



## WHAT MINISTRIES OF FINANCE, TAX AND REVENUE NEED TO KNOW



### Noncommunicable diseases

#### KEY POINTS

- Noncommunicable diseases (NCDs) are a drag on the economy.
- Fiscal policies can generate substantial additional revenue for the government, while improving public health.
- Preventing NCDs makes economic sense.
- Price and tax measures are very effective at getting people to quit tobacco use and reduce consumption of alcohol as well as unhealthy foods and beverages.
- Price and tax measures can be used to actively encourage healthier behaviours and consumption of healthier products.
- Industry interference is a major challenge: ministries of finance, tax and revenue must be alert to the myths spread by industry.
- Ministries of finance, tax and revenue need to collect robust data to see the impacts of tax and price policies.

## 1. NCDs are a drag on the economy

- NCDs reduce productivity and economic growth, whether through losses to the workforce due to illness and premature death or through reduced performance of unwell workers who remain on the job. Under a 'business as usual' scenario, cumulative economic losses to low- and middle-income countries (LMICs) from the four main NCDs are estimated to surpass US\$ 7 trillion between 2011-2025, equivalent to approximately 4 percent of their annual output in 2010.<sup>1</sup>
- Premature deaths from NCDs result in a loss of income for families, communities and countries. Deaths from NCDs have increased worldwide and in every region since 2000.<sup>2</sup> Urgent action is required.
- Health costs from NCDs are a major burden on the national budget. It has been estimated that the direct annual cost of diabetes to the world is more than US\$ 827 billion.<sup>3</sup>

Sustainable Development Goal 3 on health and wellbeing includes targets on the prevention and control of NCDs. Achievement of these targets would deliver mutual gains across Agenda 2030, given the multidirectional relationship between NCDs, poverty, inequalities and other goals and targets.

## 2. Fiscal policies can generate substantial additional revenue for the government, while improving public health

- Almost all countries already tax tobacco products in some form. However, tobacco taxation is not sufficiently implemented. Tobacco *excise taxes* are the primary tool for raising the price of tobacco products relative to the price of other

1 WHO, WEF (2011). "From burden to 'best buys': reducing the economic impact of NCDs in LMICs." [http://www.who.int/nmh/publications/best\\_buys\\_summary.pdf?ua=1](http://www.who.int/nmh/publications/best_buys_summary.pdf?ua=1)

2 WHO (2014). "Global status report on noncommunicable diseases." [http://apps.who.int/iris/bitstream/10665/148114/1/9789241564854\\_eng.pdf?ua=1](http://apps.who.int/iris/bitstream/10665/148114/1/9789241564854_eng.pdf?ua=1)

3 WHO (2016). "Global Report on Diabetes." [http://apps.who.int/iris/bitstream/10665/204871/1/9789241565257\\_eng.pdf](http://apps.who.int/iris/bitstream/10665/204871/1/9789241565257_eng.pdf)

### What are NCDs and why must government work together?

There are four main NCDs: cardiovascular diseases (which include heart disease and strokes), cancers, diabetes and chronic respiratory disease.

38 million people die from NCDs each year, including 16 million people who die prematurely (before age 70). Over 80 percent of premature deaths from NCDs occur in low- and middle-income countries. Most premature NCD deaths are from four main behavioural risk factors – tobacco use, harmful use of alcohol, physical inactivity and unhealthy diet.

Population exposure to these behavioural risk factors for NCDs is determined largely by policies in trade, labour, tax, urban planning, education and other 'non-health' sectors. This means that early death and disability from NCDs are largely avoidable through better policy coherence across sectors.

Given the social, economic and environmental burdens of NCDs, it is possible to identify strategies and approaches that deliver shared gains for all sectors involved.

### The United Nations General Assembly in July 2015 endorsed the Addis Ababa Action Agenda, the outcome of the Third International Conference on Financing for Development.

Noting the heavy burden of NCDs globally, the outcome document recognizes "...that, as part of a comprehensive strategy of prevention and control, price and tax measures on tobacco can be 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."<sup>4</sup>

goods and services.<sup>5</sup> Raising cigarette excise by US\$ 0.75 per pack in all countries would generate an extra US\$ 141 billion in revenue globally.<sup>6</sup> The WHO-recommended standard is that tobacco excise taxes account for at least 70 percent of the retail price for tobacco products.

4 A/RES/69/313. Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda). Resolution Adopted by the General Assembly on 27 July 2015. [http://www.un.org/en/ga/search/view\\_doc.asp?symbol=A/RES/69/313](http://www.un.org/en/ga/search/view_doc.asp?symbol=A/RES/69/313)

5 Guidelines for implementation of Article 6 of the WHO FCTC: Price and tax measures to reduce the demand for tobacco. [http://www.who.int/fctc/guidelines/adopted/Guidelines\\_article\\_6.pdf](http://www.who.int/fctc/guidelines/adopted/Guidelines_article_6.pdf)

6 Goodchild, M, Perucic, A, and Nargis, N (2016). "Modelling the impact of raising tobacco taxes on public health and finance." *Bull World Health Organ*, 94: 250–257.

- Most countries already tax alcohol in some form. However, these countries are forgoing billions in revenue by not taxing alcohol at higher rates.<sup>7</sup>
- Raising taxes on unhealthy food and sugar-sweetened beverages would likewise generate significant additional revenue.
- In 2012, 12.6 million deaths were attributed to environmental causes globally, with 8.2 million of those from NCDs caused by air pollution.<sup>8</sup> Removing fossil fuel subsidies, instituting road-user charging schemes/urban road pricing, and taxing fuel and motor vehicles all bring in revenue.
- In Namibia, a study of over 7,000 workers from 2009-10 concluded that the greatest cause of absenteeism from the workplace was high blood glucose and diabetes.<sup>11</sup>

Revenue from these taxes can bolster public finances for health and education; achieving universal health coverage, ensuring healthy food and safe drinking water in schools, increasing health promotion programmes, and funding primary and secondary education. The Philippines, for example, uses revenues from its landmark Sin Tax Reform Law to finance universal health coverage and better health care.

### 3. Preventing NCDs makes economic sense

The costs of inaction on NCDs far outweigh the investments required to avoid these costs and ensure healthy and productive societies.

- Each year Barbados is losing an estimated 2.6 percent of its GDP in productivity losses and healthcare costs from diabetes and cardiovascular disease alone.<sup>9</sup>
- Chronic diseases have depressed Egypt's labour supply by nearly one fifth according to a 2011 World Bank study. As a result, GDP is estimated to be 12 percent below its potential.<sup>10</sup>

#### Return on investment facts<sup>12</sup>

##### Fact 1. The economic consequences of NCDs are enormous.

- Under a 'business as usual' scenario, cumulative economic losses to LMICs from the four main NCDs are estimated to surpass US\$ 7 trillion between 2011-2025, equivalent to approximately 4 percent of their annual output in 2010.

##### Fact 2. The costs of scaling-up NCD prevention and control are very low compared to their burden.

- Population-based measures for reducing tobacco and harmful alcohol use, as well as unhealthy diet and physical inactivity, are estimated to cost US\$ 2 billion per year for all LMICs – less than US\$ 0.40 per person;
- The most cost-effective NCD interventions for individuals cost US\$ 11.4 billion per year for all LMICs (annual investment ranging from under US\$ 1 per person in low-income countries to US\$ 3 per person in upper middle-income countries).

##### Fact 3. The returns on scaling up prevention and treatment are massive.

- In economic terms, the return will be many billions of dollars of additional output; for example reducing death rates from ischaemic heart disease and stroke by 10 percent would reduce economic losses in LMICs by an estimated US\$ 25 billion per year, which is three times greater than the investment needed for the measures to achieve these benefits;
- In health terms, the return on investment would be many millions of avoided premature deaths.

7 See Stenberg, K, et al. (2010). "Responding to the challenge of resource mobilization – mechanisms for raising additional domestic resources for health." World Health Report. Background Paper 13. Geneva: WHO. <http://www.who.int/healthsystems/topics/financing/healthreport/13Innovatedomfinancing.pdf>

8 WHO. 2016. "An estimated 12.6 million deaths each year are attributable to unhealthy environments." <http://www.who.int/mediacentre/news/releases/2016/deaths-attributable-to-unhealthy-environments/en/>

9 Nation news (2016). "Barbados losing GDP to NCDs." <http://www.nationnews.com/nationnews/news/81654/barbados-losing-gdp-ncds>

10 A/RES/69/313. Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda). Resolution Adopted by the General Assembly on 27 July 2015. [http://www.un.org/en/ga/search/view\\_doc.asp?symbol=A/RES/69/313](http://www.un.org/en/ga/search/view_doc.asp?symbol=A/RES/69/313)

11 Guariguata, L, et al. (2012). "Diabetes, HIV and other health determinants associated with absenteeism among formal sector workers in Namibia." *BMC Public Health*, 12:44-44.

12 WHO, WEF (2011). "From burden to 'best buys': reducing the economic impact of NCDs in LMICs." [http://www.who.int/nmh/publications/best\\_buys\\_summary.pdf?ua=1](http://www.who.int/nmh/publications/best_buys_summary.pdf?ua=1)

#### 4. Price and tax measures are effective at getting people to quit tobacco use and reduce consumption of alcohol as well as unhealthy foods and beverages

Many countries have taxed cleverly to discourage consumption of health-harming products, while bringing government significant revenue.

- In 2015, China increased its wholesale tax rate on cigarettes from 5 to 11 percent. After one year, cigarette sales dropped by 3.3 percent. The tax delivered an *additional* 70 billion yuan (US\$ 11 billion) to the central government in one year.<sup>13</sup> The Philippines generated US\$ 3.9 billion in incremental revenues in the first three years of implementation of the Sin Tax Law, the bulk derived from tobacco taxes.<sup>14</sup>
- In 2013, Mexico implemented a 1 peso per litre product-tax on sugar sweetened beverages, leading to a 12 percent decline in consumption by the end of 2014 with an even higher decline (17 percent) among low-income households.<sup>15</sup> The tax generated US\$ 1.3 billion in revenue for the Mexican government in 2014.
- In 2011, Hungary introduced a tax on food products containing unhealthy levels of sugar, salt and other ingredients. Consumption of unhealthy foods decreased considerably, and 40 percent of food manufacturers either reduced (28 percent) or eliminated (12 percent) unhealthy ingredients in their products. In its first four years, the tax generated US\$ 219 million for public health spending.<sup>16</sup>

Pro health taxation policies are relatively inexpensive to implement, and more cost-effective than waiting for the diseases to develop. Tobacco taxes, for example, are economically efficient and cost little to implement. A recent study estimated the cost of implementing and

Pro-poor taxation measures send a strong message that powerful groups, such as the tobacco industry, will not be allowed to profit in disregard of the most vulnerable in society.

administering tobacco tax increases to be US\$ 0.05 per person per year in LMICs, positioning it as the least costly of all tobacco control policies.<sup>17</sup> Independent analysts have classified tobacco tax increases as a “phenomenal” value intervention, with robust evidence for benefits more than 15 times the costs to implement.<sup>18</sup>

#### 5. Price and tax measures can be used to actively encourage healthier behaviours and healthier products

Countries should assess and consider:

- Implementing fiscal measures to encourage the consumption of healthy foods and healthy beverages (e.g. subsidizing fruit and vegetable sales and vendors, decreasing import duties on fresh fish);
- A manufacturers’ excise tax on processed food producers, to encourage the production of foods and beverages with less salt, sugar and fat. Such reformulation has the potential to have a large public health impact;<sup>19</sup>
- Gradually shifting price controls to healthier products as a revenue-neutral way to improve health. Currently, many countries subsidize or institute price controls for products such as sugar, salt, palm oil and refined flour, making healthier alternatives less affordable.<sup>20</sup>

13 WHO (2016). “Tobacco tax increase results in decreased tobacco consumption.” <http://www.wpro.who.int/china/mediacentre/releases/2016/20160510/en/>

14 WHO. “Earmarking revenues for health: a finance perspective on the Philippine Sin Tax Reform.” [http://www.who.int/health\\_financing/topics/public-financial-management/D2-S4-JPaul-earmarking.pdf](http://www.who.int/health_financing/topics/public-financial-management/D2-S4-JPaul-earmarking.pdf)

15 Colchero, MA, et al. (2016). “Beverage purchases from stores in Mexico under the excise tax on sugar sweetened beverages: observational studies.” *BMJ*, 352: h6704.

16 WHO. “Public health product tax in Hungary: An example of successful intersectoral action using a fiscal tool to promote healthier food choices and raise revenue for public health.” [http://www.euro.who.int/\\_data/assets/pdf\\_file/0004/287095/Good-practice-brief-public-health-product-tax-in-hungary.pdf](http://www.euro.who.int/_data/assets/pdf_file/0004/287095/Good-practice-brief-public-health-product-tax-in-hungary.pdf)

17 WHO (2011). “Scaling up action against noncommunicable diseases: how much will it cost?” [http://www.who.int/nmh/publications/cost\\_of\\_inaction/en/](http://www.who.int/nmh/publications/cost_of_inaction/en/)

18 Copenhagen Consensus (2015). “Preliminary Benefit-Cost Assessment for the 12th Session OWG Goals.” [http://www.copenhagenconsensus.com/sites/default/files/owg12\\_cost-benefit-assessment\\_0.pdf](http://www.copenhagenconsensus.com/sites/default/files/owg12_cost-benefit-assessment_0.pdf)

19 Pomeranz, JL (2013). “Taxing food and beverage products: a public health perspective and a new strategy for prevention.” *University of Michigan Journal of Law Reform*, 46(3).

20 Findings from joint UNDP-WHO country missions, 2016.

## 6. Industry interference is a major challenge: ministries of finance, tax and revenue must be alert to the myths spread by industry

Tobacco, alcohol and food companies often seek to influence governments with a number of false arguments as to why they should not tax health-harming products.<sup>21</sup> They argue, for example, that such taxes are regressive and unfair to the poor, for whom taxes represent a larger share of income. In reality, unregulated policy environments are unfair to the poor because such environments allow stark inequities in how NCDs and their risk factors are distributed to persist. Rates of disease are significantly higher amongst the poorest and most excluded groups. Health conditions amongst the poor are also more likely to go undetected and treated, so increasing inequities.

### **Taxes on health-harming products are not regressive**

Exactly the opposite. Across the world NCDs burden the poor most. Tobacco, alcohol and food companies target poorer countries and lower income populations. The poor are also more likely to live in environments which make the healthy choice the difficult choice.

Taxes even the playing field. Their multiple benefits – in health, poverty reduction, education and opportunity – accrue mostly to the poor. Meanwhile, wealthier users, whose use typically declines less relative to price increases, wind up paying the majority portion of the tax increases.

Revenue from these taxes can then be reinvested into programmes that benefit the poor, increasing their progressive nature.

### **Tobacco industry myths debunked**

#### **Myth 1. Tobacco tax increases will reduce tax revenue (because consumption goes down).**

No: Tax revenue actually increases (because reduction in sales is less than proportionate to the price increase). As demonstrated in the Philippines and many more countries around the world, an increase in tobacco taxes raises government revenues.

#### **Myth 2. Tobacco taxes will reduce economic activity.**

No: Spending on tobacco will be replaced by spending on other consumer products and services.

#### **Myth 3. Taxes create a financial burden on poor smokers since they spend a larger share of their income on tobacco products.**

Not exactly: Because people on lower incomes are more sensitive to price increases, they will alter their consumption behaviour by either quitting or reducing the level of tobacco consumption more than higher-income consumers. Consequently, higher taxes will help reduce their own personal spending on tobacco as well as improve their health.

#### **Myth 4. Tobacco tax and price differences between countries create an incentive for illicit trade in tobacco products.**

Not exactly: There are other more important factors that encourage illicit trade, such as weak governance/lack of high-level commitment, weak customs and excise administration, corruption and complicity of cigarette manufacturers.

Consequently: Tax increases should be introduced together with actions to strengthen tax administration (such as simplifying taxation, monitoring the tobacco products market and strengthening customs and police) to reduce incentives for tax evasion by manufacturers and smuggling as a source of revenue for criminal organizations.



21 Smith, K, et al. (2016). "Tobacco, alcohol and processed food industries – Why do public health practitioners view them so differently?" *Front Public Health*, 4:64.

## 7. Ministries of finance, tax and revenue need to collect robust data to see the impacts of tax and price policies

Monitoring and evaluation of tax policies is essential in order to assess their impact on prices, so guiding their revisions and improvements. It can also help assess in an independent manner the impact of those policies and refute the common industry arguments used to counter their implementation or expansion.

## 8. Getting started...

In the first instance, ministries of finance, tax and revenue should:

- Work with the ministry of health to develop an investment case assessing the returns on investment in scaled up action to prevent and control NCDs.
- Be key partners in the government's response to NCDs, engaging fully in policy and plan development and implementation;
- Build political capital for price and tax measures to address NCDs;
- Ensure mechanisms are in place to protect against industry interference in government policymaking.

### Building political capital for price and tax measures to address NCDs

**Never underestimate the power of civil society and public opinion.** The engagement of well-respected expert organizations, media advocacy, political advocacy, strategic campaign development, and community involvement drove success in Mexico's sugary drinks tax. Simmering public outrage at industry practices should be harnessed.

**Frame the issue.** Public support is typically higher where (additional) revenues from taxes are spent transparently and dedicated to health promotion or social spending.

**Articulate why non-health sectors will benefit.** While NCDs and their risk factors have an impact on health, they also impede progress on economic growth, a strong labour force, poverty reduction and education. Tax proposals that articulate these benefits are more likely to generate multi-stakeholder support.



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