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# **RAISING TAX TO FINANCE PUBLIC HEALTH SYSTEM IN RESPONDING TO COVID-19 AND PREVENTING FUTURE PANDEMICS**

Speakers Materials

THURSDAY, 9TH OF JULY 2020



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# EXCISE POLICY AND ECONOMIC RECOVERY

Frederico Gil Sander | World Bank

THURSDAY, 9TH OF JULY 2020

# Excise policy and economic recovery

July 9, 2020



# Agenda

Maintaining a robust health system will save lives and livelihoods

More resources are needed to fund a robust health system

Excise taxes can play an important role

# Economic recovery needs a *safe* reopening of the economy to regain consumer confidence

Reducing mobility restrictions is the first step towards reactivating Indonesia's economy from the COVID-19 shock – but by itself reopening may not be sufficient

- Sweden's economy has performed similarly to Denmark's despite much looser mobility restrictions in the former

The reason is that economic activity depends on *consumer confidence* – if consumers fear that they may be infected, they will continue to avoid retail, dining, transport and other activities even when they are open

Some countries have seen a second wave of infections following reopening, contributing to consumer fears

# Safely reopening the economy requires robust health system preparedness

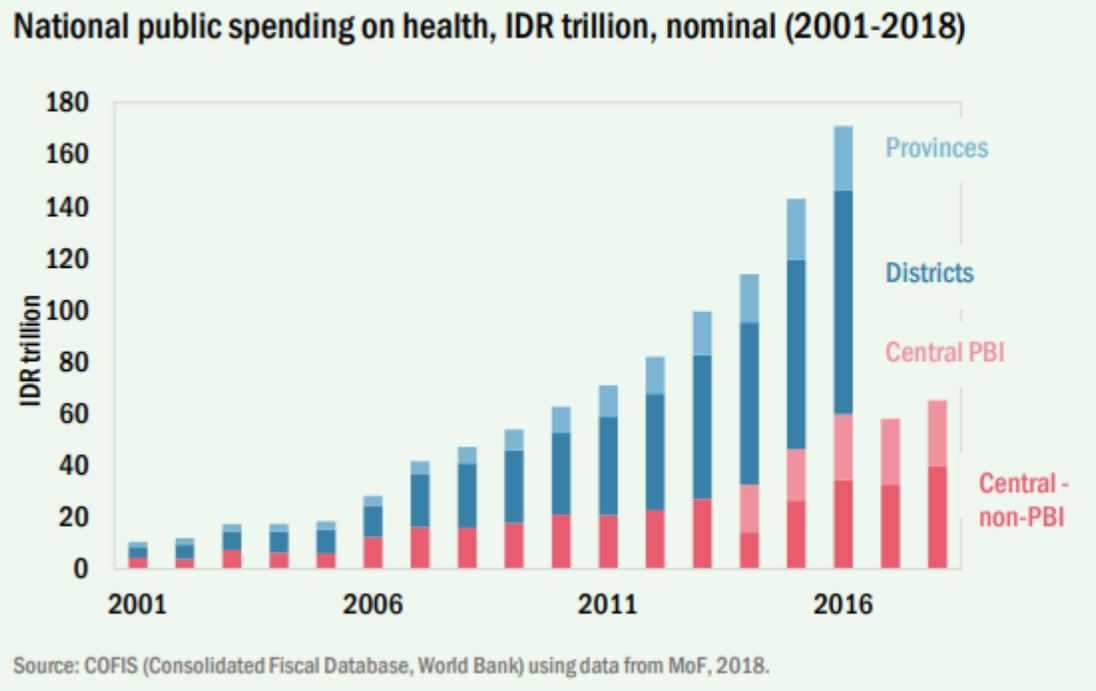
Public health measures to ensure preparedness that will boost consumer confidence during reopening include:

- i. understanding the epidemic and monitoring the level of the disease transmission and progression with **scaled up capacity for confirmatory testing**;
- ii. undertaking **contact tracing and isolation of confirmed cases and their contacts** to contain spread, and
- iii. **increasing the availability and readiness of health services** to cater to all the needs of patients at any given point of time – especially the severe respiratory cases requiring critical care

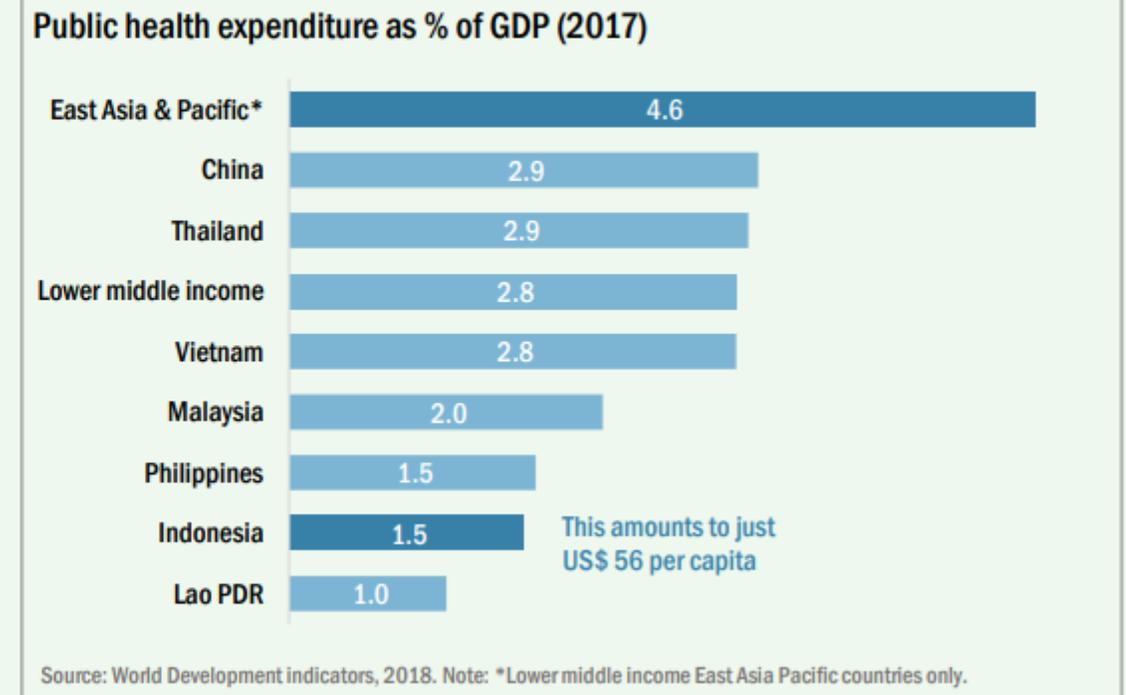
The Government allocated over 85tn Rupiah to the health response and progress has been made along these dimensions in the past months – **accelerating and maintaining the pace will be critical**

# More resources are needed to fund a robust health system...

While government health expenditure (GHE) increased by 22% between 2001 and 2018...



...it is still less than what similar countries spend. Indonesia would have to **double its per capita spending** to finance a minimum package of essential UHC services.



More than **two-thirds** of GHE occurs **at the subnational level**.

# ...and ensure the financial sustainability of JKN, which is the pillar of Indonesia's health system

**JKN** has incurred a cumulative **deficit of IDR 31.7 trillion** (US\$ 2.2 billion) as of end of May



**Contribution compliance leads to lower than expected revenues...**

**70 million** Indonesians remain **uninsured** mostly among the informal sector

Regional governments do **not always comply** with cigarette tax contributions to JKN

As many as 7,807 business entities did not register as members of BPJS-K and 25,326 companies **manipulated** employee wage **data**



**...and open-ended hospital expenditures drive the deficit.**

In JKN, PHC is paid by **capitation** – a fixed amount covering 144 competencies – **incentivizing over-referrals and under-delivery** in weakly monitored and under-resourced systems.

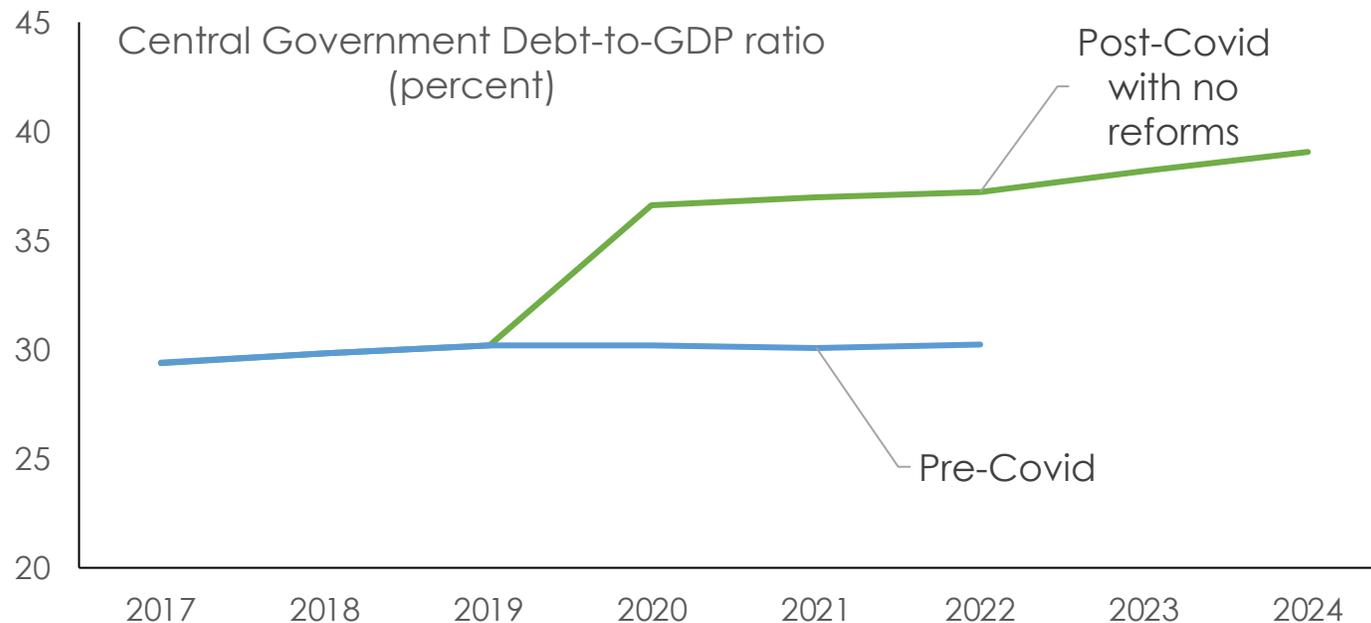
Instead, payment to hospitals is essentially open-ended, **incentivizing waste and unnecessary care.**

In 2018, while only **a third of all utilization** took place in **hospitals**, hospital expenditure **accounted for 84% of JKN expenditures.**

Therefore, Indonesia will need to **spend more** (and better) on health not only during Covid containment but also for the recovery...

...but how to **mobilize resources** for higher spending?

If Indonesia does not **flatten its debt curve**, mounting interest payments can reduce fiscal space, undermine its hard-earned investment-grade rating and derail the recovery



# Excise taxes are part of the answer

Excise taxes are **smart** as they serve multiple purposes: they

1. raise revenues,
2. create incentives for desired behaviors, and
3. can be intuitively linked to key spending areas thereby increasing public receptiveness

The Government may therefore consider:

- Introducing a **sugar sweetened beverage excise (SSB)** – this could raise up to 0.3 percent of GDP in resources for health
- Increasing **tobacco excises** via tier simplification and lift the 57% tariff/price rule to 75% - this could raise up to 0.8 percent of GDP in resources for health

# Sugar-Sweetened beverage excise – global experience

Excise taxes on Sugar-Sweetened Beverages (SSBs) are a well-recognized adversary in the fight against obesity and the quest for better public health.

Interest in discouraging consumption through higher taxes is growing as more jurisdictions impose them and as we learn more from their experiences.

Soft earmarking can help increase public awareness and support for sugar-sweetened beverage taxes

- The Philippines’ experience is a good example where soft earmarked revenue is linked to the country’s universal health coverage
- In other jurisdictions links have been made to programs benefiting the community and children

Table 1: Sugar-Sweetened Beverage Taxes in U.S. Cities

Location	Date enacted	Tax rate (¢ per ounce)	Includes diet drinks?
Albany, CA	November 2016	1	No
Berkeley, CA	November 2014	1	No
Boulder, CO	November 2016	2	No
Oakland, CA	November 2016	1	No
Philadelphia, PA	June 2016	1.5	Yes
San Francisco, CA	November 2016	1	No
Seattle, WA	June 2017	1.75	No
Cook County	November 2016 (repealed October 2017)	1	Yes

Table 2: Sugar-Sweetened Beverage Taxes Around the World

Europe	Western Pacific	Africa, Eastern Mediterranean, and Southeast Asia	Americas
Estonia (2018)	Philippines (2018)	Morocco (2019)	Colombia (2019)
Ireland (2018)	Brunei (2017)	South Africa (2018)	Bermuda (2018)
United Kingdom (2018)	Vanuatu (2015)	Bahrain (2017)	Peru (2018)
Portugal (2017)	Kiribati (2014)	India (2017)	Barbados (2015)
Belgium (2016)	Cook Islands (2013)	Maldives (2017)	Dominica (2015)
France (2012)	Tonga (2013)	Sri Lanka (2017)	Chile (2014)
Hungary (2011)	Fiji (2007)	Saudia Arabia (2017)	Mexico (2014)
Latvia (2004)	Nauru (2007)	Thailand (2017)	
Norway (1981)	Palau (2003)	United Arab Emirates (2017)	
Finland (1940)	French Polynesia (2002)	St. Helena (2014)	
	Samoa (1984)	Mauritius (2013)	

Notes: Countries with taxes on sugar-sweetened beverages; year of implementation in parentheses. This figure is based on data from the Global Food Research Program (2019).

Source: Allcott, Lockwood, Taubinsky (2009)

# Tobacco excise – global experience

It's not only about the rate – tier simplification will be key

- Multiple tiers create a range of very cheap brands in Indonesia

Table 3. Retail Price for a Pack of 20 Cigarettes - Premium Brand and Cheapest Brand – Indonesia and Selected Countries, 2016, in US\$

Country	Price of Premium Brand	Price of Cheapest Brand
<b>Indonesia</b>	<b>\$2.16</b>	<b>\$0.45</b>
Bangladesh	\$2.81	\$0.64
Brazil	\$2.28	\$1.53
Canada	\$8.56	\$6.55
China	\$6.76	\$0.38
Germany	\$6.67	\$5.56
India	\$3.67	\$0.87
Malaysia	\$4.19	\$2.22
Mexico	\$2.86	\$1.27
Philippines	\$1.26	\$0.86
Singapore	\$9.65	\$7.20
Sri Lanka	\$7.27	\$3.84
Rep. of Korea	\$4.46	\$3.57
Russian Federation	\$1.86	\$0.72
Thailand	\$2.06	\$1.15
United Kingdom	\$13.31	\$8.17
Vietnam	\$1.17	\$0.27

Source: WHO Report on the Global Tobacco Epidemic, 2017 (Appendix IX: Tobacco taxes, prices and affordability).

# Are excise taxes anti-poor?

One criticism of excises is that they weigh more heavily on the poor

But this takes a static view: the poor also gain more from the benefits of health-related excises

- Lower incidence of smoking and obesity-related diseases increases lifetime welfare of the poor more than the better-off
- Revenues allocated to health also benefit lower-income households more
- Higher cost of tobacco and sugar-sweetened beverages makes nutritious food relatively more affordable (substitution effect) in the context of poor nutrition among lower-income households, with lifelong repercussions

# Are excise taxes anti-industry/workers/farmers?

Another criticism of excises is that they harm industry and lead to job and income losses

Experience shows that well-implemented excises reallocate resources – and create new jobs – in areas that are more likely to have social benefits:

- Food and beverage industry can shift to offer more health-conscious choices to consumers
  - In Mexico, following the introduction of a SSB tax, purchases of non-taxed beverages increased by 7 percent, offsetting the decrease consumption in SSBs
- Many former tobacco farmers in Indonesia are making a better living growing other common, locally produced crops (e.g., corn, sweet potato, and green vegetables), an outcome that could be further enhanced with modest government investments in improved supply and value chains for these products

# Thank You





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**BUILDING BACK BETTER SMART:  
The case for tobacco taxation  
reform in Indonesia**

Jeremias N. Paul | WHO

THURSDAY, 9TH OF JULY 2020

# **BUILDING BACK BETTER SMART: The case for tobacco taxation reform in Indonesia**

**Webinar on raising taxes to finance the public health  
system in response to COVID-19 and prevent future  
pandemics**

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**Jeremias Paul Jr.**  
Unit Head, Fiscal Policies for Health  
Health Promotion Department  
World Health Organization



# Key Messages

- Health is fundamental to a build back better recovery
- Raising tobacco taxes is SMART
  - Saves lives
  - Mobilizes resources
  - Addresses health inequities
  - Reduces burden on health systems
  - Targets NCD risk factors
- Tobacco taxation as a build back better tool in Indonesia
  - Health is wealth
  - Protect the youth – Indonesia’s future
  - Reform Tobacco Taxation



Health is fundamental to a “Build Back Better” recovery

# Health is fundamental to any recovery ...

Director General Tedros at the World Health Assembly, 18 May 2020

## *People and Planetary Health*

*“The pandemic is a reminder of the intimate and delicate relationship between people and planet. **Any efforts to make our world safer are doomed to fail unless they address the critical interface between people and pathogens, and the existential threat of climate change,** that is making our Earth less habitable.”*



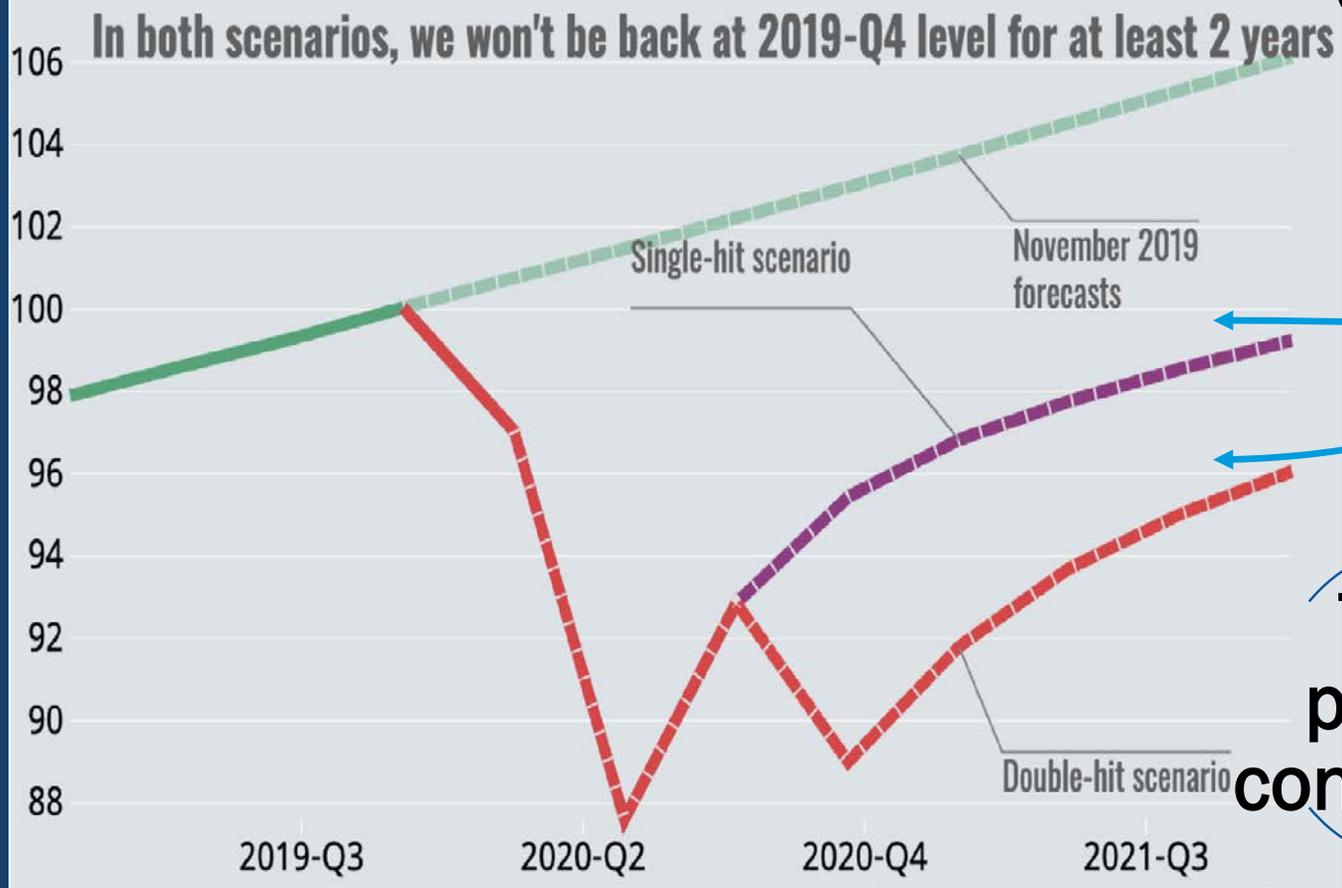
## *Public Health and Economic Recovery*

*“WHO fully understands and supports the desire of countries to get back on their feet and back to work. **It’s precisely because we want the fastest possible global recovery that we urge countries to proceed with caution.** Countries that move too fast, without putting in place the public health architecture to detect and suppress transmission, run a real risk of handicapping their own recovery.”*

# ... and Fiscal Policy will be Essential

## A collapse in output followed by a slow recovery

World GDP, index 2019-Q4=100



Aggregate demand drivers down

Monetary policies limited

Fiscal Policy Response will be Essential

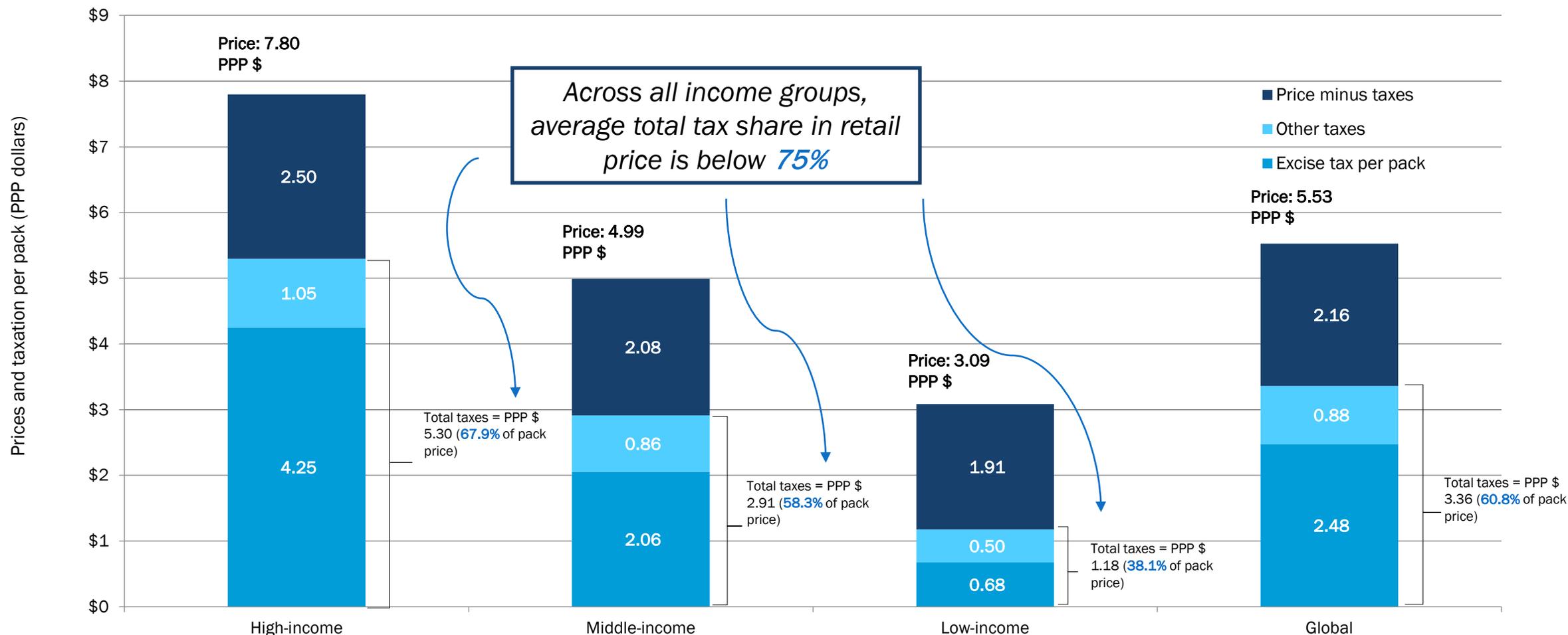
Trade policies constrained

Uncertainty & low market confidence



# Opportune time to increase tobacco taxes

Weighted Average Retail Price and Taxation (Excise and Total) of Most Sold Brand of Cigarettes, 2018





Build Back Better with SMART Taxes:  
Raising tobacco taxes is SMART

# Raising Tobacco Taxes is **SMART**

**S**aves lives

**M**obilizes Resources

**A**ddresses Health Inequities

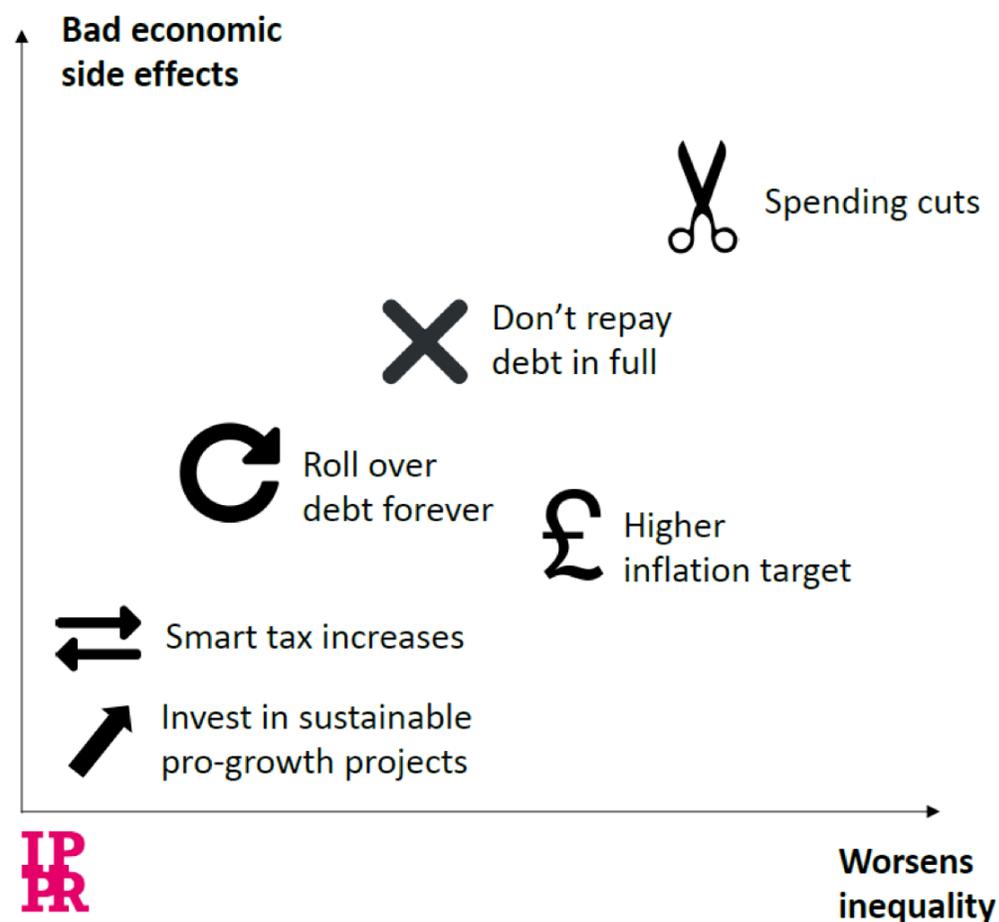
**R**educes burden on health systems

**T**argets noncommunicable disease (NCD)  
risk factors

# Increasing tobacco taxes is SMART in a debt constrained environment

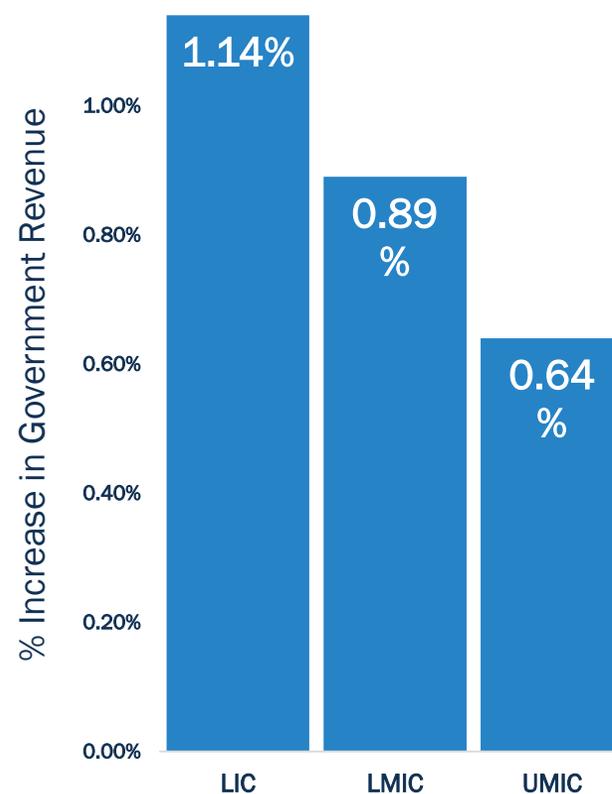
- ✓ **Win-Win-Win SMART Tax:** Reduce strain on health systems by reducing burden of NCD's and risk of severe COVID-19
- ✓ **Progressive:** Poor disproportionately benefit from health impact, especially if revenue earmarking for health is allowed
- ✓ Politically, more viable than excess profit or wealth taxes
- ✓ In countries with a low tax base, could be a vital lifeline to directly raise revenues to help **fund coronavirus response and recovery**

## Policy options for keeping debt sustainable post Covid-19

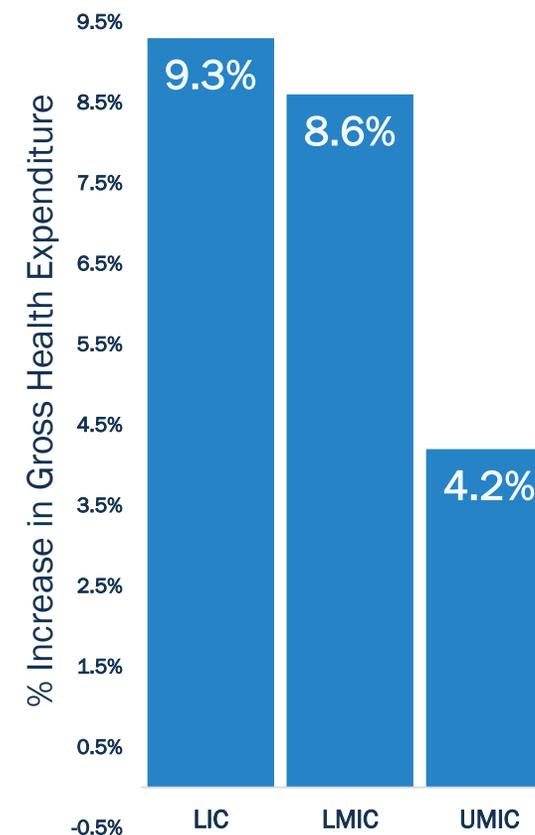


# A Win-Win-Win for Revenues, Health and Equity

Fiscal Space Created by Raising Cigarette Excise by US\$ 0.25/Pack

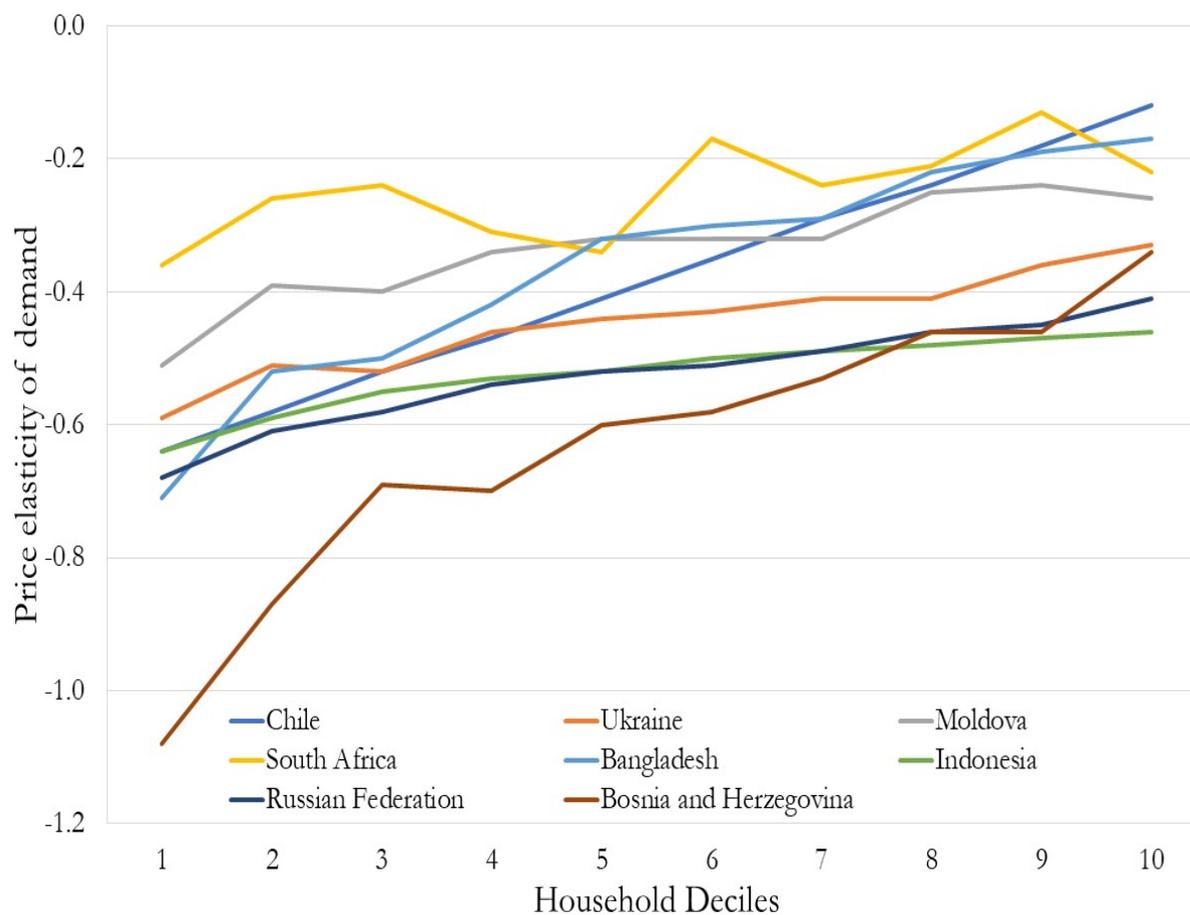


Spending Increase if Extra Revenue Allocated to Health

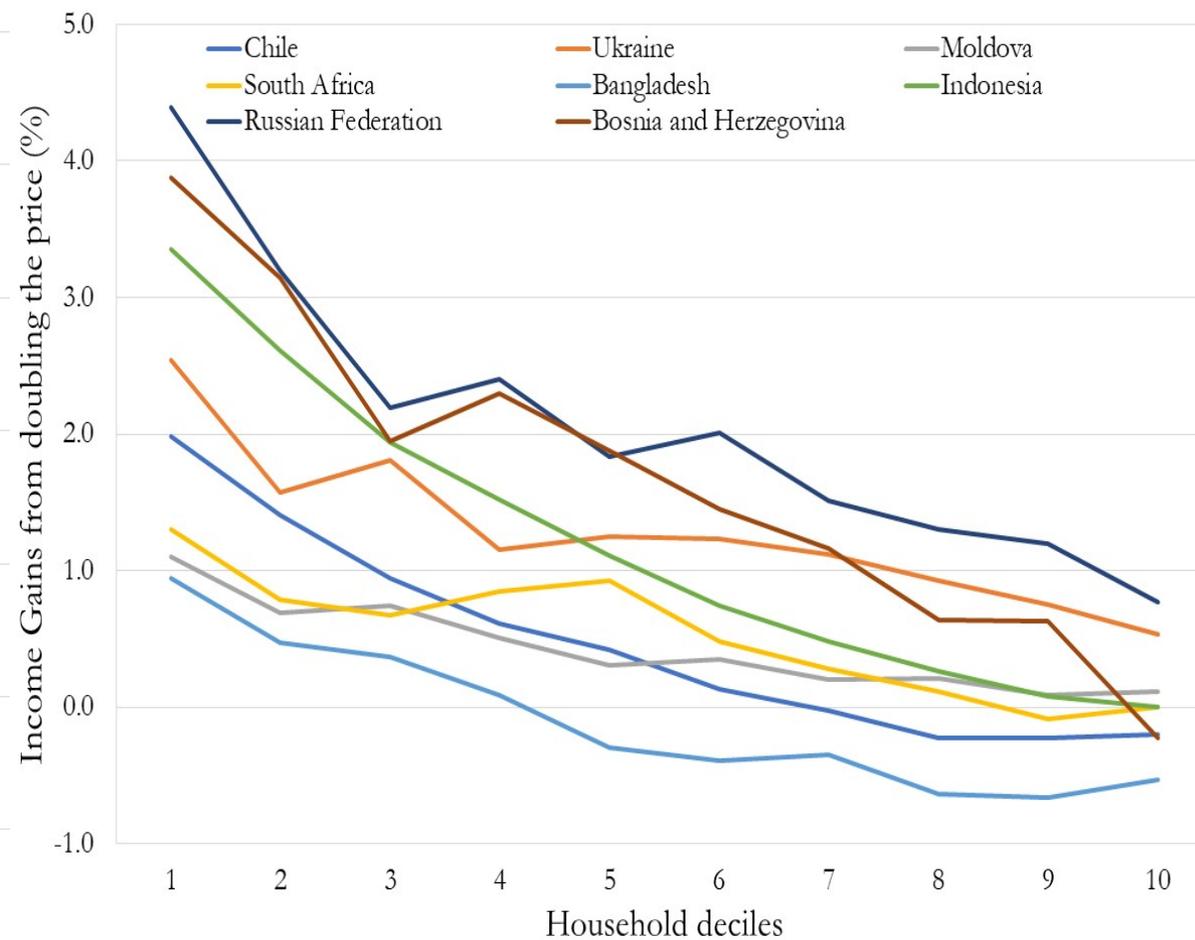


# Increasing tobacco taxation benefits lower income groups

## Lower income HHs are more price sensitive

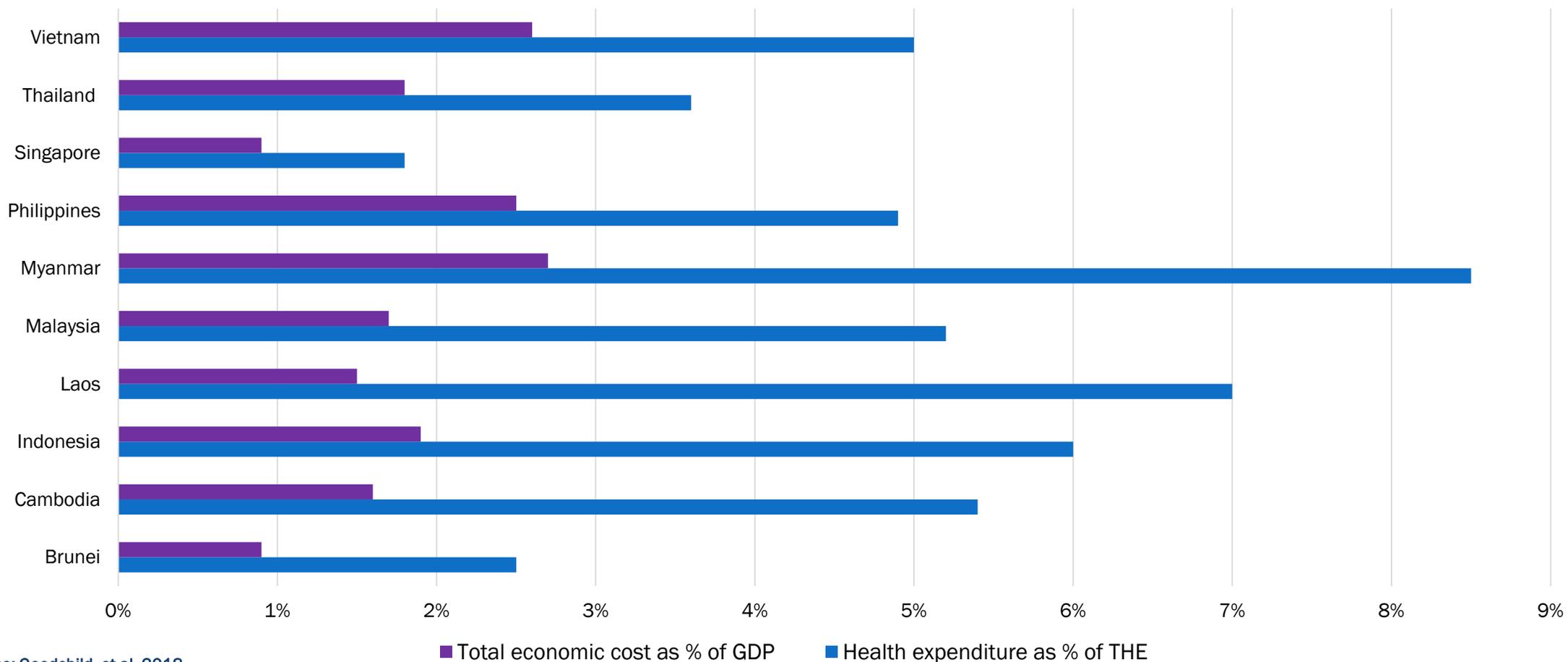


## Lower income HHs benefit more from tax hikes

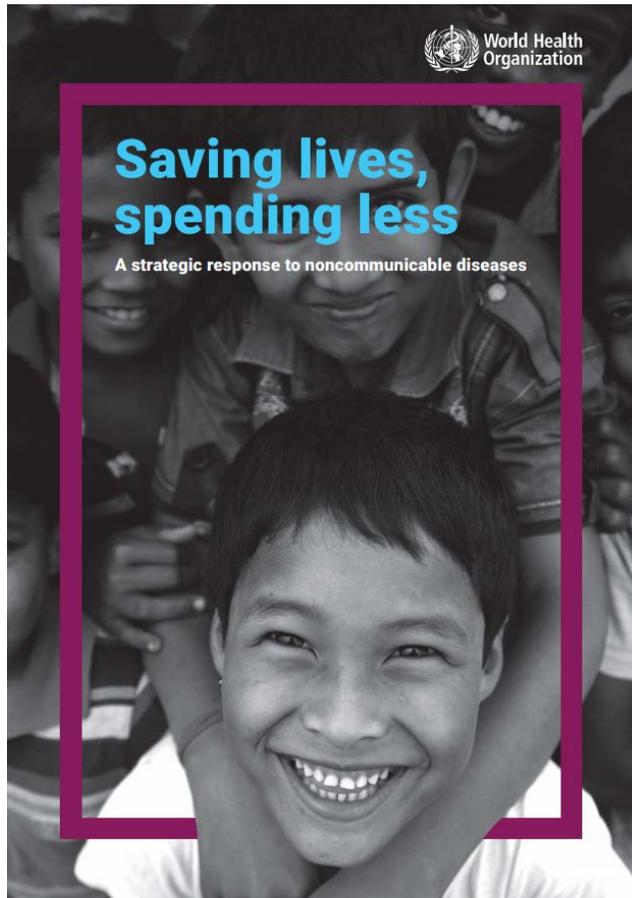


# Tobacco Use Economic Cost and Burden to Health Systems in ASEAN

ASEAN Smoking Attributable Health Expenditure & Economic Cost as: (1) a % of Total Health Expenditure; (2) a % of GDP



# Raising tobacco taxes is an NCD Prevention “Best Buy”



**Best-buys:** Effective interventions with cost effectiveness analysis  $\leq$  I\$ 100 per DALY averted in LMICs

1. Increase excise taxes and prices on tobacco products
2. Increase excise taxes on alcoholic beverages



Effective interventions with cost effectiveness analysis  $\geq$  I\$ 100 per DALY averted in LMICs

3. Reduce sugar consumption through effective taxation on sugar-sweetened beverages

# Best Practice in Tobacco Taxation (STOP)

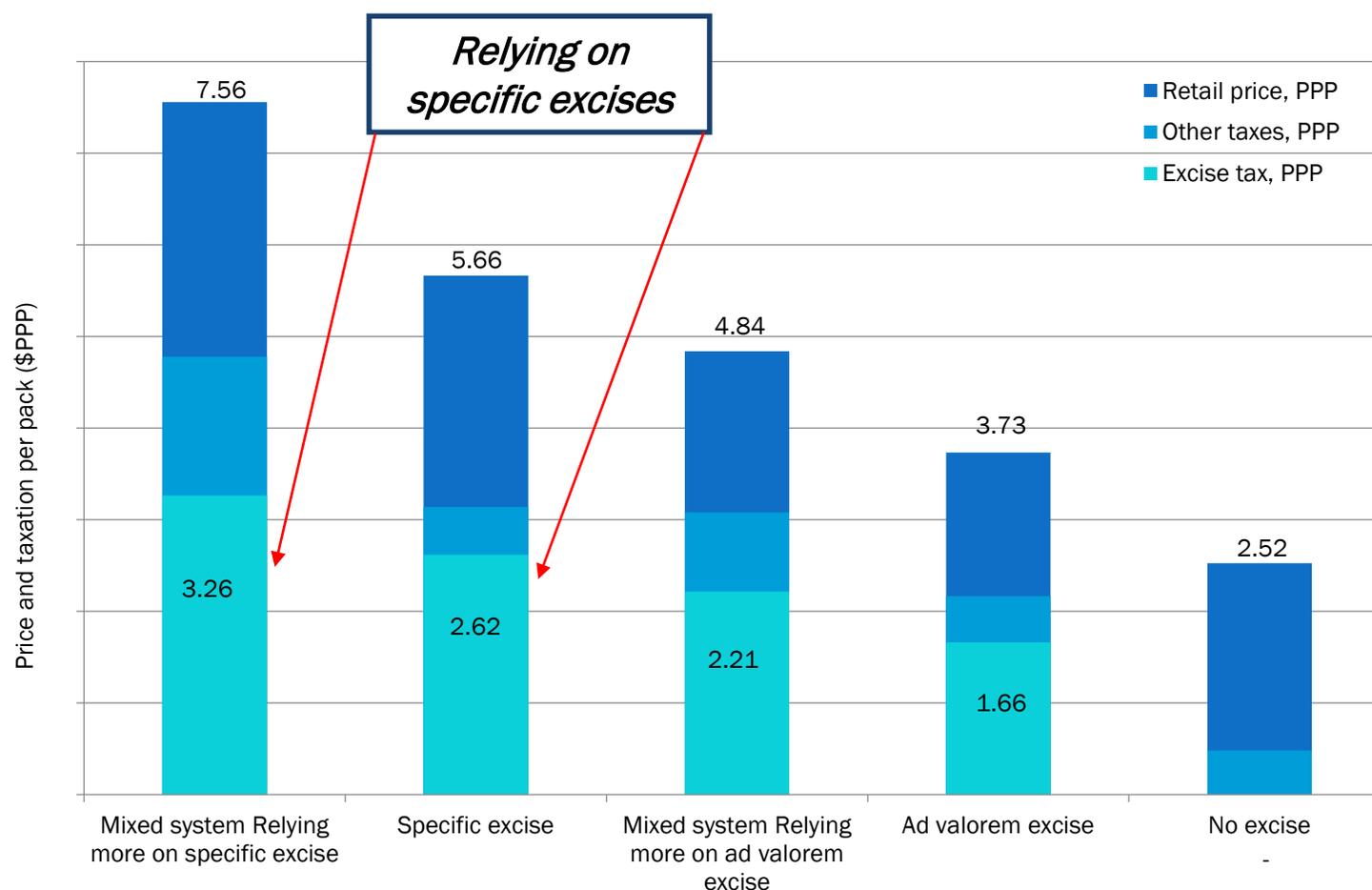
**S**pecific and simple tax structures is better for health

**T**ax rates and shares sufficiently high to impact affordability and reduce tobacco consumption

**O**vercome inflation and income effects through regular tax rate increases

**P**ackage tax increases with other effective interventions to maximize impact

# Tobacco tax structure matters: Rely on specific excises



### Specific Excise Taxes

- Generates a relatively stable revenue stream
- Discourages shifting to lower-priced products
- Easier to enforce
- Real value falls due to inflation

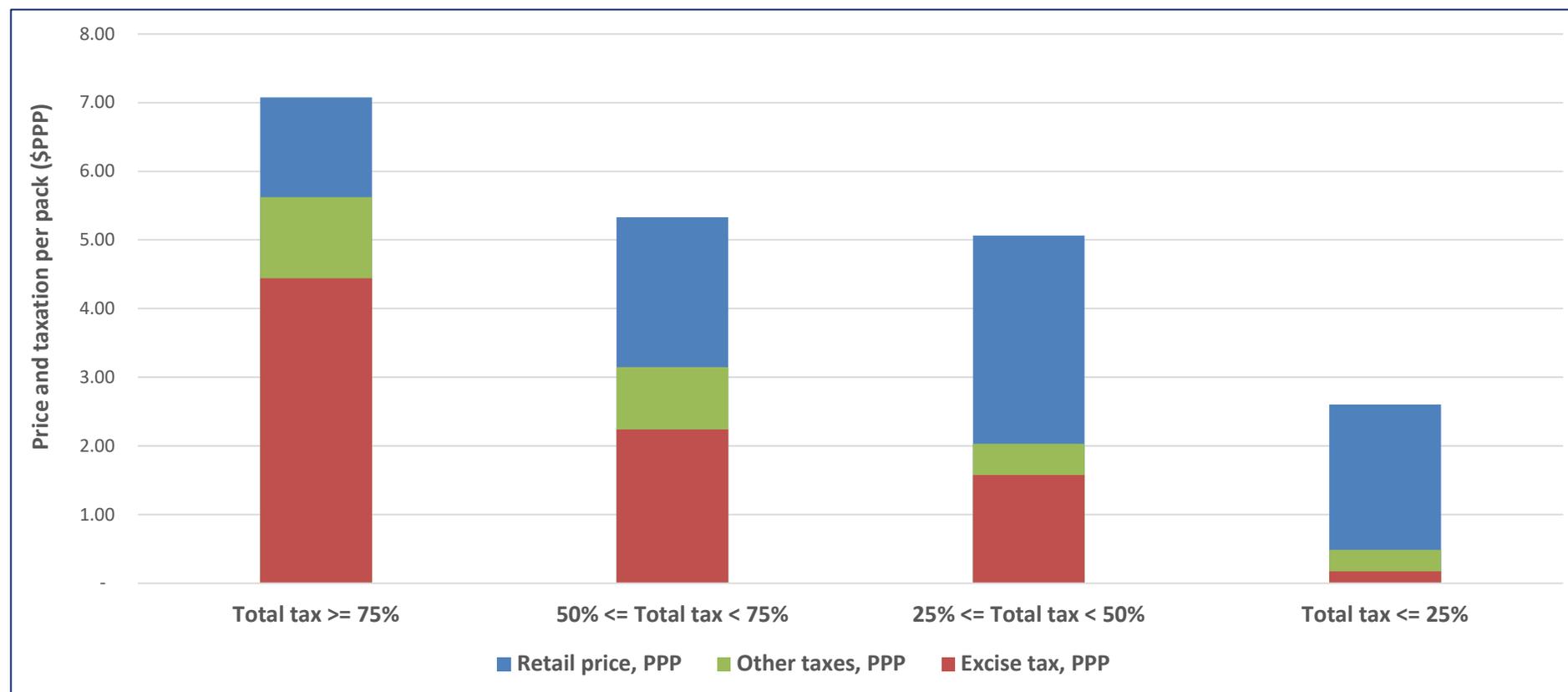
### Ad Valorem Taxes

- Rises with inflation
- Revenues may be more unstable since taxes depend on industry pricing
- Government effectively loses money when TI reduces prices

Note: estimates are averages weighted by the number of cigarette smokers in each country  
 Source: GTCR, 2019

# Prices tends to be higher when the tax share is higher

*Weighted average retail prices and taxation (excise and total taxes) of most sold brand of cigarettes, PPP, by total tax levels, 2018*

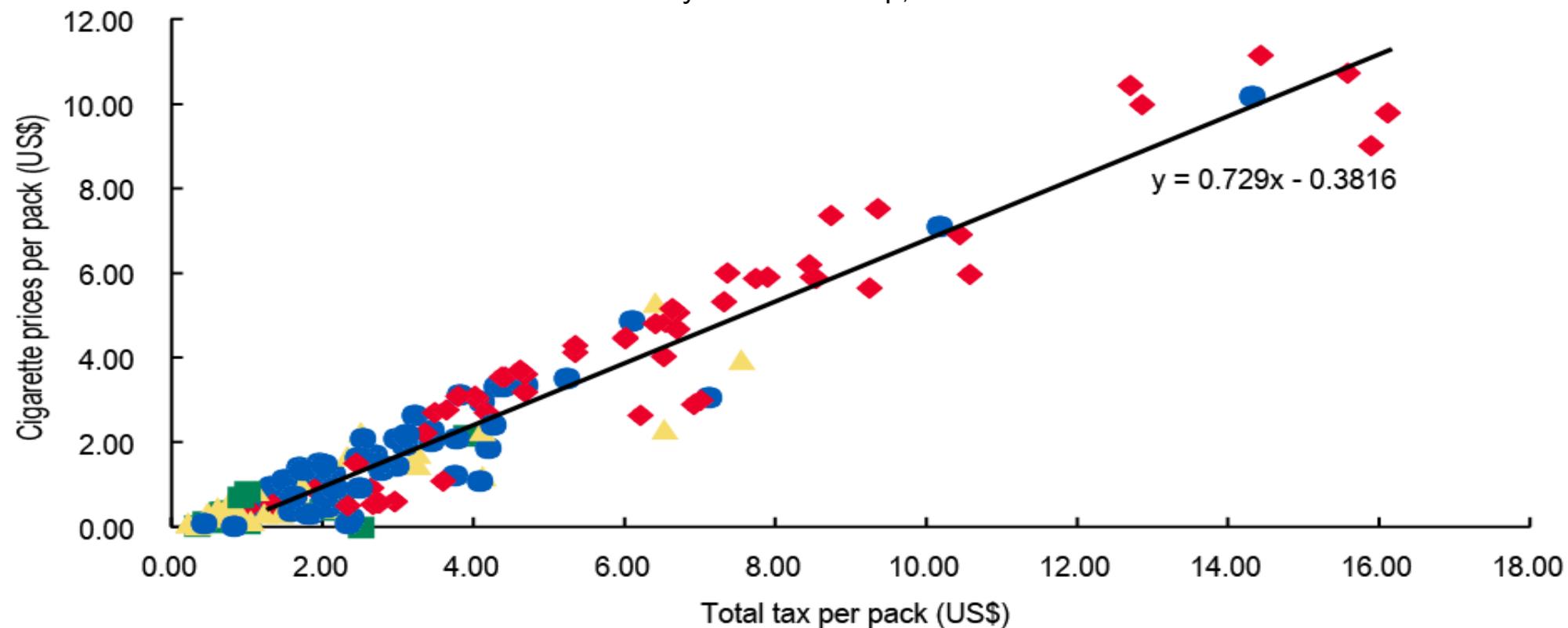


Source: Data compiled from the WHO Report on the Global Tobacco Epidemic 2019

Note: Averages are weighted by WHO estimates of number of current cigarette smokers ages 15+ in each country in 2017.

# Tax rate increase should impact prices and affordability

Price of a Pack of Cigarettes Versus Total Tax on Cigarettes, by Country Income Group, 2014



- Low-income (n=31)
- ▲ Lower middle-income (n=46)
- Upper middle-income (n=54)
- ◆ High-income (n=55)

## Best Practices in Tobacco Tax Policy

Specific and simple excise tax structures

Tax rates and shares high enough to reduce affordability

Overcome inflation & income growth with regular tax increases

Package tax increases with other effective interventions

S

T

O

P

## Current Practice in Indonesia

Complex tax structure

Tax rates insufficient to reduce affordability

Adjustments not enough to overcome inflation & income effects

More action needed on other tobacco control measures

- P**rotect people from tobacco smoke = only minimal policy implementation
- O**ffer help to quit tobacco use = moderate policy implementation
- W**arn about the dangers of tobacco
  - Through health warnings = moderate policy implementation
  - Through mass-media = best practice policy implementation
- E**nforce bans on tobacco, advertising promotion and sponsorship (TAPS) = no policy implementation
- R**aise taxes on tobacco products
  - = only moderate policy implementation
  - = no reductions in affordability



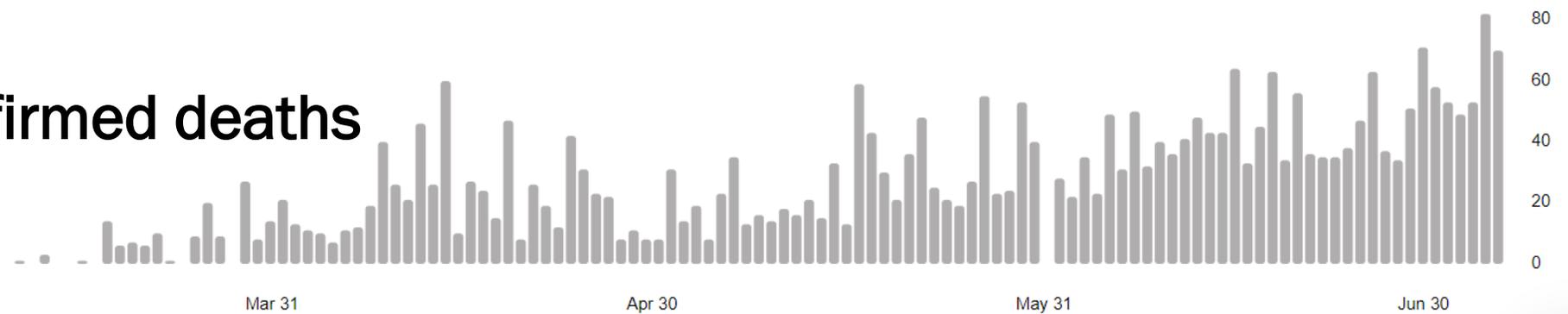
# Tobacco Taxation as a Build Back Better Tool in Indonesia

# The COVID-19 pandemic is an escalating threat to human health in Indonesia

- **64,958** confirmed cases



- **3,241** confirmed deaths



# Tobacco use and *COVID-19*

Tobacco smoking is a known risk factor for many respiratory infections and increases the severity of respiratory diseases.

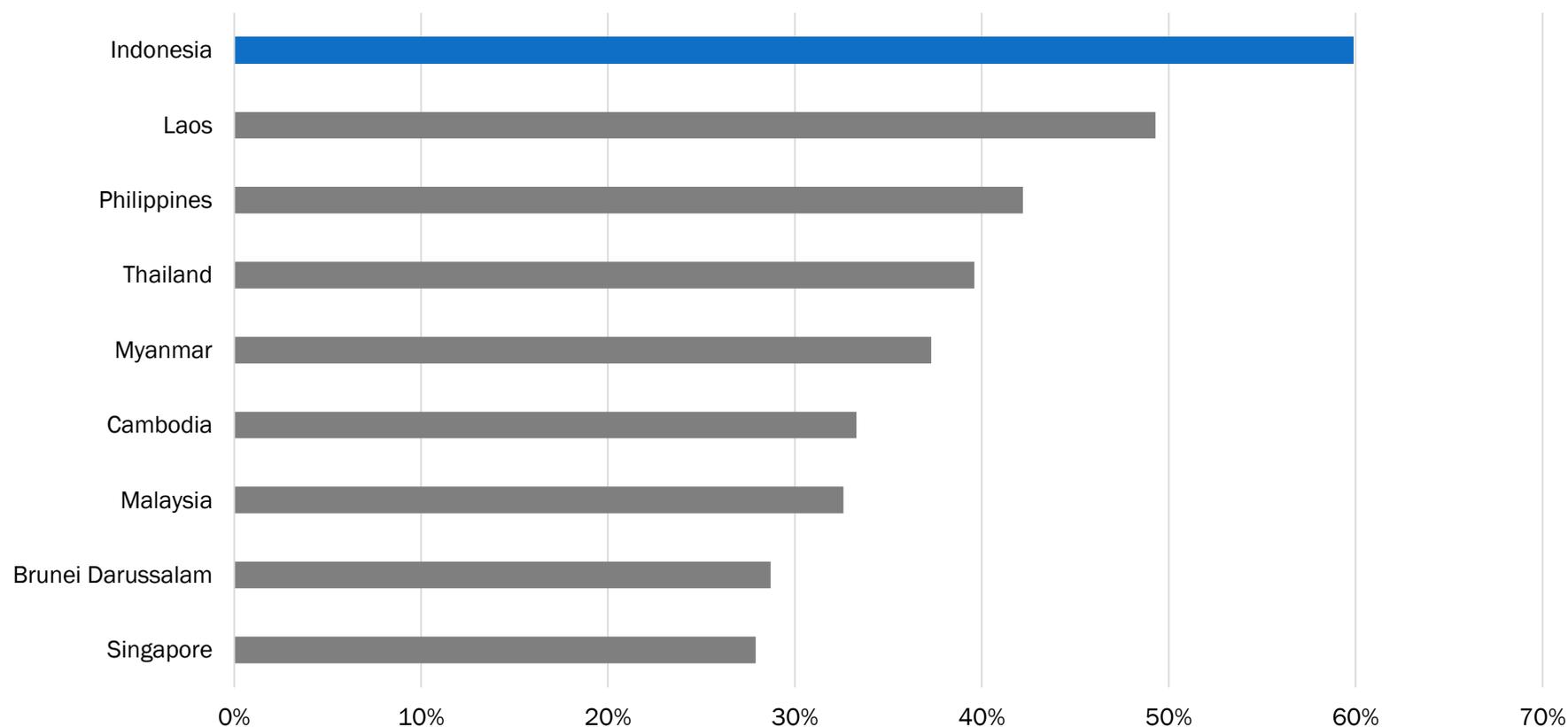
COVID-19 is an infectious disease that primarily attacks the lungs. Smoking impairs lung function making it harder for the body to fight off coronaviruses and other diseases.

Tobacco is also a major risk factor for noncommunicable diseases like cardiovascular disease, cancer, respiratory disease and diabetes which put people with these conditions at higher risk for developing severe illness when affected by COVID-19.

Available research suggests that smokers are at higher risk of developing severe disease and death.

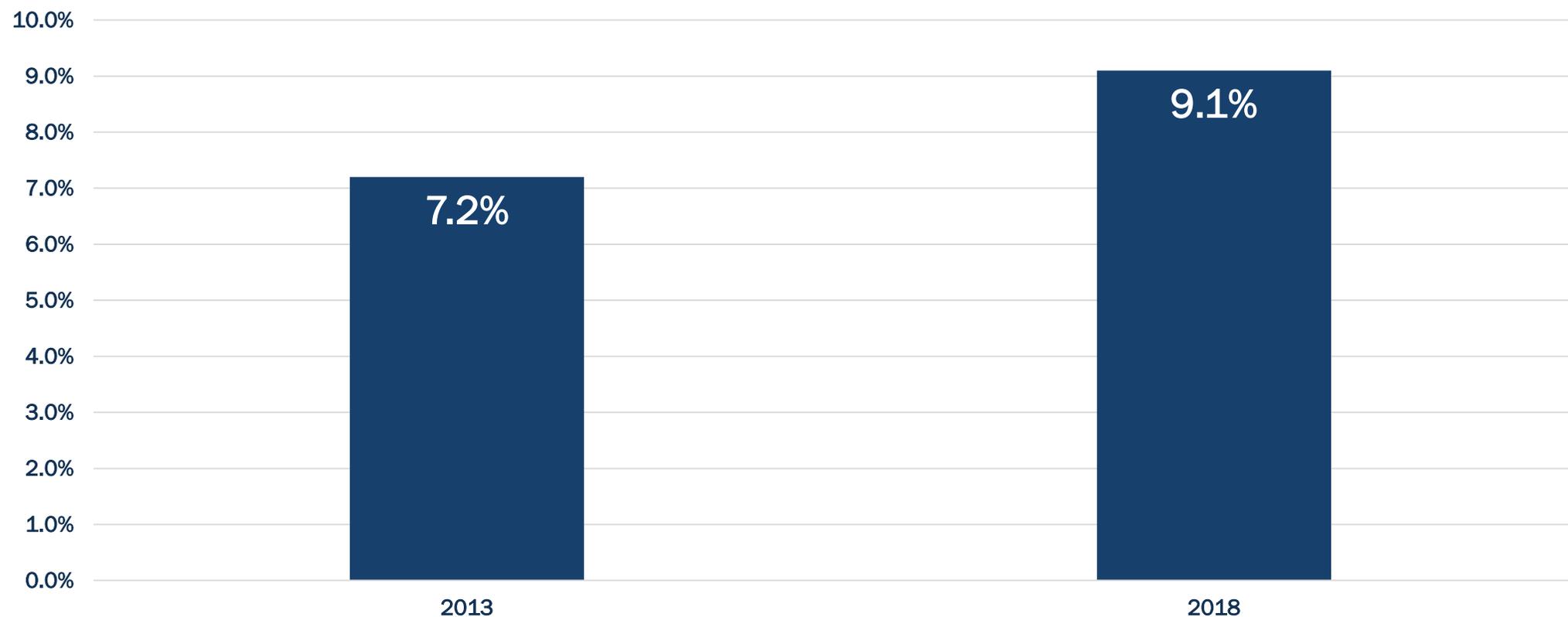
# High prevalence of male tobacco smoking poses a challenge for Indonesia

Age-standardized prevalence (%) estimates for current tobacco smoking among males aged 15 and above, 2017



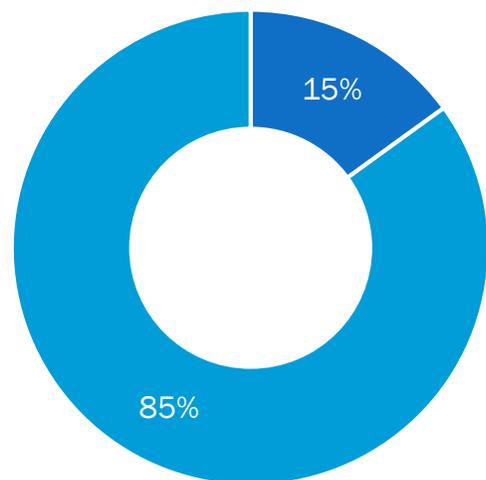
# Increasing and high prevalence of youth tobacco use poses a challenge for Indonesia

Prevalence (%) of current tobacco use among youth (10–18 years old)



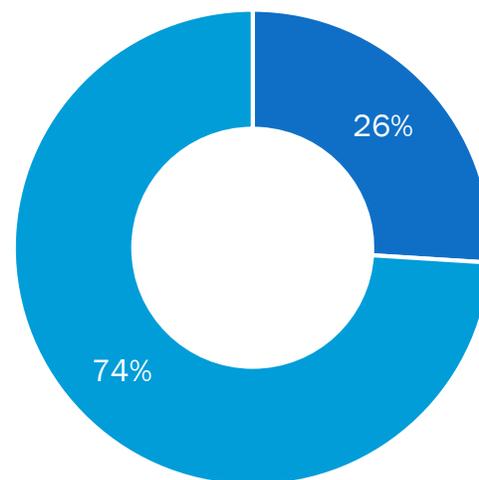
# Contribution of tobacco use to deaths due to major diseases in Indonesia

Any cause



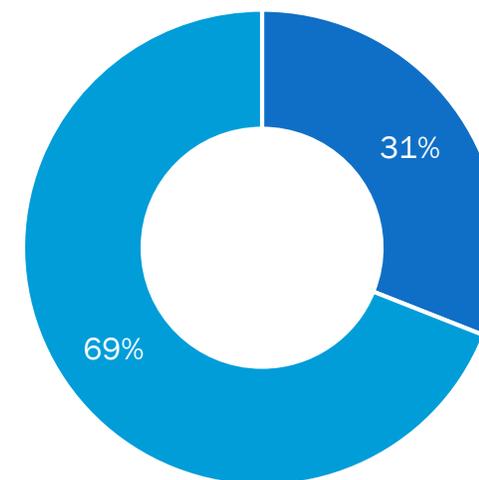
■ Tobacco share ■ Non-tobacco related

CVD deaths



■ Tobacco share ■ Non-tobacco related

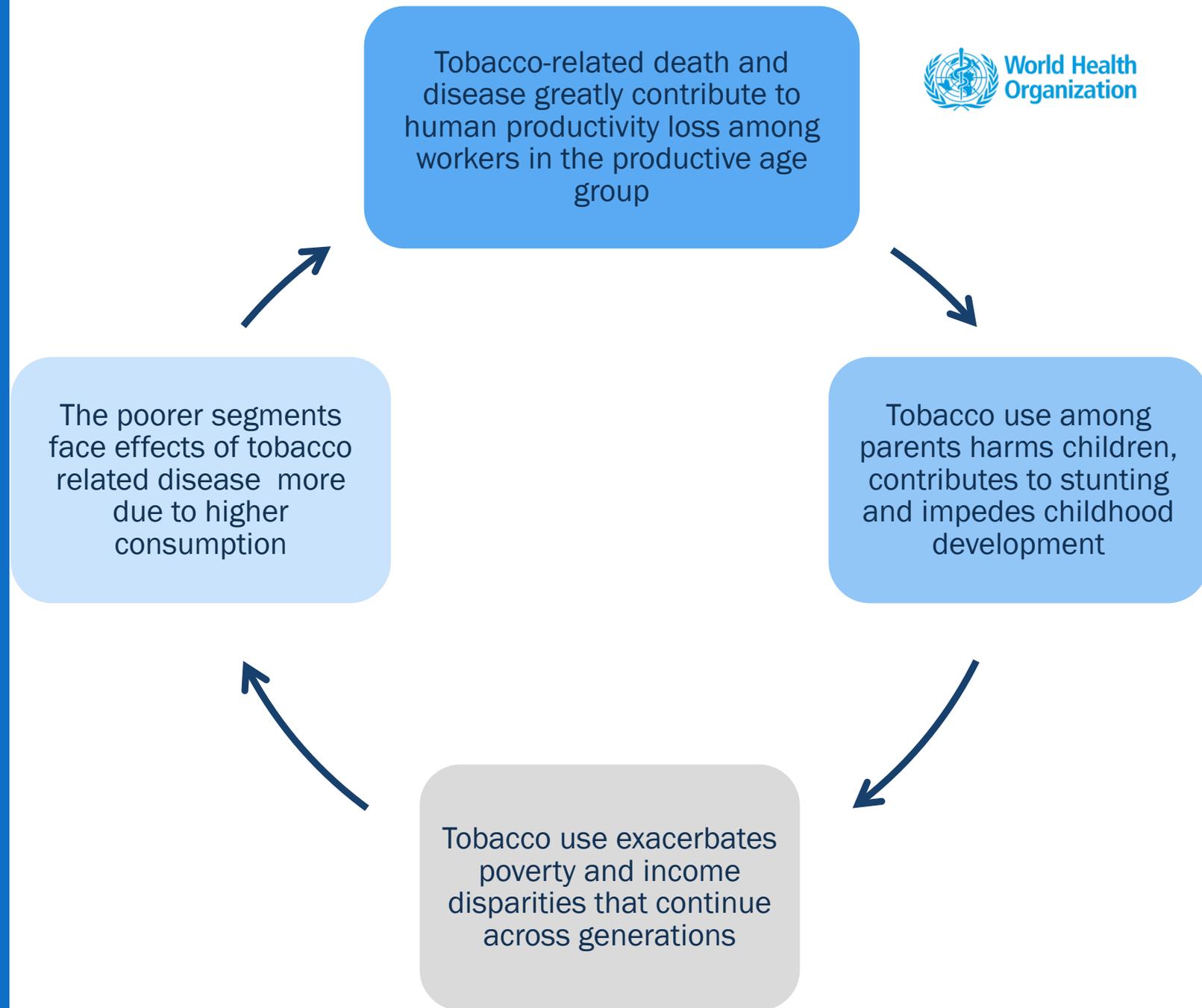
Cancer deaths



■ Tobacco share ■ Non-tobacco related

Estimates suggest that tobacco use in Indonesia is responsible for approximately **225,700** premature deaths *every year* (almost **15%** of total mortality)

# Tobacco use in Indonesia is jeopardizing its human capital development



# Increasing tax and simplifying tobacco tax structure is the *most effective* way to reduce tobacco use and improve health outcomes



Indonesia's health profile indicates a high and increasing disease burden from NCDs; tobacco use is a leading risk factor for NCDs.



Contrary to the global trends of reduction in tobacco use, the prevalence of smoking in Indonesia remains high, particularly among the youth.



Excise taxes on tobacco products are low in Indonesia; as a result, cigarettes are becoming more affordable over the years.



Tobacco use exacerbates disparities in income and levels of poverty. It also slows down progress towards UHC by increasing health-care costs.

# Key Messages

- Health is fundamental to a build back better recovery
- Raising tobacco taxes is SMART
  - Saves lives
  - Mobilizes resources
  - Addresses health inequities
  - Reduces burden on health systems
  - Targets NCD risk factors
- Tobacco taxation as a build back better tool in Indonesia
  - Health is wealth
  - Protect the youth – Indonesia’s future
  - Reform Tobacco Taxation

# Thank you!

**Jeremias N. Paul Jr.**

Unit Head, Fiscal Policies for Health  
Health Promotion Department  
World Health Organization

[who.int/tobacco/economics](http://who.int/tobacco/economics)

Disclaimer: Views expressed in this presentation are mine alone and do not necessarily represent the views, decisions or policies of the WHO.





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# RAISING TAX TO FINANCE PUBLIC HEALTH: PREPAREDNESS FOR FUTURE PANDEMICS

Hana Ross | Tax Advisor The Union

THURSDAY, 9TH OF JULY 2020



# Raising Tax to Finance Public Health Preparedness for Future Pandemics

Hana Ross, PhD



# COVID-19 is having a profound effect on public health, public health systems and economies

12 million reported disease cases and about 550,000 premature deaths.

Death rate linked to

- the lack of preparedness,
- limited access to health care,
- politicizing of science, and the lack of clear public communication,
- high prevalence of non-communicable diseases

The global economy will contract by at least 5% (updated from 3%) in 2020, far more than during the 2008–09 financial crisis.

# Public Health Systems Under Severe Strain

2019 Global Health Security Index:  
severe gaps in countries'  
preparedness to face health crises

In many LMICs health system is  
unable to adequately respond to  
the pandemic due to underfunded  
and fractured healthcare system.

Covid-19 is becoming a  
humanitarian crisis with a public  
health dimension:

- food insecurity since informal  
sectors and physical distancing are  
incompatible
- neglect of NCDs, TB, HIV, etc.
- unplanned pregnancies



# Strengthening Public Health Systems Needs to Become a Priority

## Tobacco use

- kills over 8 million people worldwide each year,
- imposing enormous health and economic costs on society and
- severely exacerbating the challenges governments face as they seek to address the current and future health and economic costs of the pandemic.

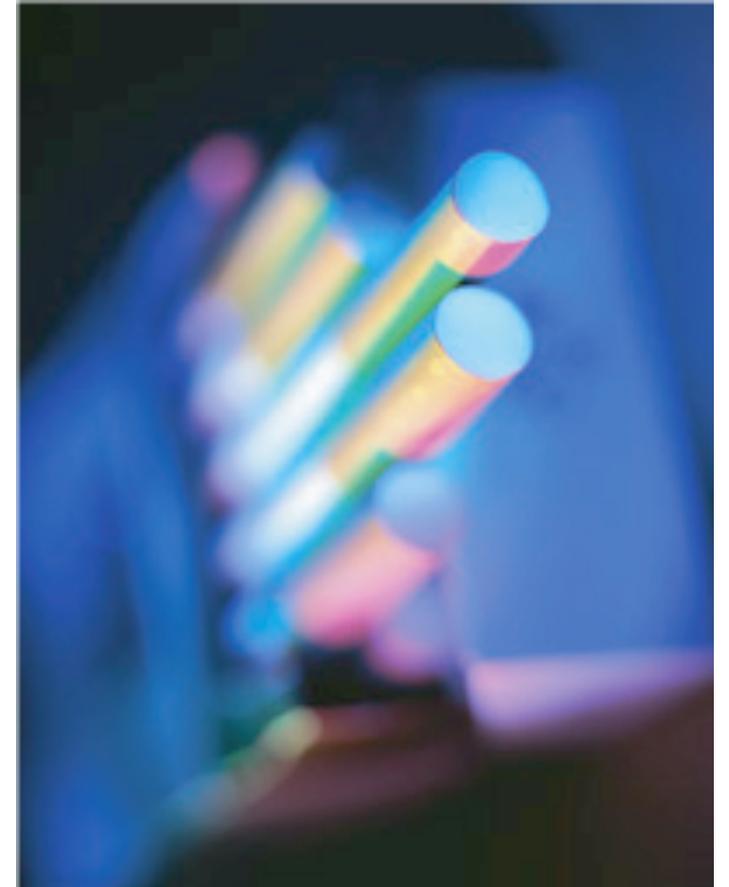


# Three recommendations

***Raise tobacco tax enough to impact consumption***

***Resist industry pressure to reduce or maintain current tobacco tax***

***Establish a health defense fund***



# #1 Raise tobacco tax: a win-win solution

## 2015 UN Conference on Financing for Development:

higher tobacco taxes are the most cost-effective measure to reduce tobacco consumption and related health-care costs.



### More revenue

- US\$ 0.25 per pack tax increase in LMIC (~ 40%) would generate an extra US\$ 41 billion in revenue
- >80 countries earmark taxes to address funding gaps in health financing.
- >35 countries earmark tobacco tax for health (e.g. the Philippines, Vietnam, Bangladesh, South Korea)
- Numerous countries (e.g. India, Chile, Ukraine) have used tobacco tax revenue to address national crises, because it can **be mobilized quickly**. Indonesia utilizes the Tobacco Products Excise Sharing Fund (DBHCHT) to assist in mitigating the impact of COVID-19 in several regions.

# #1 Raise tobacco tax: a win-win solution (continued)

## Other benefits:

- lower future health care costs
- less demand on health care capacity
- higher life expectancy
- higher labor productivity



## *Boost to the population's fitness to face future epidemics*

- US\$ 0.25 per pack tax increase will cut cigarette consumption in LMICs by 8% (especially among the poor who are hardest hit by COVID-19)

## Boost to the economy:

- Better health accounted for nearly 24% of income growth in LMICs in the period of 2000 - 2011

# Resist industry pressure to reduce or maintain current tobacco tax



## It is utterly unconscionable to promote lung-damaging, addictive products in the midst of a respiratory pandemic

The tobacco industry is offering cash and other support to governments in exchange for various concessions including delay on excise tax payments.

Relatively negligible impact of the pandemic on the tobacco industry:

### **BAT sticks to earnings forecast**

Reuters, April 30, 2020;

### **Philip Morris Lifts Profit But Sees Duty-Free Sales Declining**

Wall Street Journal; 21 Apr 2020

Governments should not be fooled by the industry's manipulations: remember 8 million deaths and fat profits that the industry collects even as many of us suffer economically and healthwise.

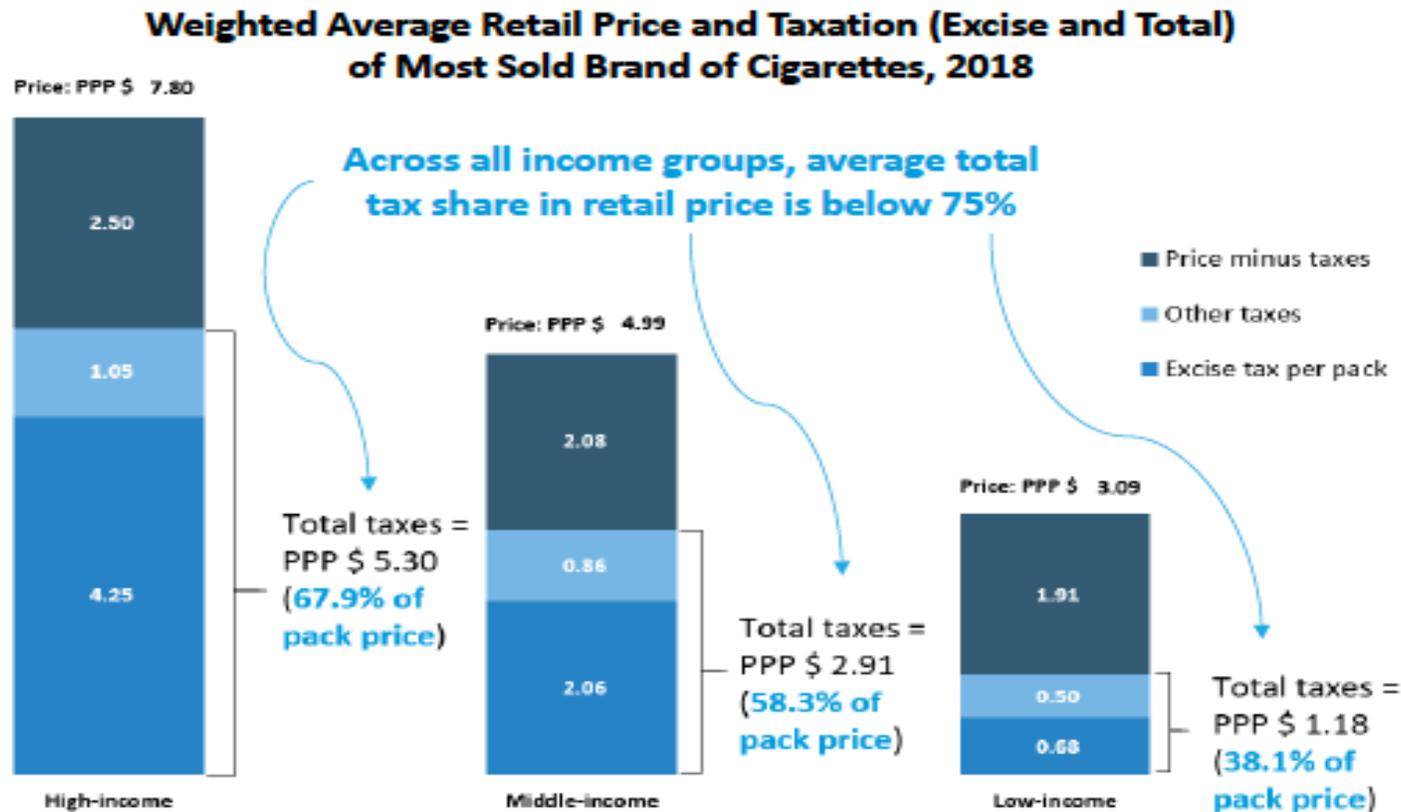
## *Establish a health defense fund*

- EU now uses Solidarity Fund to strengthen preparedness for future pandemics.
- USA is debating to set up a health defense fund.
- Advantages of domestic fiscal mobilization:
  - More sustainable
  - Better integration with other efforts to strengthen the health system
  - No need to accommodate competing priorities of external funders.



# Establish a health defense fund (continued)

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.



## *Establish a health defense fund (continued)*

- UN Task Force on Financing for Development could take the lead
- Goal: to reach the Global Health Security Index threshold.
- Costs: at \$4.5 billion a year
- Funding: \$1 per person per year from higher excise tax on harmful products.



Thank you!

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# A BRIEF ABOUT PEBS FEB UI

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Pusat Ekonomi dan Bisnis Syariah (PEBS) is an institution under the Faculty of Economics and Business, University of Indonesia. Since its' establishment on 2006, PEBS FEB UI is dedicated to become the center of excellence for research, training, consultation, and community service in the field of sharia economics and finance in accordance to academic, industry, and society's needs.



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