes.

The Secretariat of the FCTC recognizes the need to support Parties in the area of tobacco taxation. Thanks to its experience and technical capacity, the FCTC Secretariat has chosen regional centers such as the University of Cape Town as one of seven FCTC Knowledge Hubs. The Knowledge Hub at the University of Cape Town will support the Parties in Africa to comply with Article 6 (tax and price) and Article 15 (illicit trade) of the FCTC. The activities to be supported under the Knowledge Hubs include: systematic review of ex ante tobacco tax modelling techniques and results; individual country level support for tobacco tax modelling and issues related tax avoidance and tax evasion; and workshops on tobacco taxation modelling and tobacco tax avoidance/evasion.

Objectives

The objectives of this JLN module are to share evidence and best practices on raising tobacco taxes and the illicit market. The knowledge-sharing on the use of simulations models will be geared to empower national teams to demonstrate the potential impact of raising tobacco taxes on both fiscal revenue generation and consumption, and the impact on health conditions and social welfare, whilst evidence from throughout the world will be used to discuss the problem of illicit trade as well as possible solutions.

Expected Outcome

The expected outcome of the JLN model is to strengthen national capacity and build a community of practice under the JLN for tobacco taxation as a public health and revenue generation measure.

Initiative description

The proposed activities would consist of a series of knowledge-sharing activities tailored to the needs of the countries on specific themes relevant to tobacco taxation, tax modelling, and illicit trade. Technical support would be mobilized from the WBG; WHO, FCTC Secretariat, UK Health Forum, the Knowledge Hub at the University of Cape Town, and the American Cancer Society.

Specific topics to be covered under this proposed module may include:

- **Taxes a public policy tool:** a new consensus seems to be emerging to globally enforce corrective tax instruments, on goods whose consumption creates social negative externalities, such as tobacco use. Tobacco taxes could represent a win-win for developing countries in terms of improving public health, while generating additional fiscal revenues. Regional and global tax coordination and tax cooperation will be necessary to achieve these ambitious goals.
- **Tobacco taxation:** theoretical and empirical findings about the effectiveness of tobacco taxation, in particular excise taxes, including different types of taxes applied globally, the justification for taxing tobacco products, the pros and cons of different types of taxes, the relationship between taxes and prices and the effectiveness of excise tax changes.
- **Use of simulation models:** hands on training of the use of available computer-based models to simulate different scenarios of tax changes/increases and their fiscal revenue impacts and health impacts on a selected country or group of countries.

- **Illicit trade in tobacco products:** issues related to tax administration, overview of the problems posed by illicit trade in tobacco products, illicit trade levels globally, the role of the tobacco industry in illicit trade, methods available to estimate illicit trade levels and key elements of the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products.

Funding

A dedicated sum of funds has been secured to support the undertaking of the above activities under a new JLN module, and is available for immediate use.

For more information, contact:

Patricio V. Marquez
Lead Public Health Specialist
Health, Nutrition and Population Global Practice
The World Bank
Washington, D.C.
Tel. 202-458 9520
Office Mobile Phone: 202-560-1662
email: pmarquez@worldbank.org