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Webinar Series Synthesis Report

Pro-Poor Earmarking of Health Taxes for Domestic Resource Mobilization

IN PARTNERSHIP WITH



Webinar Series Synthesis Report - Aug 20, 2020

Pro-Poor Earmarking of Health Taxes for Domestic Resource Mobilization

This webinar follows from the earlier webinar on “Filling the Coffers Post-COVID through Pro-Health Taxes”, where international experts from the health and finance sector explored the potential of Health Taxes as a fiscal measure in meeting shortfalls in government revenues for financing health in the context of tightening fiscal space during COVID-19. The webinar will discuss issues related to the what, why, and how of pro-poor earmarking of revenues from health taxes. In addition to discussing what earmarking is the webinar will also present a typology for thinking through the structure and pros and cons of different forms of earmarking and consider why some form of ‘soft’ earmarking may be necessary in order to maximize the effectiveness of and impact from health taxes. Finally, the webinar will also discuss examples of how such ‘soft’ earmarks are being implemented across selected countries and identify lessons learnt.

This event was co-sponsored by World Bank and Global Fund. It follows an earlier exchange on Fiscal and Monetary Policies in the COVID-19 Response: Exploring the effects on Health Financing.

Lessons and Key Takeaways

- Globally, there are increasing fiscal pressures on governments due to decreasing public revenues as an offshoot of COVID-19. Offsetting with deficit financing will only increase debt obligations and further exacerbating the economic crisis and fiscal tightening.
- Health taxes provide potential for more revenue generation on tobacco and alcohol taxes and sugary drinks.
- Earmarking can be a policy instrument to demonstrate political commitment and health prioritization.
- It is important to find a balance between budget flexibility and reliability of an earmark commitment (soft earmarking).
- Earmarking health taxes may also provide a way to dedicate resources to the health sector. Each country should assess whether earmarking health taxes works for them based on their country specific context.
- Health taxes works best if implemented as part of comprehensive health intervention package.
- There must be close collaboration between Health and Finance ministries in designing and the implementation of earmarked health taxes.
- Earmarking is not a panacea to the health financing needs of a country, but can be a revenue booster. It is imperative to explore alternative sources of health financing.
- Involving interdisciplinary and multiple stakeholder engagements such as civil society, external international donor agencies etc to improve transparency and accountability of the budgetary process in the future is important.

Webinar recording can be accessed [here](#) | Background Materials can be accessed [here](#)

Opening Remarks

Dr. Ajay Tandon, Lead Economist, World Bank

Overview Presentation

Dr. Cheryl Cashin, Managing Director, Results for Development

Discussants

Mr. Jeremias N. Paul, Jr., Head, Fiscal Policies for Health Unit in the Department of Health Promotion, World Health Organization (WHO)

Dr. Delphine Prady, Senior economist, International Monetary Fund

Closing Remarks

Ms. Ceren Ozer, Senior Governance Specialist, World Bank

Moderator

Dr. Michael Borowitz, Chief Economist, The Global Fund

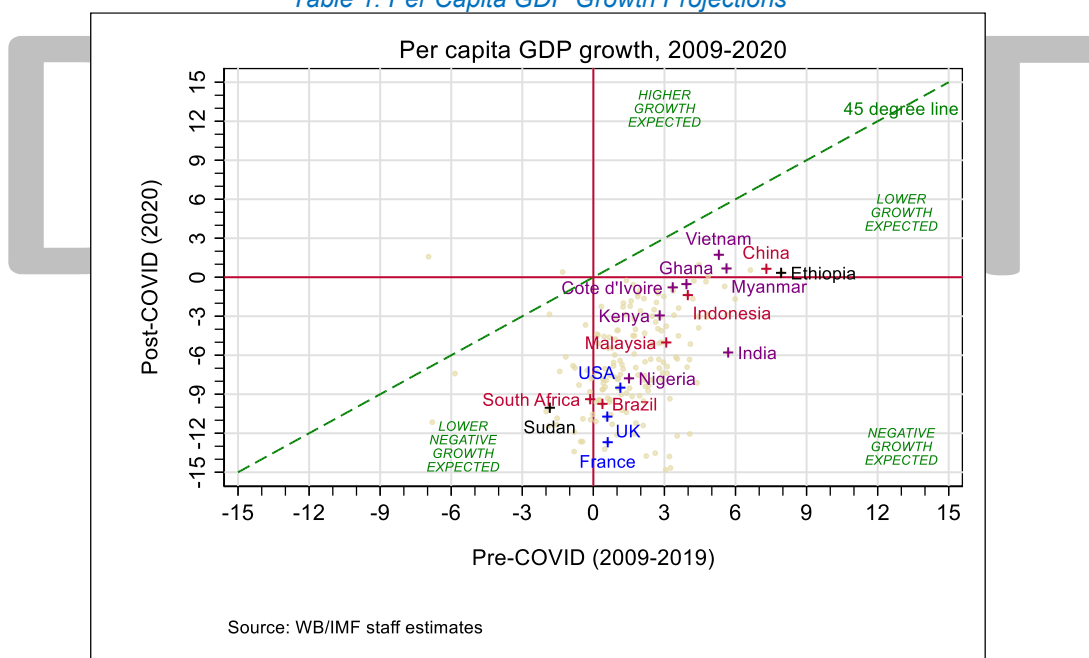
Dr. Somil Nagpal, Senior Health Specialist, World Bank



DISCUSSION

The COVID-19 has triggered a global economic contraction, the likes of which has not been seen across many countries for decades. Traditionally, the health sector has been resilient during recessions. However, growth in per capita total government spending is expected to slowdown or contract- and with higher debt and greater debt servicing, fiscal tightening will continue to lead to a contraction in health financing for several years beyond the end of the current crisis. Latest estimates indicate per capita economic growth rates to decline on average by almost -7% globally, and between -4 to -8% across low- and lower-middle income countries. The global economic contraction has had a dramatic impact on countries differentiated by their level of external integration and fiscal vulnerabilities. (Table 1).

Table 1: Per Capita GDP Growth Projections



All in all, the COVID-19 crisis will create major setbacks in health financing as countries accumulate massive debt to mitigate the economic crisis and there is a lower propensity of domestic resource mobilization as economic activity continues to suffer. To ensure that the healthcare sector doesn't feel the pinch of the crisis, and in order to offset likely declines in OOP spending countries must exhibit commitment by pro-active reprioritization and continued health investments in the health sector. In light of this, several countries have considered expanding the use of pro-health fiscal policies – i.e., supplementing revenue generation

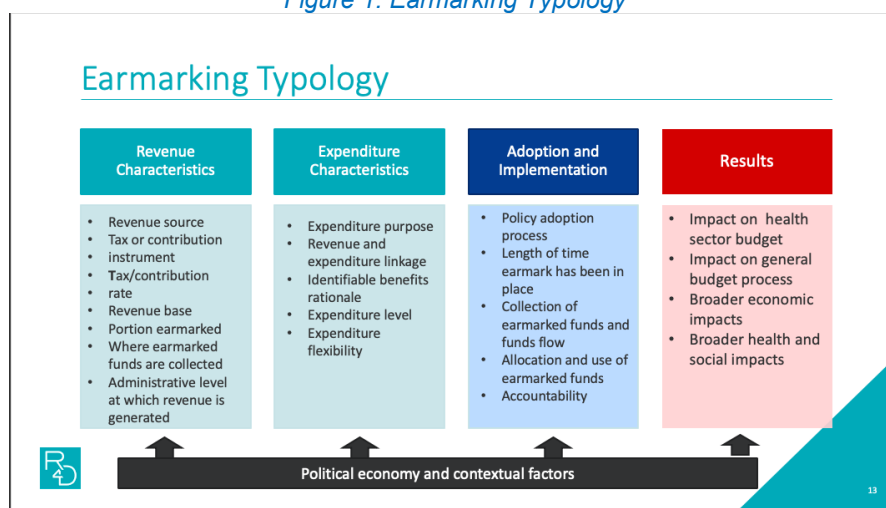
through taxation on tobacco, alcohol, sugar – as a mechanism to plug expected revenue shortfalls.

The webinar discussed the potential of earmarking health taxes that are historically used as an instrument to leverage political will on the budget allocations and to meet revenue and expenditure objectives, hence closely linking it to the country’s public financial management (PFM) system.

Earmarking of health taxes simply means designating revenues for a particular purpose earned from health taxes that are designed to encourage corrective behavior change by making consumption of unhealthy products such as alcohol, tobacco and sugar products pricier.

Results from a 2017 study on earmarking were presented. Globally, 80 countries have earmarked for health and 54 countries have particularly earmarked tobacco and other forms of health taxes, hence making earmarking as a mechanism to increase fiscal space and mobilize resources for the health sector customary. The regressivity, distortionary and the pro-cyclical nature of earmarking, promoting budget inflexibilities and the fragmentation of resource pooling are all arguments that are used against earmarking as a policy instrument. Earmarking can also be used as an instrument to prioritize health by raising additional revenues for health by means of ring-fencing all/a portion of the revenue for health (revenue earmarking) or by mandating what proportion of expenditure should go towards particular health programs, and as a way of improving efficiency and accountability of the health budget (expenditure earmarking). The figure below summarizes the characteristics, processes and results of earmarking policies for health.

Figure 1: Earmarking Typology



Cross country experiences demonstrate that earmarking outcomes are conditional on unique country specific characteristics as well as its political and budgetary commitment towards health in the local context. Specifically, earmarking has been an effective tool in raising revenue for health and sustaining national health priority in Ghana, the Philippines, Estonia,

Vietnam and helped to launch a national health programme in response to the HIV/AIDS epidemic in the case of South Africa. It is important to note that while soft earmarking of health taxes can increase short term revenues it does not however, bypass health priority setting and its effectiveness is contingent on the accountability and transparency of the PFM system.

The study offers lessons for design and implementation features to increase the earmarking effectiveness in meeting revenue and political objectives by maximizing benefits and minimizing unintended consequences. A productive earmarking policy is one with a defined focus and that allows for budget flexibility to reallocate earmarked funds towards urgent priorities like immunization for

new diseases or health emergencies (“Release Valves”). To acknowledge the reprioritization of country specific health objectives, earmarking for health taxes can maintain “Sunset clauses” or periodic reviews of existing programs that allows for priority and context change adjustments. The presentation overall suggests treating earmarking as a policy instrument to help health priorities gain fiscal traction and demonstrate political commitment rather than as a panacea to their health financing concerns. It is also interesting to note that a successful health tax that induces behavioral change will result in a gradual decrease in associated revenue.

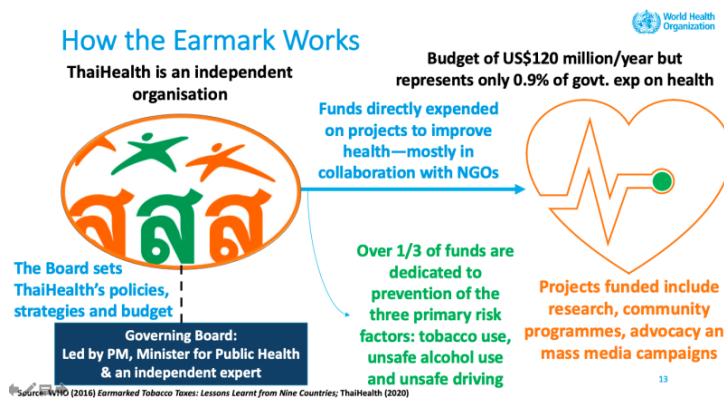
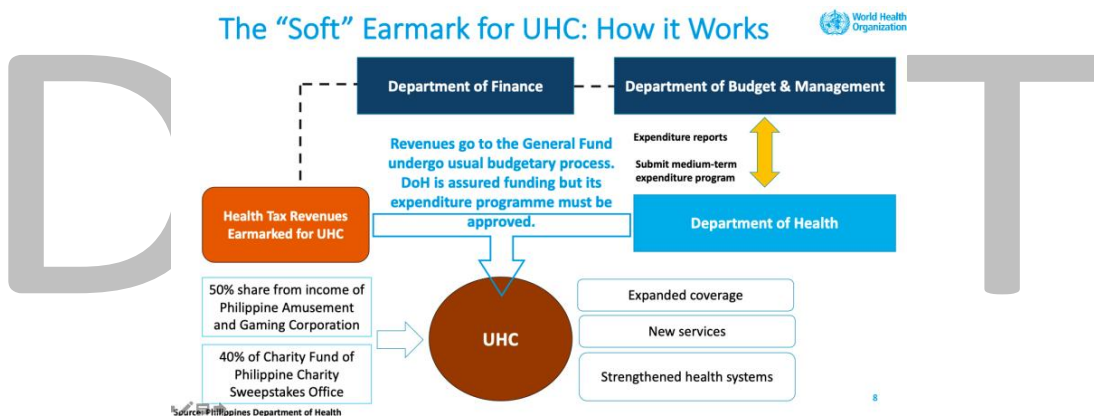
The global perspectives underlined the importance of contextualizing local country specific needs, the fungibility of the budget process and the need to maintain close collaboration with the Ministries of Health and Finance to maximize the efficiency of earmarking of health taxes. The webinar also benefited greatly from the country specific examples to substantiate the spectrum of soft to hard approaches to earmarking (Figure 2). As opposed to hard earmarking, soft earmarking does not use a formal process and proceeds from the tax still go through the central treasury account and are fully subject to annual parliamentary review. The Philippines Sin Tax Reform is an exemplary case of a soft earmark that involved a significant increase in tobacco and alcohol taxes and simplifying their tax structures with the incremental proceeds thereof earmarked for Universal Health Coverage (UHC). Subsequent reforms under the TRAIN Law expanded the coverage to include sugar-sweetened beverages and vaping products. In both cases, there was a strong political commitment towards Universal Health Coverage. The Philippine experience also illustrates the importance of a close collaboration of the Department of Finance and Health in developing rules and regulation pertaining to earmark leading to better accountability and transparency in the budgetary process. The Sin Tax Reform successfully resulted in significant increases in government revenues enabling a triple increase in the Department of Health budget in a period of 5 years (2013-18). It also led to an improvement in the intra-household equity indicators by subsidizing the health insurance premiums of the poor and enhancing services covered by UHC.

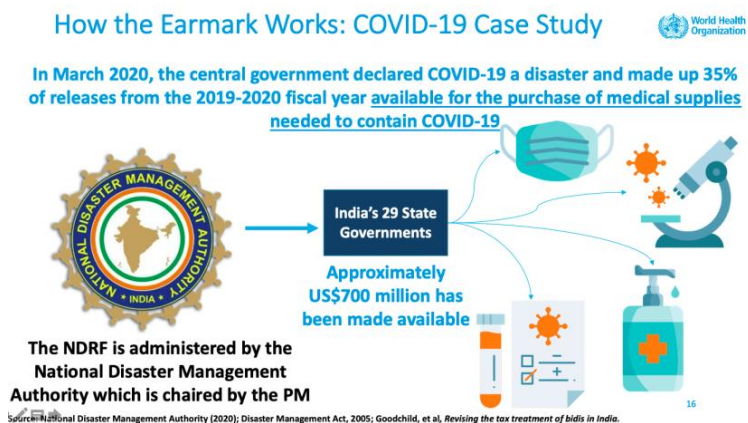
Thailand’s hard earmarking revenue from an additional surcharge of 2% on the excise of tobacco and alcohol products, the proceeds of which are then directed towards an autonomous government entity, the Thai Health Promotion Foundation. Interestingly, the Thai approach closely partners with civil society to stress on preventive and promotional activities associated with good healthcare practices.

Finally, the case of India represents how contributions from the National Disaster Respond Fund which is financed from the levy of cess from certain items such as tobacco, motor

vehicles and fuels is used to supplement State Disaster Respond Funds in case on an emergency. In March 2020, the central government declared COVID-19 a disaster and authorized the release of about US\$700 million to the States for COVID-19 response , including the purchase of needed medical supplies.

Figure 2 : Different Approaches to Earmarking in Countries





The International Monetary Fund then discussed the potential of earmarking in different time horizons. In the short run, the coherent earmarking “revenue + spending” package can be utilized to supplement health revenues and ease the pressure on health budgets. However, in the long terms hard earmarks create budget rigidities and crowd out financing from the general budget- meaning that overall net resources to health could in fact decrease over time as the result of an earmark- hence having the potential to destabilize the system. In continuation, COVID-19 presents an opportune time to have a multidimensional approach to strengthen the existing weakness of the health systems by investing in the social determinants of health such as social protection, education, water and sanitation indicators etc as well as highlights the significance of evidence and scientific based decision-making to prioritize the utilization of scarce resources in accordance to the absorptive and implementation capacity of the country aimed at maximizing allocative efficiency.

The closing remarks echoed the sentiments of the interactive discussion session by acknowledging the relevance and opportunity of earmarking of health taxes in the COVID-19 context. However, it is imperative to understand that countries must refrain from treating earmarking as a panacea to meet their health objectives and explore the potential of alternative sources of health financing. Improving transparency and accountability of the earmarking process by involving interdisciplinary and multiple stakeholder engagements such as civil society and external international donor agencies in the future was also underscored.

Annex.1: Webinar Presentations

Economic Impact of COVID-19: Implications for Public Financing

Joint Learning Network Webinar

Pro-Poor Earmarking of Health Taxes for Domestic Resource Mobilization

Ajay Tandon

Lead Economist

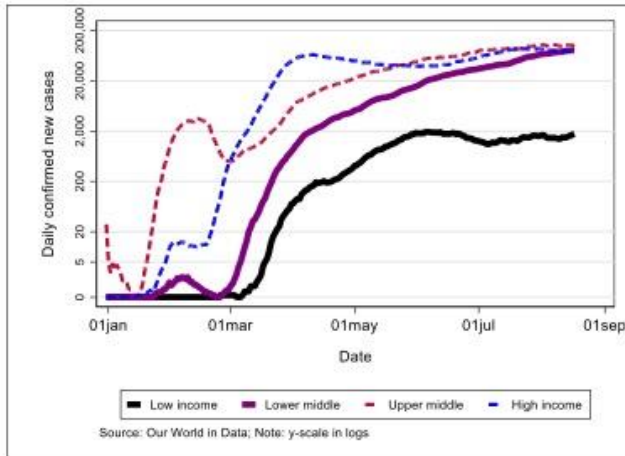
Global Practice on Health, Population, Nutrition

World Bank

July 2020



COVID-19

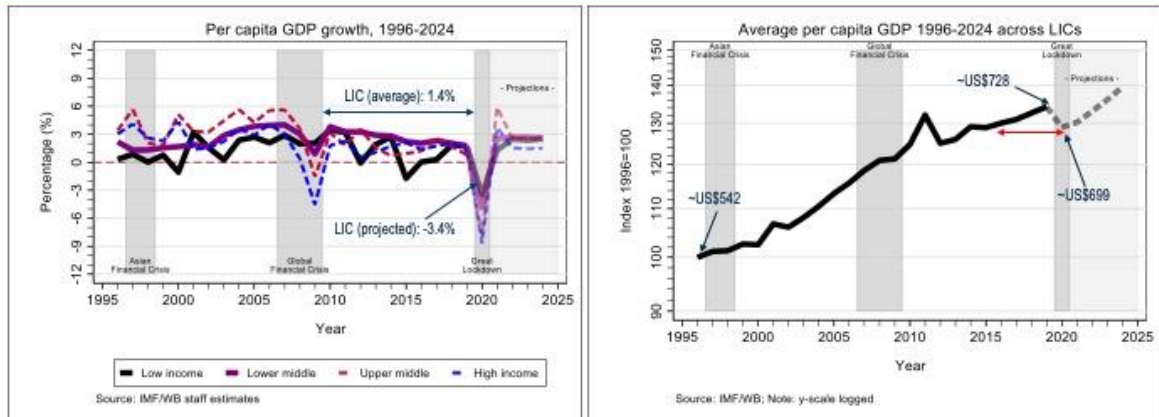


- Although many countries have seen improvements, the COVID-19 pandemic continues to grow globally: **>250,000** daily new cases with almost **800,000** confirmed deaths to date
- **USA, Brazil, and India** currently have the highest number of daily new cases.
- Evidence that **non-COVID** health service utilization is also being adversely affected.



DRAFT

A Deep Global Economic Contraction is Occurring



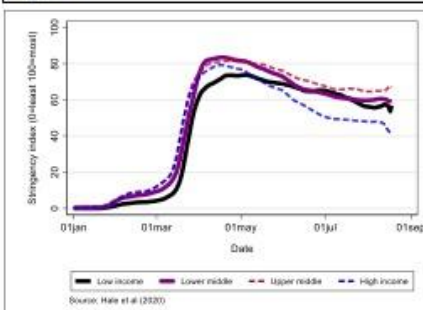
Collateral damage from COVID-19: **unemployment** and **poverty rates** rising; adverse effect on **remittances** and **household incomes**; **income inequality** increasing; consumption and services sector, as well as those in informal sector impacted the hardest...



Extent of Economic Impact Differs Across Countries

Lockdown stringency

The longer and more severe the lockdown measures (as measured by stringency index) the bigger the expected economic impact



External integration

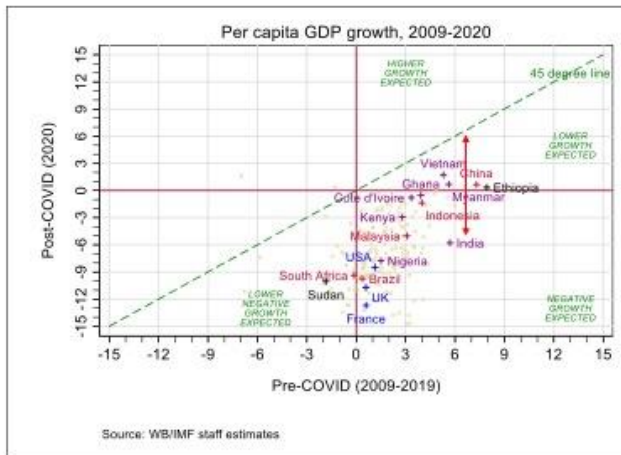
Tourism	Jamaica Cambodia Georgia Thailand
Exports	Djibouti Cambodia Congo
External Debt Balance of Payments	Kyrgyz Republic Mozambique Paraguay
Remittances	Nepal El Salvador Honduras Armenia

Fiscal vulnerability

Afghanistan Niger Rwanda	External Grants
Nigeria Myanmar Bangladesh Indonesia	Tax Revenues
Kenya India Egypt Sri Lanka Ghana Uganda Bangladesh Pakistan	Deficit Public Debt Public Debt Service



Per Capita GDP Growth Will Decline in Almost All Countries

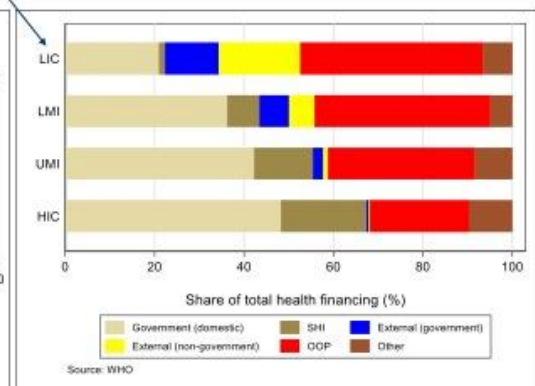
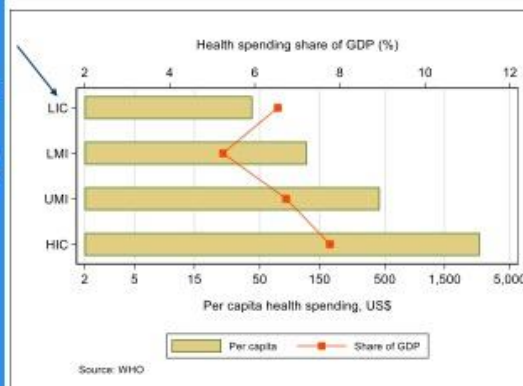


- Current projections indicate **South Africa, Brazil, UK, France, Sudan** will see economic contractions in excess of **-9%** in 2020.
- **USA, Nigeria, India, Malaysia** expected to see a decline between **-5% to -9%**.
- **China, Myanmar, Ethiopia, Vietnam** will likely see a slowdown in economic growth but are not currently expected to see an economic contraction.



Health Financing Sources Differ Across Countries: On Average, OOP & External Financing Prominent in LICs

Implications of the adverse economic impact from COVID-19 will depend on how health is financed across countries...



Economic Growth is Not the Only Determinant of Public Spending on Health

...public spending on health depends not only on what happens to economic growth, but also on public revenues and on the ability of countries to implement countercyclical fiscal and monetary policies (e.g., by borrowing) and to changes in priority for health in government budgets

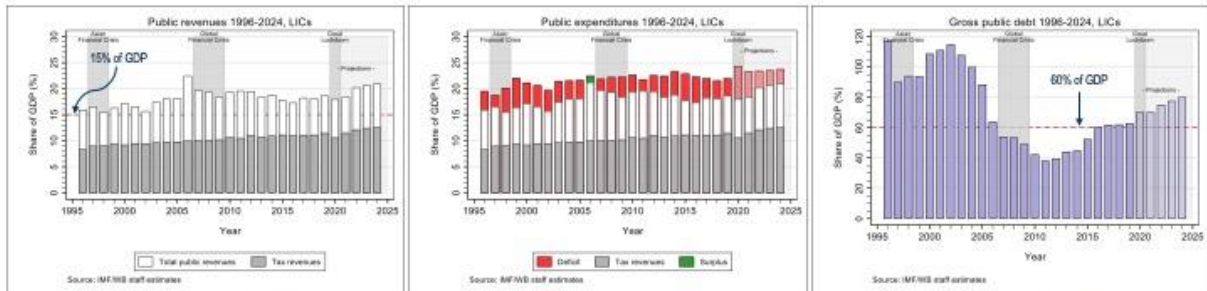


India (2018-2019)
 $4\% \times 28\% \times \text{US\$2,100} = \text{US\$21}$

India (2020-2021)
 $? \times ? \times \text{US\$2,000} = ?$



Lower Public Revenues, Higher Deficits/Debt Projected



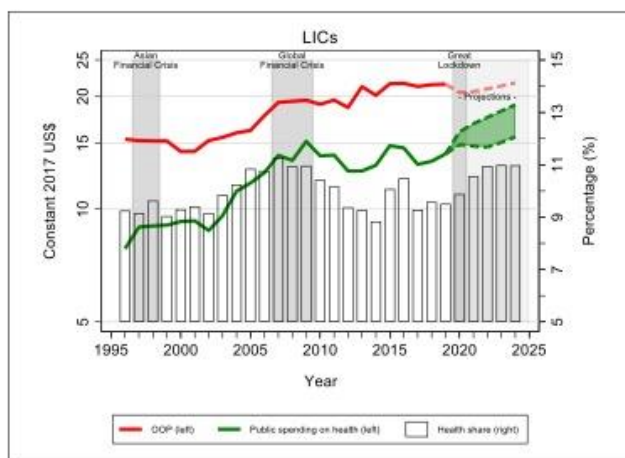
Revenues expected to decline...

...shortfalls in revenues made up by borrowing...

...leading to higher public debt levels.



Slowdown/Contraction in Health Financing Expected



- Even with countercyclical increase in total government spending share of GDP by increasing borrowing and rising debt, growth in per capita total government spending is expected to **slowdown or contract** in LICs.
- Health's share of public spending will need to **increase** to preserve previous trend growth rates and to offset likely declines in OOP spending.
- Higher debt → greater debt servicing in future; **fiscal tightening may continue** for several years beyond end of current crisis.



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

Higher borrowing may help mitigate immediate impact but rising debt levels will likely imply fiscal pressures for many years to come; 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

Without pro-active reprioritization, public financing for health will stagnate/decline across many countries, risking reversal of years of progress made towards UHC; health will need to make a strong and clear case for continued investments to maintain or increase allocations during annual budget submissions

Budget submissions will also need to be realistic and sustainable and require some demonstration of reallocation and reprioritization with health within agreed strategies to address priorities and improve overall population health, especially for the poor, as well as to ramp up pandemic preparedness

To Earmark or Not to Earmark? Allocating Revenue from Health Taxes

Joint Learning Network Webinar
Pro-Poor Earmarking of Health Taxes for Domestic Resource Mobilization

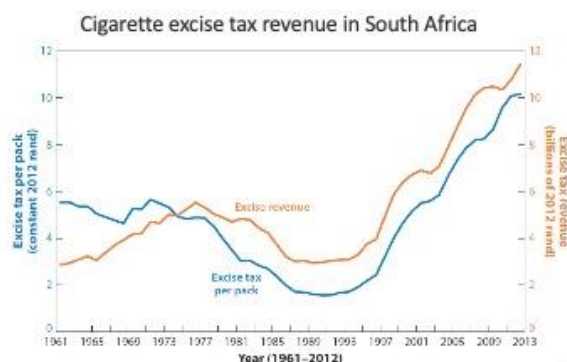
Cheryl Cashin, Managing Director, R4D
Washington DC

August 20, 2020



Health tax revenue

Health taxes are “**corrective taxes**”—they encourage behavior change and generate revenue, often a lot of revenue.



Source: Chaloupka et al. 2019 Annu. Rev. Public Health



Allocating health tax revenue

How can governments allocate health tax revenue?

- 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)
- Fund unrelated public priorities



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- Fund unrelated public priorities



Dedicated expenditure purpose → Earmarking

Earmarking is very common globally



Countries have different objectives for earmarking

- Increase revenue overall for the country
 - Increase political acceptability of a tax increase
 - Increase revenue for the expenditure purpose
 - Health sector
 - A specific program in the health sector
 - Show political commitment to a popular program or initiative
 - Improve transparency in funding allocation
- Revenue Objectives**



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 - Health sector
 - A specific program in the health sector
 - Show political commitment to a popular program or initiative
 - Improve transparency in funding allocation
- Political Objectives**
-



Pros and Cons (theoretical)



What does earmarking look like in practice?



- Earmarking typology to tease out features of design, implementation, and results
- Review of literature, published examples, and 6 country case studies of different types of earmarking for health (Estonia, Ghana, Indonesia, Philippines, South Africa, Vietnam)
- Understand whether and how earmarking is effective for meeting political and revenue objectives

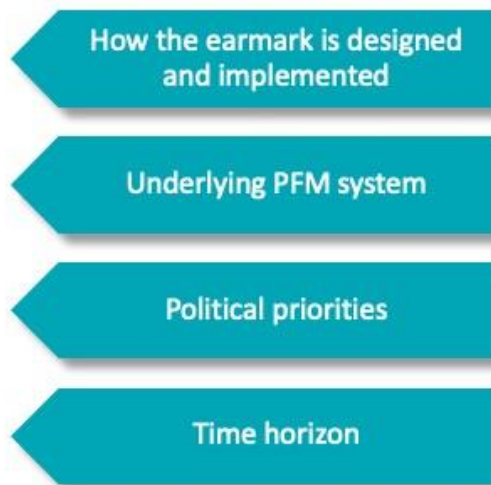


Cashin C, Sparkes S, and Bloom D (2017). Earmarking for health: from theory to practice. WHO/R4D Health Financing Working Paper No.5

www.R4D.org | 9

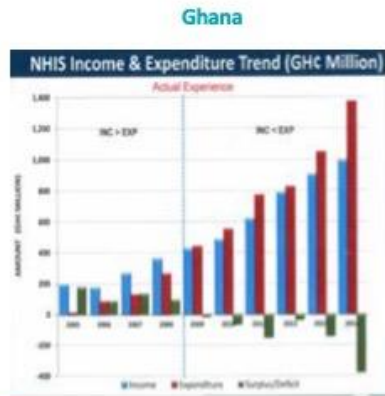
Does earmarking work to increase (net) revenue for the expenditure purpose?

It depends



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Increase in revenue from the earmark in absolute terms

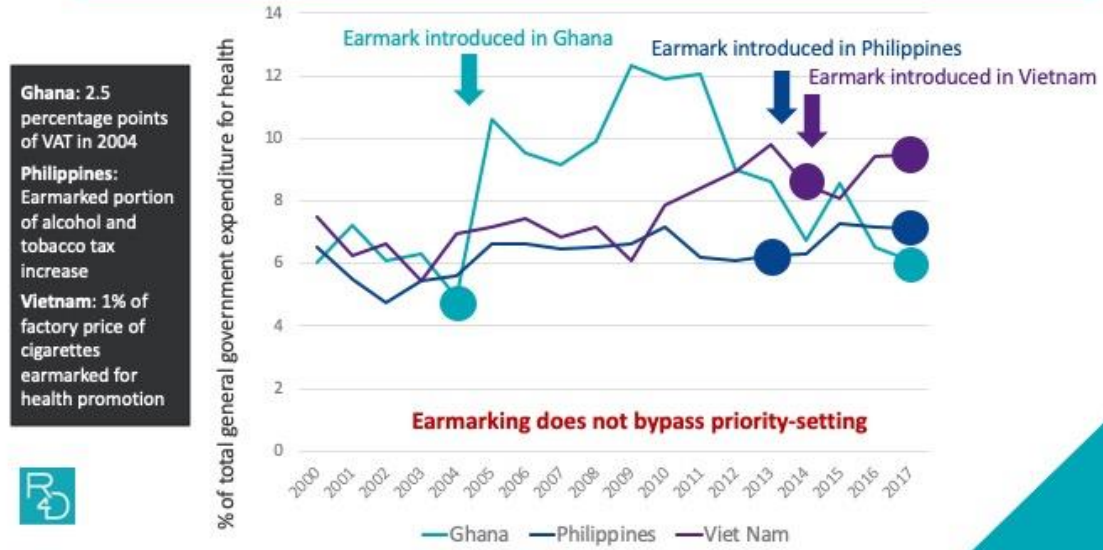


Vietnam

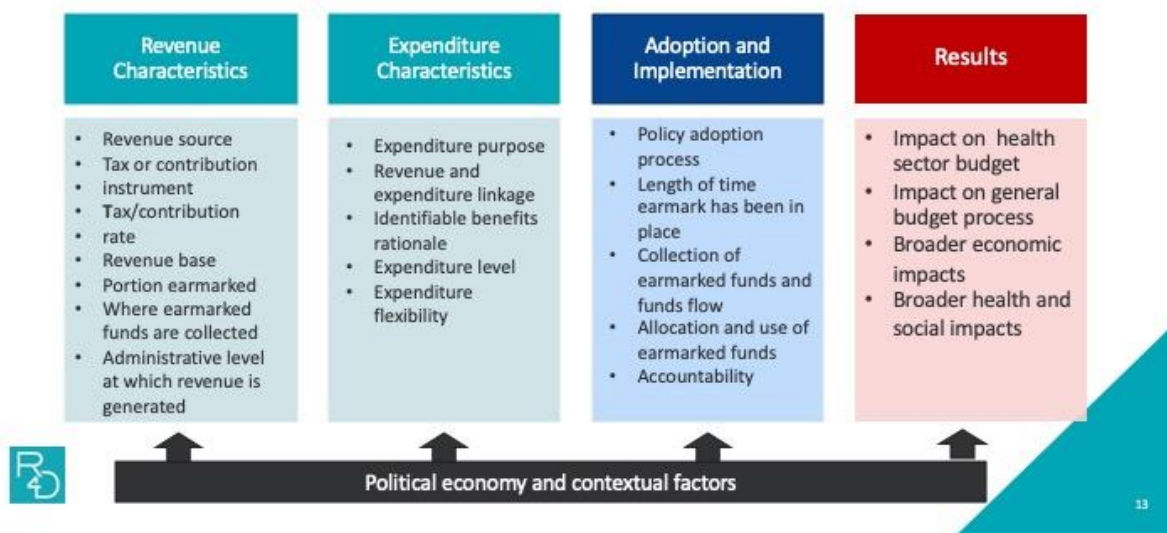
2014 revenue = 299 billion Vietnamese dong (0.5% of national health budget)



Less dramatic impact on share of the general budget allocated to health



Earmarking Typology



So should revenue from health taxes be earmarked for health?

- If the budget process is effective and health is prioritized, allocating the revenue from health taxes to the general revenue fund should lead to a proportional increase in the health budget—**no earmark needed**
- But—if the budget process fails to generate allocations to health that match priorities or if earmarking will make the tax more politically acceptable, **earmarking may be useful** (at least in the short term)
- It is important to avoid rigidity, fragmentation and lack of transparency
- And remember, the more successful a health tax is, the less revenue it will generate



What design features make earmarking more effective?

Soft earmarks

- **Expenditure purpose** narrow enough to be enforceable, reduce fungibility, and link funding clearly to activities **but** broad enough not to exacerbate rigidity
- Strong but flexible **revenue-expenditure link**
 - Avoid extremes of revenue entirely determining expenditure (*earmark is a revenue ceiling*) **or** expenditure driving revenue (*expenditure drives increase in tax rates*)
- **“Release valves”** allow some of the earmarked funds to be reallocated to other priorities
- **“Sunset clauses”** or at least periodic review
- Earmark funds **part of consolidated government budget** for accounting purposes

Hard earmark → all earmarked revenues must be allocated to the expenditure purpose, no more no less

Soft earmark → earmarked revenue can be diverted to other purposes or additional funds can be allocated to the expenditure purpose beyond the earmarked revenue



So you want to earmark? Here’s a checklist

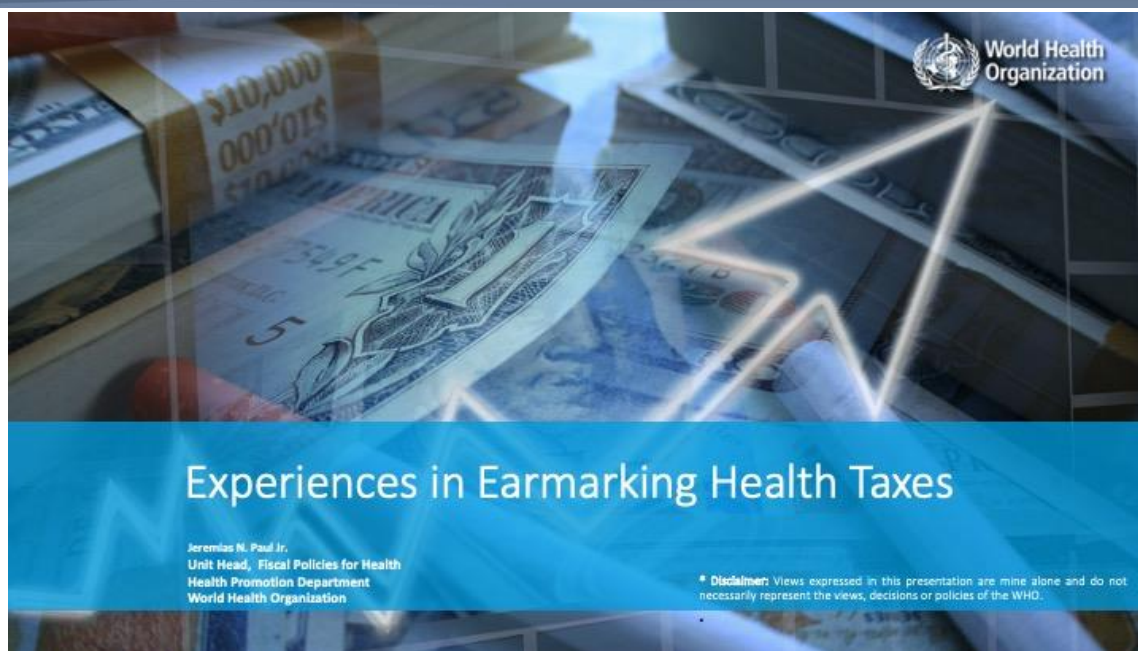
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| <p>Support for the expenditure purpose</p> <ul style="list-style-type: none"> □ Does the policy or programme to be funded with the earmark respond to clearly defined development objectives? □ Does the policy or programme to be funded with the earmark have broad-based support and consensus from politicians, policy-makers and the public? □ Have finance authorities part of the discussions from an early stage? <p>Definition of the expenditure purpose</p> <ul style="list-style-type: none"> □ Is the policy or programme to be funded with the earmark defined narrowly enough for the earmark to be enforceable and flexible enough to be flexible? □ Does the expenditure purpose help address certain health sector priorities without detracting from others? <p>Alternative revenue sources</p> <ul style="list-style-type: none"> □ Can income funds for the policy or programme be used through existing budget processes? □ Have alternative sources been explored for their revenue-raising potential? <p>Impact on health sector efficiency and equity</p> <ul style="list-style-type: none"> □ Will the earmark improve or inhibit the government's ability to manage health expenditure, including expenditure on health financing approaches? □ Will the earmark facilitate pooling of health funds or innovation/implementation and test the ability to deal health financing issues, leading to equity concerns? <p>Spending flexibility</p> <ul style="list-style-type: none"> □ Are mechanisms in place to ensure efficient spending of earmarked revenues? □ Can earmarked revenues be spent flexibly within the expenditure purpose, or are restrictions in place related to line-item budgets or other FM rules? □ Can unspent earmarked revenue be carried forward into the next fiscal year? <p>Then how long</p> <ul style="list-style-type: none"> □ Will the earmark be temporary or permanent? □ If the earmark is intended to be temporary, will it come with a "sunset clause," mandatory periodic review, or a transition plan? □ Will the revenue source be sustainable relative to the intended expenditure purpose? | <p>Revenue-expenditure link</p> <ul style="list-style-type: none"> □ Does the policy or programme to be funded with the earmark have sufficiently diversified revenue sources so it will not completely depend on the earmarked revenue? □ Will a release valve or contingency clause be put in place to reallocate earmarked funds if other urgent needs or programs arise? □ An expenditure management mechanism is in place to prevent overspending? <p>Fiscal and public financial management (PFM) impact</p> <ul style="list-style-type: none"> □ Will the earmark improve or impede the efficiency of budget allocations? □ Will the earmark mitigate or exacerbate distortions or inefficiencies in the underlying revenue source? □ Will the earmark mitigate or exacerbate the equity impacts of the underlying revenue source? □ Have consequences and scenarios testing been done to ensure: <ul style="list-style-type: none"> ○ Impact on the health sector budget ○ Impact on the total government budget ○ Broader fiscal, economic and social impact □ Will the above analysis be updated periodically? <p>Managing earmarked funds</p> <ul style="list-style-type: none"> □ Will the funds flow through the treasury or a semi-autonomous fund to an obligatory fund, or will they go directly to an obligatory fund approval? □ Will the institution that spends the earmarked revenues be prepared for the inflow of funds? □ Will a revenue fund or an agency be able to conduct its management in a manner consistent with the needs of expenditure? <p>Accountability</p> <ul style="list-style-type: none"> □ Have mechanisms been considered at all levels of the system to ensure sufficient capacity to manage and monitor the flow of earmarked funds? □ Can earmarked revenues be accounted for at every step, from collection to expenditure? □ How will the institution that spends the earmarked revenues be accountable for results or outcomes? |
|--|---|



Thank you



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Key Messages



- **One size doesn't fit all.** Each country should assess whether earmarking Health Taxes works for them based on their specific context.
- **Its not as simple as black and white.** Evaluations of earmarking need to carefully consider an earmark's source and purpose against the backdrop of local conditions and needs, as well as consider issues of additionality and fungibility of funds.
- **Be strategic on how earmarking is deployed and used.** Earmarking can be a powerful tool to unlock political stalemates that can otherwise stifle reforms and also make funding for health available that would have otherwise remained out of reach.
- **Finding a balance between flexibility in the budget and reliability of an earmark commitment (soft earmarking).** Health taxes work best if implemented as part of comprehensive package.



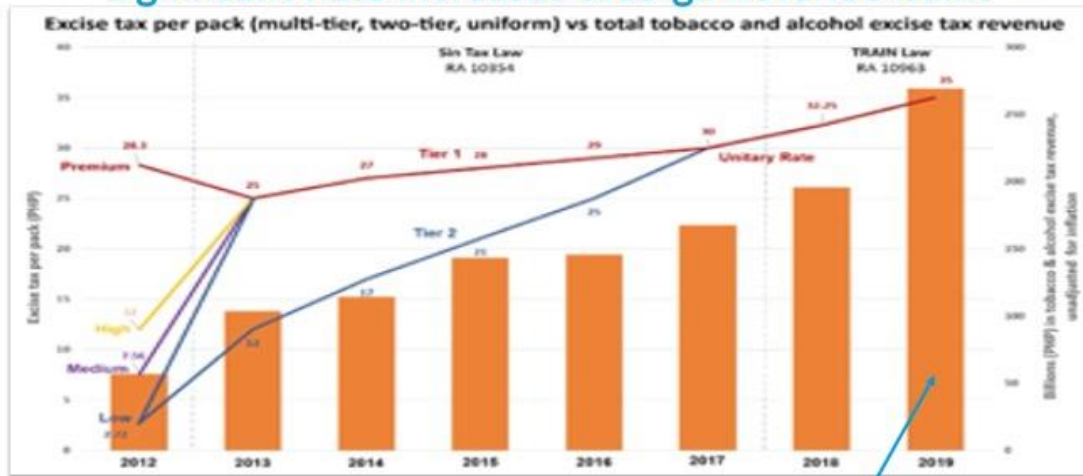
Evolution of Earmarks for Universal Health Care (UHC) in the Philippines



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*Electronic Nicotine Delivery Systems (ENDS), popularly known as E-Cigarettes; Heated Tobacco Products (HTPs)

The 2012 Sin Tax Reform: Tier Simplification, Significant Rate Increases & Large Revenue Gains

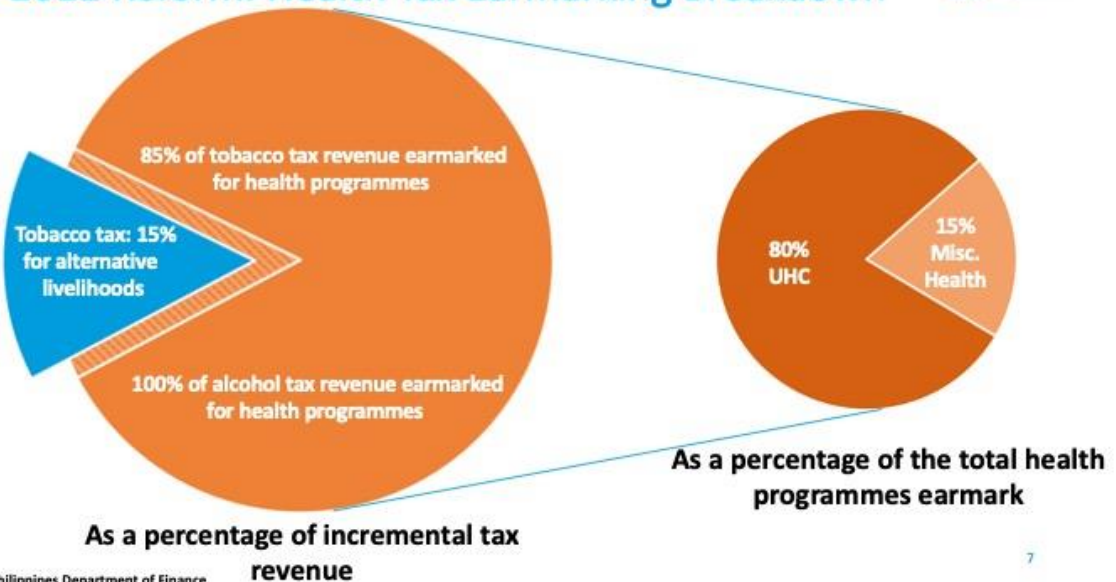


2019 revenue includes revenues from new SSB & taxes, accounting for the substantial increase in revenues from 2018 to 2019

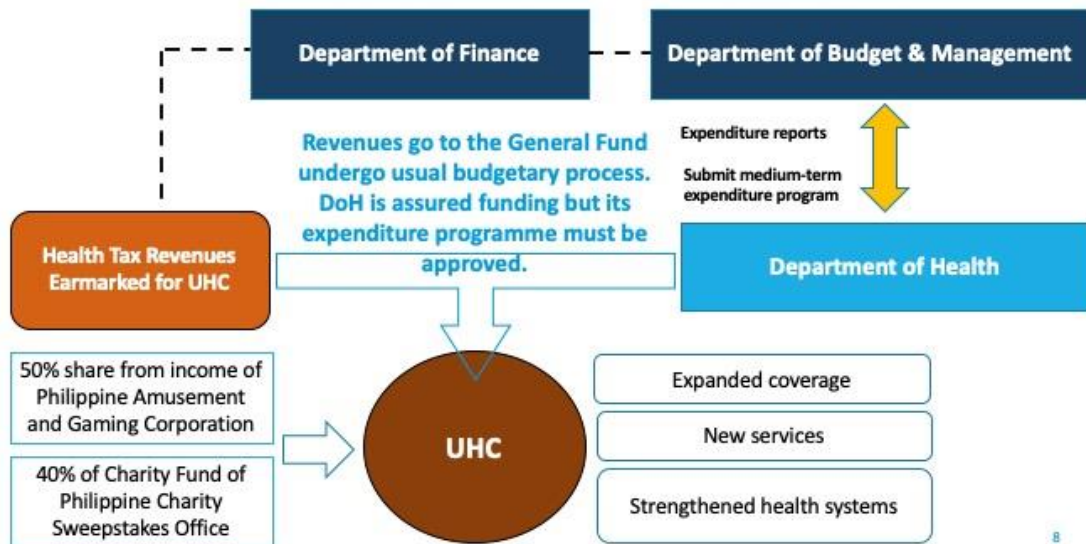
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Source: Philippines Department of Finance; Philippines Bureau of Internal Revenue

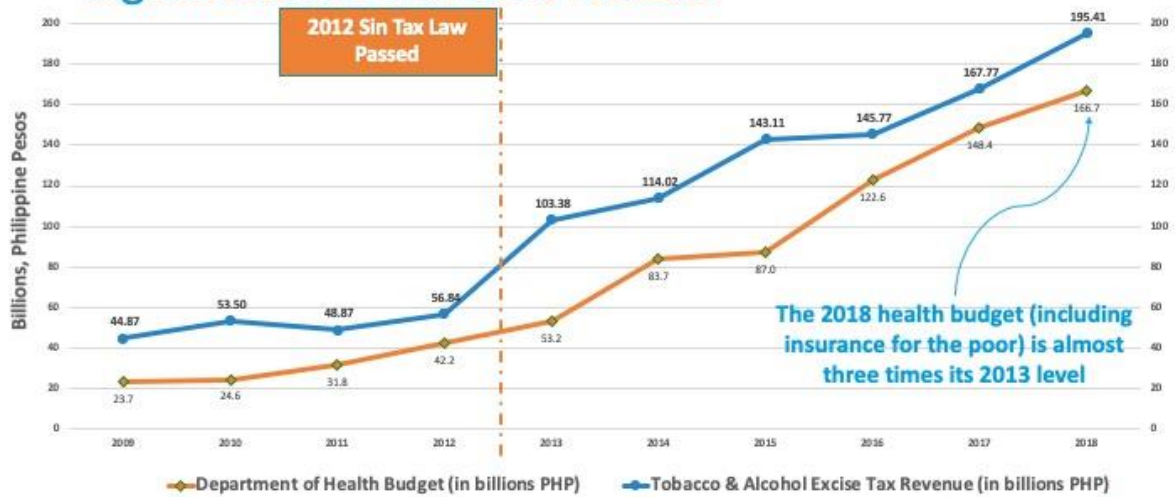
2012 Reform: Health Tax Earmarking Breakdown



The "Soft" Earmark for UHC: How it Works

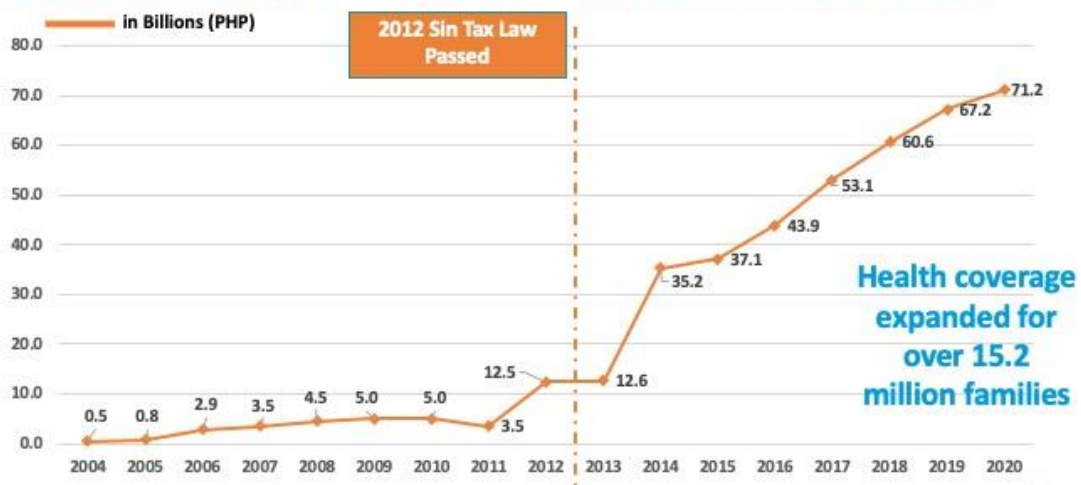


The Reform's Impact: Significant Revenues for Health



Source: Philippines Department of Finance; Philippines Bureau of Internal Revenue

... And a Win for Equity! Expansion of Funding towards Health Insurance Premiums for the Poor



Source: Philippines Department of Health; WHO (2016) *Earmarked tobacco taxes: lessons learnt from nine countries*



Funding ThaiHealth Since 2001: An Earmarked Alcohol & Tobacco Surcharge



Source: WHO (2016) *Earmarked Tobacco Taxes: Lessons Learnt from Nine Countries*; ThaiHealth (2020)



How the Earmark Works

ThaiHealth is an independent organisation

Budget of US\$120 million/year but represents only 0.9% of govt. exp on health



Funds directly expended on projects to improve health—mostly in collaboration with NGOs



The Board sets ThaiHealth's policies, strategies and budget

Governing Board:
Led by PM, Minister for Public Health & an independent expert

Over 1/3 of funds are dedicated to prevention of the three primary risk factors: tobacco use, unsafe alcohol use and unsafe driving

Projects funded include research, community programmes, advocacy and mass media campaigns

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Source: WHO (2016) *Earmarked Tobacco Taxes: Lessons Learnt from Nine Countries*; ThaiHealth (2020)



India:
A Hard Earmark for an Emergency Relief Fund

The National Calamity Contingent Duty on Tobacco, Fuel and Motor & Vehicles



Tobacco, fuel, motor vehicles

Various ad valorem & specific excise rates
Duty Directly Remitted (A "Hard" Earmark)



The National Disaster Response Fund (NDRF)

Source: National Disaster Management Authority (2020); Disaster Management Act, 2005

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How the Earmark Works: COVID-19 Case Study



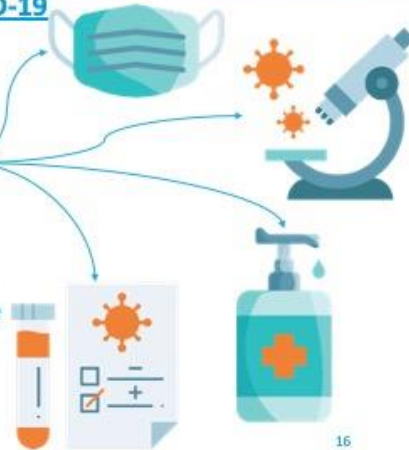
In March 2020, the central government declared COVID-19 a disaster and made up 35% of releases from the 2019-2020 fiscal year available for the purchase of medical supplies needed to contain COVID-19



The NDRF is administered by the National Disaster Management Authority which is chaired by the PM

India's 29 State Governments

Approximately US\$700 million has been made available



Source: National Disaster Management Authority (2020); Disaster Management Act, 2005; Goodchild, et al, *Revising the tax treatment of bids in India*.

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Strategic Questions



• Has the earmark enabled increases in Health Taxes?

- In the Philippines, framing as a health measure with revenues earmarked for health, made possible significant increases in taxes than would otherwise not be possible if framed as a revenue measure.
- In Thailand and India, the earmark was added to existing Health Taxes and was not a nexus for significant increases in Health Taxes; however ThaiHealth would likely not have been established without the earmark.

• Would the increases in health expenditures have happened without the earmarks?

- Depends on extent to which spending from non-earmarked sources changes in response to the earmark (potential for offsetting) and the overall change in the level of public spending
- In the countries shown, earmarked funds are relatively small in comparison to government expenditure on health (e.g. 0.9% in Thailand) and even smaller in terms of GDP
- Close collaboration between Health and Finance officials is key.

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World Health Organization

Thank you!

www.who.int/tobacco/economics

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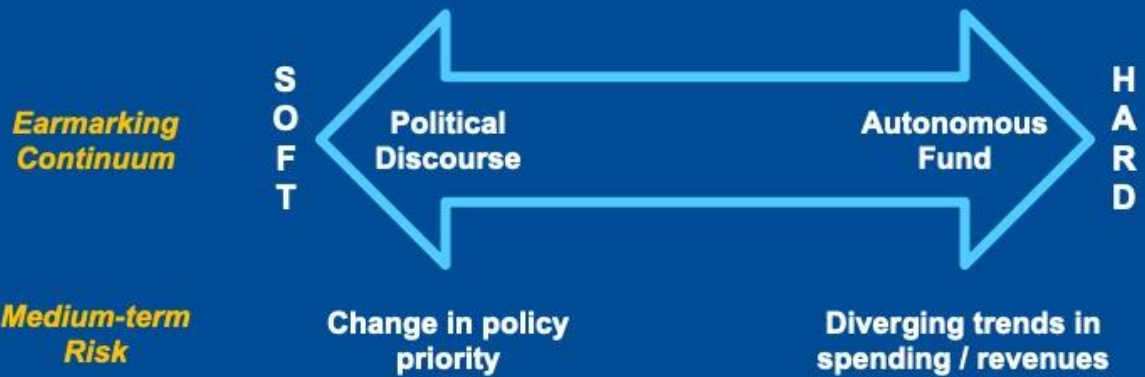
Earmarking Health Taxes

JLN WEBINAR

AUGUST 20, 2020

Delphine Prady

Earmarking gives political visibility to a “revenue + spending” package, with the implicit assumption of commensurability



Sustainable financing can be achieved through the combination of non-health and health related taxes

Non-health

- No direct link with health outcomes, e.g., VAT, CIT, PIT, fuel taxes
- Generally broad-based and important revenue sources
- High and low health risks contribute together (probably net benefit progressive in the short run)
- Allows development of health systems at scale
- Supports universal healthcare

Health

- Direct link with health outcomes, e.g., tobacco, alcohol, sugar taxes
- Narrow base and relatively small revenue sources
- Mostly high health risks contribute (probably net benefit progressive in the long run)
- Allows potentially large health-related savings in the long run
- “Polluter pays” narrative

Pros and cons of hard earmarking discussed in the literature

In the short run, a coherent “revenues + spending” package

- Can generate willingness to pay new taxes
- Ease oversight of budget allocation by vested stakeholders (e.g., members of parliament, industry, unions)

In the medium run, a less coherent package

- Can rigidify the budget process
- Can crowd out financing from general budget (destabilizing systems)
- Can require piling up new sources of financing (lower willingness to pay and mistrust of government’s management)

Concluding remarks

- **The COVID-19 pandemic gives momentum to strengthen health systems**
 - Willingness to channel resources to health systems is high
 - Other structural weaknesses call for strengthening (social protection, education)
- **Countries need to prioritize scarce resources**
 - Evidence-based, costed, and prioritized Medium-Term Health Expenditure Plan
 - Consistent with operational capacity
 - Accounting for the possibility of another pandemic and lockdown-easing cycle

DRAFT

Annex.2: List of Participants

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