

THE UNION'S BRIEF ON FINANCING PUBLIC HEALTH PREPAREDNESS FOR PANDEMICS

SUMMARY

- COVID-19 is having a profound effect on public health, public health systems and economies
- Countries must be better prepared to face future pandemics and public health emergencies
- One of the best ways to boost preparedness is to reduce tobacco use, which kills 8 million people a year, burdens health care systems, and harms economies
- The most effective and cost-effective way to reduce tobacco use is to raise tobacco tax
- Raising tobacco tax will simultaneously improve the health of the populace, reduce health inequities, lessen the burden on health care systems, and improve the economy overall
- Increasing taxes on products that harm health can raise additional revenue to fund post-COVID-19 economic recovery, including health promotion or other programs, thus increasing the level of preparedness

INTRODUCTION

The current COVID-19 pandemic is producing both public health and fiscal crises. As of September 6, 2020, there were over 34 million reported disease cases and over 1 million premature deaths.¹ In addition to the human tragedy, protective social distancing measures to contain the disease are severely impacting economic activity and mental health. Estimates project that the global economy will contract by at least 5 percent in 2020, far more than during the 2008–09 financial crisis.²

PUBLIC HEALTH SYSTEMS UNDER SEVERE STRAIN

The 2019 Global Health Security Index (GHSI) raised concerns about severe gaps in countries' preparedness to face health crises, linking them to a lack of political will and insufficient sustainable financing.³ In this context, the current pandemic is placing undue stress on public health systems and exposing emergency response paralyzes. The absence of systematic planning and the lack of funding are resulting in heavy death tolls for many countries.⁴ In April 2020, the United Nations called for the expansion of public health spending and social protection.⁵

LOW- AND MIDDLE-INCOME COUNTRIES MOST UNPREPARED TO FACE PANDEMICS

The situation is particularly severe in low- and middle-income countries⁶ where lack of funding and resources are delaying government responses to COVID-19 and resulting in high preventable loss of life.⁷ In India, the lack of emergency preparedness⁸ combined with inadequate investment in the public health system, inhibits effective containment plans.⁹ Pakistan's health system is unable to adequately scale up both detection and treatment to address the COVID-19 outbreaks due to its underfunded and fractured healthcare system.¹⁰ The situation is similar in Bangladesh, where COVID-19 is a humanitarian crisis with a public health dimension. More than 90% of labor in Bangladesh is employed in the informal sector and large-scale physical distancing brings an economic shock resulting in food insecurity.¹¹ And South Africa is facing mass hunger due to the collapse of an economy struggling already prior to COVID-19.¹²

As countries adapt to the new world with COVID-19, prevention services must rank high on the list of priorities.¹³ Reducing tobacco use, which kills eight million people a year and imposes a huge burden on health care systems, is one of the most effective ways to increase the overall fitness of a country to face COVID-19 and future pandemics.

This document outlines **three recommendations** to help countries reduce tobacco use to better prepare for future pandemics and emergencies.

1. Substantially raise tobacco tax to reduce tobacco use to strengthen public health emergency response

Higher tobacco tax will boost the population's fitness to face future epidemics

Raising tobacco taxes is a highly effective and cost-effective tool to reduce tobacco use, improve health, and save lives.¹⁴ Emerging evidence shows that populations with underlying health conditions caused or worsened by tobacco use are the most vulnerable to the COVID-19 pandemic.¹⁵ In addition, the treatment of smoking-related diseases imposes a significant burden on health care systems and reduces the capacity of the systems to deal with other critical health problems and emergencies. There is no better time for governments to encourage tobacco users to quit and non-users to continue abstaining from tobacco.¹⁶ Countries that reduce tobacco use now and invest in preparedness for future public health crises will boost population fitness, increase labor productivity, and reap huge returns on their investment by becoming better prepared for future pandemics. Therefore, higher tobacco taxes must be a part of “build back better” plan for the economic recovery.

Higher tax will protect the poor who are hardest hit by COVID-19

Many tobacco users are already poor; the pandemic will impoverish others. The poor are particularly vulnerable during pandemics because they are already dealing with other poverty-related diseases, including tuberculosis.¹⁷ The pandemic may also diminish resources dedicated to other public health emergencies affecting the poor, such as malaria or polio.¹⁸ By reducing the prevalence of tobacco use, higher tobacco tax reduces health disparities and improves the wellbeing of the poor the most.¹⁹ Money not spent on tobacco can be allocated to food, health care, and other necessities. Such a demand shift has the potential to partially offset the economic consequences of COVID-19 and shorten the time to economic and social recovery.

Higher tobacco tax has additional economic benefits

Higher tobacco tax that reduces tobacco use prevalence also lowers future health care costs, reduces pressure on health care capacity, and increases life expectancy and labor productivity. Globally, the total economic cost of smoking amounts to 2 trillion USD every year, an amount equivalent to almost 2% of the world's total economic output.²⁰ Reducing this toll can contribute significantly to the post-COVID-19 economic recovery.

Evidence shows that tobacco control policies have the potential to stimulate economic growth: both due to better population health (better health accounted for nearly 24% of income growth in low- and middle-income countries in the period of 2000 - 2011²¹) and shifts in spending from tobacco to other sectors (money previously spent on tobacco stimulates demand for other goods and services; this creates new jobs and increases GDP).

The Philippines case study

The Philippines is a good example of a country where large tobacco tax increases improved public health by reducing tobacco use while bringing in revenue. As a result of the 2013 tax reform, tobacco use declined from 25.6% in 2013 to 20.5% in 2018.²² At the same time, tax revenue increased from 32.9 billion pesos in 2012 to 99.5 billion pesos in 2015, a 202 percent increase in revenue despite the drop in tobacco use caused by the tax and price increases.²³ The Philippines dedicated some of the newly generated tax revenue to their health care system, tripling the Department of Health's budget, from 42.2 billion pesos in 2012 to 122.6 billion pesos in 2016. To reduce health inequalities, most of the new resources covered health insurance premiums for the poor, helping to expand coverage to 10 million poor families, as well as to 5.4 million senior citizens by the end of 2016.²⁴ Some of the new tobacco tax revenue is funding health awareness programs, improvements in health care facilities, and transitioning of tobacco farmers to other crops.²⁵

2. Resist industry pressure to reduce or maintain current tobacco tax

Though most economic sectors are negatively impacted by COVID-19, the tobacco industry is a notable exception; the business of selling addictive tobacco products is weathering the crisis quite well.²⁶ The industry is offering cash and other support to governments in exchange for various concessions including delay on excise tax payments.^{27, 28, 29, 30} It is utterly unconscionable to promote lung-damaging, addictive products in the midst of a respiratory pandemic.^{31, 32} Tobacco excise taxes must be increased, and governments should not succumb to the industry's flagrant manipulations.

3. Taxes on tobacco products can raise revenue to fund post-COVID-19 economic recovery, including public health and other programs

The landmark 3rd UN Conference on Financing for Development (Addis Ababa, 13-16 July 2015) endorsed higher tobacco taxes as the most cost-effective measure to reduce tobacco consumption and related health-care costs.³³ The rationale behind this endorsement is simple: As tobacco use causes more than eight million deaths each year, governments can easily raise taxes to encourage and incentivize quitting *and* simultaneously generate much needed revenue^{34, 35} There is much room for improvement; the WHO states that 155 countries have taxes that are lower than the minimum benchmark recommended by the WHO.³⁶

The 2019 Global Health Security Index (GHSI) further exposed an urgent need for new financing mechanisms emphasizing sustainable domestic financing in order to fill epidemic and pandemic preparedness gaps.³⁷ The urgency of establishing such mechanisms has been amplified by the current crisis. The USA, for example, is debating setting up a health defense fund,³⁸ while the EU has broadened the scope of its Solidarity Fund to permit spending on containing the spread of the disease and strengthening preparedness and communication.³⁹ Recently, the United Nation Development Program (UNDP) decided to support 130 countries to implement costed recovery plans for COVID-19 that focus on health and NCDs and include substantial increases in tobacco (and alcohol) taxes as a source of financing.⁴⁰

Estimates suggest that the annual cost of global preparedness would be around \$4.5 billion, less than \$1 per person.⁴¹ This is a relatively small price to pay to prevent or limit extremely high future losses caused by health crises. Tax increase beyond the \$1 threshold could fund post COVID-19 economic recovery. There is considerable potential in most low- and middle-income countries to increase fiscal space by increasing taxes on products that harm public health or the environment, and by improving tax administration.⁴²

Countries use tobacco excise tax to fund health programs

Earmarked taxes can be allocated to fund health promotion, health care, disaster preparedness, and other social development programs.^{43,44,45} Indeed, at least 80 countries are using some form of tax earmarking to address funding gaps in health financing. Among those, at least 35 countries earmark tobacco tax.⁴⁶

The Philippines is an example of a country where the tax reform not only reduced tobacco use, but also generated substantial funds earmarked for better access to health care, among other benefits (see details above). Such arrangement gives the Philippines a head start in the “built back better” recovery.

South Korea, widely praised for its response to the COVID-19 pandemic, earmarks 45% of tobacco excise tax for health promotion (including tobacco cessation programs, and education) and waste management. About 20% of national health insurance contributions is paid for by tobacco taxes.⁴⁷ Despite being an important source of revenue, the primary role of tobacco tax is to improve public health. The 2015 tobacco tax reform in South Korea led to an 80 percent increase in cigarette prices and a 3.8 percent decline in male smoking prevalence, which dropped by additional 2.5 percent by 2016. The largest smoking prevalence reduction was recorded among youth and the lowest income group. Cigarette sales fell by 23.7 percent in 2015, while tobacco excise tax revenue increased by 20 percent (or by 0.9 trillion won; 0.75 billion USD). It is estimated that the 2015 tobacco tax reform cut national annual health expenditure by 1.02 billion won (0.85 million USD), a savings of 14.08 billion won (11.7 million USD) over 10 years.⁴⁸

Revenue generated from sin taxes can be an important source of funding for post COVID-19 economic recovery

Indonesia utilizes the Tobacco Products Excise Sharing Fund (DBHCHT) to assist in mitigating the impact of COVID-19 in several regions.⁴⁹ In India, the National Calamity Contingency Duty (NCCD) on cigarettes and other tobacco products funds the government response to this pandemic.^{50,51} In September 2020 Russia announced a 20% excise tax increase on cigarettes, tobacco products and e-cigarettes effective Jan 1, 2021 to cover the costs of the COVID-19 response. The tax increase is expected to increase price of a cigarette pack by RUB 20, or by 16.7%, and generate additional RUB 70 billion (or USD 890 million) for the state budget.⁵²

Small tax increases can generate revenue, but have negligible impact on tobacco use, therefore are not recommended as part of “build back better” recovery

Some countries that earmark tobacco taxes impose small additional charges on tobacco products to fund certain programs. Because these are small tax increases, they generally do not significantly reduce tobacco use and improve population health; however, they can generate much needed revenue to fund health-related projects, including tobacco control, thus serving to improve health in the long run. Vietnam and Bangladesh are examples of such earmarking.

In 2012, Vietnam established the Vietnam Tobacco Control Fund, which receives a two-percentage points surcharge above the existing excise tax rate.⁵³ The money supports prevention and control of tobacco harms and promotes closer collaboration between the Ministries of Health and Finance. In a win for health, the Fund awarded USD 15.1 million to tobacco control in 2016 alone,⁵⁴ greatly exceeding the USD 4.3 million projected.⁵⁵

In 2015, Bangladesh levied a 'health development surcharge' of one percent on the value of tobacco products, exclusive of VAT. The Ministry of Health uses these resources for a national tobacco control program that includes funding for research, awareness raising campaigns, rehabilitating tobacco users, and ensuring overall health development.⁵⁶ The surcharge raises at least USD 31 million per year.⁵⁷

A significant tax increase in both countries could not only raise funds for the post-COVID-19 economic recovery, but also reduce the substantial health and economic burden that tobacco use imposes on both economies.

CONCLUSION

COVID-19 has shone a bright and glaring spotlight on the inadequacies of many public health systems. Even in the richest countries, institutions are not ready for emerging pandemics and populations are not sufficiently resilient. Governments and civil society must work together to fund solutions **to prevent, detect, and respond to public health threats. Substantially increasing tobacco taxes not only improves public health and health equity, but also boosts the economy and the overall preparedness for future health crises.** Additional revenues raised by increasing tobacco taxes can be used to further improve population health, cover some of the post-COVID-19 economic recovery costs and enhance future pandemic preparedness and response.

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