Weathering the COVID-19 Storm:

Health Taxes and Fiscal Strategies for Health Financing

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Fiscal Strategies for Financing Health Services in Pandemic Times
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*Disclaimer: Views expressed in this presentation are mine alone and do not necessarily represent the views, decisions or policies of the WHO.*
Outline

Part 1: Economic, fiscal and health financing implications of COVID-19

Part 2: Considerations for health taxes as a fiscal strategy for health financing
Part 1:

The COVID-19 health crisis is mirrored by a deep global economic crisis that could have a long-lasting impact on health financing.
COVID-19 has triggered a deep global economic contraction...

Average real per capita GDP growth, 2000–2025

Source: IMF World Economic Outlook, October 2020 [14].
...that will take many years to rebound...

Average real per capita GDP growth index

Source: IMF World Economic Outlook, October 2020 [14].
...and will impact all countries, regardless of income levels

Per capita GDP growth in real terms, 2000–2025

Source: IMF World Economic Outlook, October 2020 [14].
Public revenues decline will mirror the overall economic decline

Nominal GDP and tax revenues growth rates in European Union and Organisation for Economic Co-operation and Development countries, 2000–2025

Source: IMF World Economic Outlook, October 2020 [14].
Already high debt levels will increase as a result of the crisis

Gross public debt as a share of GDP, 2000–2025

Source: IMF World Economic Outlook and World Bank Poverty and Shared Prosperity, October 2020 [14, 18].
Ways that COVID-19 may affect health spending

**Upward pressure**
- COVID-19 response
- Consequences of foregone care
- Maintaining essential health services
- System preparedness for future crises
- COVID-19 vaccine rollout

**Downward pressure**
- Economic contraction
- Decreasing foreign direct investment, trade, remittances
- Increasing unemployment
- Increasing poverty
- Falling government revenues
- Debt service obligations
- Potential tightening of external financing
- Foregone care
Part 2:

Health Taxes (including on tobacco products) can generate revenues but their role in financing health services “depends”
Multi-Sectoral Action for Health

Health System

Health Security

Universal Health Coverage

Global Public Health security and resilient societies
Inclusive economic growth and employment
Equitable health outcomes and wellbeing

Results

Goals

Actions

Multi-Sectoral Action for Health

Governance
- Policy and vision
- Stakeholder voice
- Information and intelligence
- Legislation and regulation

Resource Generation
- Health workforce
- Infrastructure and medical equipment
- Pharmaceuticals and other consumables

Financing
- Revenue collection
- Pooling
- Purchasing

Service Delivery
- Public health
- Primary Health Care
- Specialist care

Common Goods for Health

Policy & Coordination
Regulation & Legislation
Taxes & Subsidies
Info. collection, analysis and communication
Population Services
...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></td>
<td>20% increase</td>
<td>50% increase</td>
<td>20% increase</td>
</tr>
<tr>
<td>Tobacco</td>
<td>1,987</td>
<td>3,625</td>
<td>160,724</td>
</tr>
<tr>
<td>Alcohol</td>
<td>9,428</td>
<td>17,778</td>
<td>227,421</td>
</tr>
<tr>
<td>SSB</td>
<td>724</td>
<td>952</td>
<td>24,355</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
Example in Ukraine: Win for Health, Win for revenues

**Results of tobacco excise policy in Ukraine: 2008-2018**

- Tobacco excise revenue, bln UAH
- Number of daily smokers, mln
- Average excise per 20 cigarettes pack, UAH
- Number of taxed cigarettes (sales), bln sticks

Sources: Data and graph provided by Konstantin Krasovsky, July 2020
How can governments allocate health tax revenue?

- General government budget
- Fund unrelated public priorities

- Offset new burdens created by the tax (e.g. if the tax is regressive, compensate the poor with transfer programs)

- Further the goal of the tax (e.g. allocate the tax to health promotion efforts)

- Compensate people who bear the cost from the taxed activity (e.g. allocate to the health sector in general)

Source: Cheryl Cashin, R4D
How can governments allocate health tax revenue?

• General revenue pool
• Fund unrelated public priorities

• Offset new burdens created by the tax (e.g. if the tax is regressive compensate the poor with transfer programs)
• Further the goal of the tax (e.g. allocate the tax to health promotion efforts)
• Compensate people who bear the cost from the taxed activity (e.g. allocate to the health sector in general)

Source: Cheryl Cashin, R4D
64 countries earmark payroll taxes for social security

3 countries earmark a portion of VAT

General revenue
Earmarked shares of general revenue (2 countries), inter-governmental transfers (3 countries)

24 countries earmark tobacco taxes

20 countries earmark other health taxes

Other instruments
Lotteries, mobile phone companies, and foreign personal money transfers
Pros and Cons (theoretical)

<table>
<thead>
<tr>
<th>Pro</th>
<th>Con</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase revenue</td>
<td>Budget rigidity</td>
</tr>
<tr>
<td>Efficiency</td>
<td>Economic distortion</td>
</tr>
<tr>
<td>Public support</td>
<td>Pro-cyclicality</td>
</tr>
<tr>
<td>Accountability</td>
<td>Fragmentation</td>
</tr>
<tr>
<td>Cost awareness</td>
<td>Decreased solidarity</td>
</tr>
<tr>
<td>Flexibility</td>
<td>Susceptibility to special interests</td>
</tr>
</tbody>
</table>

Potential Pitfalls (in practice)

- Off-setting in the budget
- Misperceptions of adequate funding
- Earmarked revenue becomes a “ceiling” for the expenditure purpose
- Defunding of other priorities

Source: Cheryl Cashin, R4D
Countries have different objectives for earmarking

Revenue Objectives

• Increase revenue overall for the country
• Increase revenue for the expenditure purpose
  o Health sector
  o A specific program in the health sector

Political Objectives

• Increase political acceptability of a tax increase
• Show political commitment to a popular program or initiative
• Improve transparency in funding allocation
**Evidence of earmarked tobacco tax revenues as share of total health expenditure (2013)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Annual funds from tobacco tax earmarked as a percentage of general government expenditure on health</th>
<th>General government expenditure on health as a percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>1.086%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Iceland</td>
<td>0.083%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Panama</td>
<td>1.322%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Philippines</td>
<td>36.4%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Poland</td>
<td>0.001%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Romania</td>
<td>0.004%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.932%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>0.355%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

Does earmarking work to increase (net) revenue for the expenditure purpose?

- How the earmark is designed and implemented
- Underlying public financial management system
- Political priorities
- Time horizon

It depends
Opportunity for health taxes

- 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

- Health taxes provide opportunity for overall revenues

- Earmarking for health needs to be handled with care
  - Balancing revenue feasibility and political considerations
  - Devil is in the detail

- For health financing:
  - Need for a proactive policy response that invests in Common Goods for Health (including health taxes), focuses on efficiency, and prioritizes equity
Thank you