Health tax revenue use:

Evidence, policy considerations and country experience

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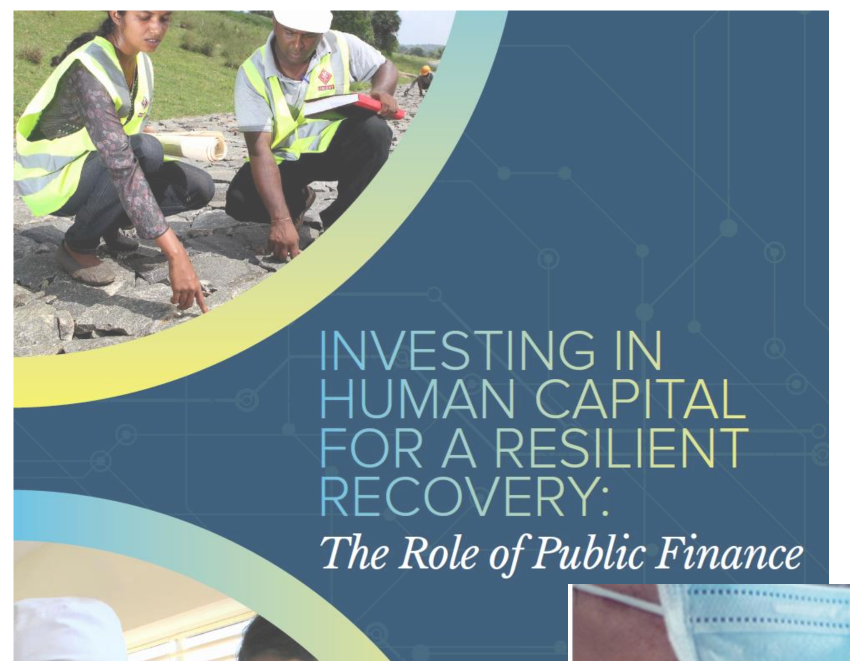
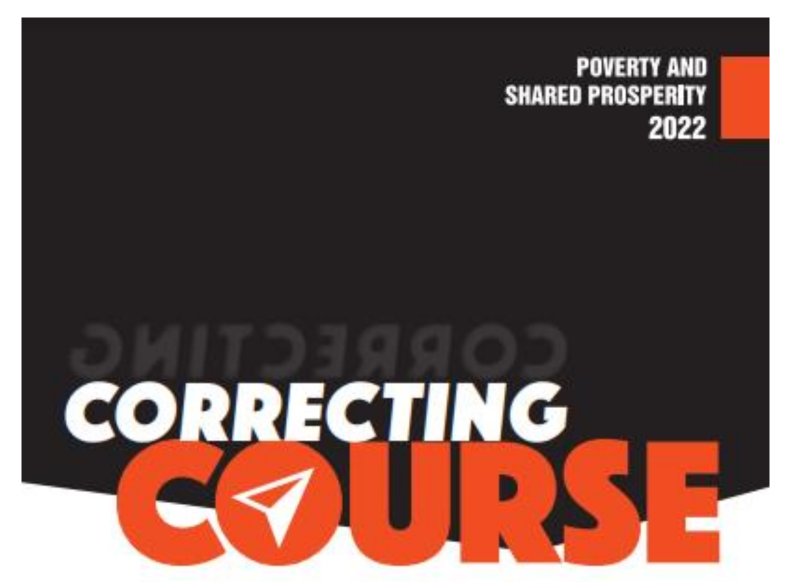
WORLD BANK GROUP

Overview

- Current context- health financing and post-COVID recovery
- Definitions- what we mean by revenue use
- Other perspectives to date
- Emerging work- high level take aways
- Food for thought- expanding the concept of revenue use

Current context – health financing, global shocks, and COVID-19 recovery





Earmarking and health taxes

- *Health taxes can generate significant revenue-* Tobacco taxes generate an estimated .6% of GDP on average, alcohol .3% GDP (knowledge note)

- *Health taxes can improve population health-* given that they are critically linked to reducing consumption of products that generate health-related internalities and externalities, they have a special impact on the health sector by design: Improving population health and health sector efficiency

- *Health taxes are often proposed for earmarking-* Because of this special nature, they are often rationalized as a source of revenue to be directed to health and other social sectors and as a way to increase transparency around the benefits of tax increases
  - Conversely, the health benefits of health taxes has also been used to improve politics around passage of health taxes or raising of existing rates

Earmarking: Dedicating all or a portion of revenue from a specific source and setting it aside for a designated purpose

Broadening the discourse: health tax revenue use

Revenue use: a set of mechanisms that can be used to support directing resources towards policy priorities at the country level

Objective: To provide countries with a balanced overview of considerations around mechanisms for health tax revenue use in the context of specific policy objectives and health tax reform efforts and given their fiscal context and country level public financial management arrangements.

- *What is the breadth of global experience on health tax revenue use for health and other social priorities?*
- *What fiscal design and system characteristics are important to consider when it comes to adopting and implementing mechanisms to direct health tax revenue towards expenditure purposes?*
- *What implementation guidance can be honed from across these experiences?*

Database · Case studies · Synthesized findings

Earmarking: A pragmatic perspective

Public Disclosure Authorized

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KEY MESSAGES:

- Earmarking means taking all or a portion of total revenue from a tax or g or "protecting" it for a designated expenditure purpose. Earmarking prac and are associated with different levels of fiscal risk.
- At least 80, and likely more, countries earmark for health. However, ear sustained net increase in revenue due to offsetting, and can create rigid
- If allocations fail to match priorities or if a tax can make the priority more earmarks that are closer to standard budget processes may be useful in
- The primary intent of "health taxes" is to curb unhealthy behaviors that a strain health systems. Health taxes can generate revenue without comp revenues can be earmarked, but they do not by design net more money
- In the context of fiscal constraints (e.g., with COVID-19), health taxes m revenue for governments, and help manage disease burden and fiscal p reducing risk factors for COVID-19. Soft earmarks on health taxes may funding into the health sector, if the appropriate public financial manage

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INTRODUCTION

It is estimated that 85 percent of countries around the world will experience a GDP contraction as a result of the economic impact of COVID-19, amplifying fiscal constraints in general and for the health sector in particular (Tandon 2020). Recent studies conducted by World Bank experts find that in the last two decades, over half of the increase in per capita public spending on health has been the result of economic growth, underscoring the need to manage reforms within countries' macrofiscal context (Tandon et al. 2018, 2020).

Keeping tax revenues a ingredient for economic social sectors, and ultin human capital develop developing countries w the pandemic hit. COVI globally as a result of r to other public revenue attention may shift from goals like the Sustainab simply staying afloat (G Countries now need to policies that will help th

Imperial College Business School | Centre for Health Economics & Policy Innovation

World Health Organization

HEALTH TAXES

Policy and Practice

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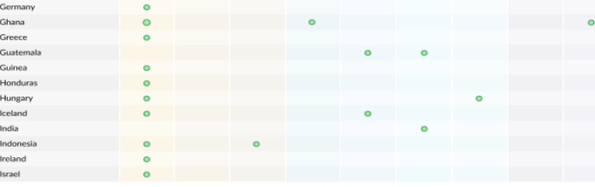
World

Earmaking Revenue - Country Experience

R4D is collaborating with the World Health Organizati revenue for the health sector through earmarks. The g health and to examine their impacts on health sector b

This database represents the country experience that base accurate and up to date!

Country	Income or Payroll	General Revenue	Subnat Trans
Albania	●		
Algeria	●		
Argentina	●		
Australia	●		
Austria	●		
Barbados			
Belarus	●		
Belgium	●		
Bolivia	●		
Bosnia & Herzegovina	●		
Brazil	●	●	●
Bulgaria	●		
Canada	●		
Chile			
China	●		
Colombia	●		
Costa Rica	●		
Croatia	●		
Czeck Republic	●		
Denmark	●		
Djibouti			
Dominica			
Egypt			
Estonia	●		
Finland	●		
France	●		
French Polynesia			
Gabon	●		



* Includes earmarking of revenue from other sources such as debt relief, mobile phone turnover, personal money transfers, and formal sector insurance transfers.

Earmarking Revenues for the NHIS in Practical Experience, Results, and Pol

Introduction

One way countries look to increase fiscal space and resource mobilization for the health sector is through earmarked revenues. These resources can be generated by taxes or contributions whose revenues are designated to be spent on a particular program or use. There are many arguments for and against earmarking, but they often remain theoretical. In spite of the vast country experience using this policy instrument (more than 80 countries earmark revenues for health), very little empirical evidence has been applied to the debate. Furthermore, the literature is scant on the characteristics of earmarking instruments and contextual factors that are more likely to help bring the potential benefits of earmarking (such as increased revenues for health), while minimizing the potential negative consequences (such as reducing flexibility in the budget process and taking resources away from other priorities).

Ghana has more than ten years of experience with earmarking to fund its National Health Insurance Scheme (NHIS). The National Health Insurance Act (Act 650) of 2003 established a National Health Insurance Authority (NHIA--the managing body) and a National Health Insurance Fund (NHIF--a statutory fund), as well as the "health insurance levy," through which 2.5 percentage points of the value-added tax (VAT) is earmarked for the NHIS. Other sources of funding include an earmarked 2.5 percentage points of the total 17.5 percent contribution to the Social Security and National Insurance Trust (SSNIT) by formal sector workers, as well as investment income, and premiums paid by non-exempt individuals such as self-employed and informal sector workers. The earmarked VAT and SSNIT revenues contribute 90 percent of the growing funding base for the NHIS.

This policy note examines Ghana's experience with earmarking revenues to fund the NHIS from the perspective of 10 stakeholders from health agencies

resources for the NHIS;

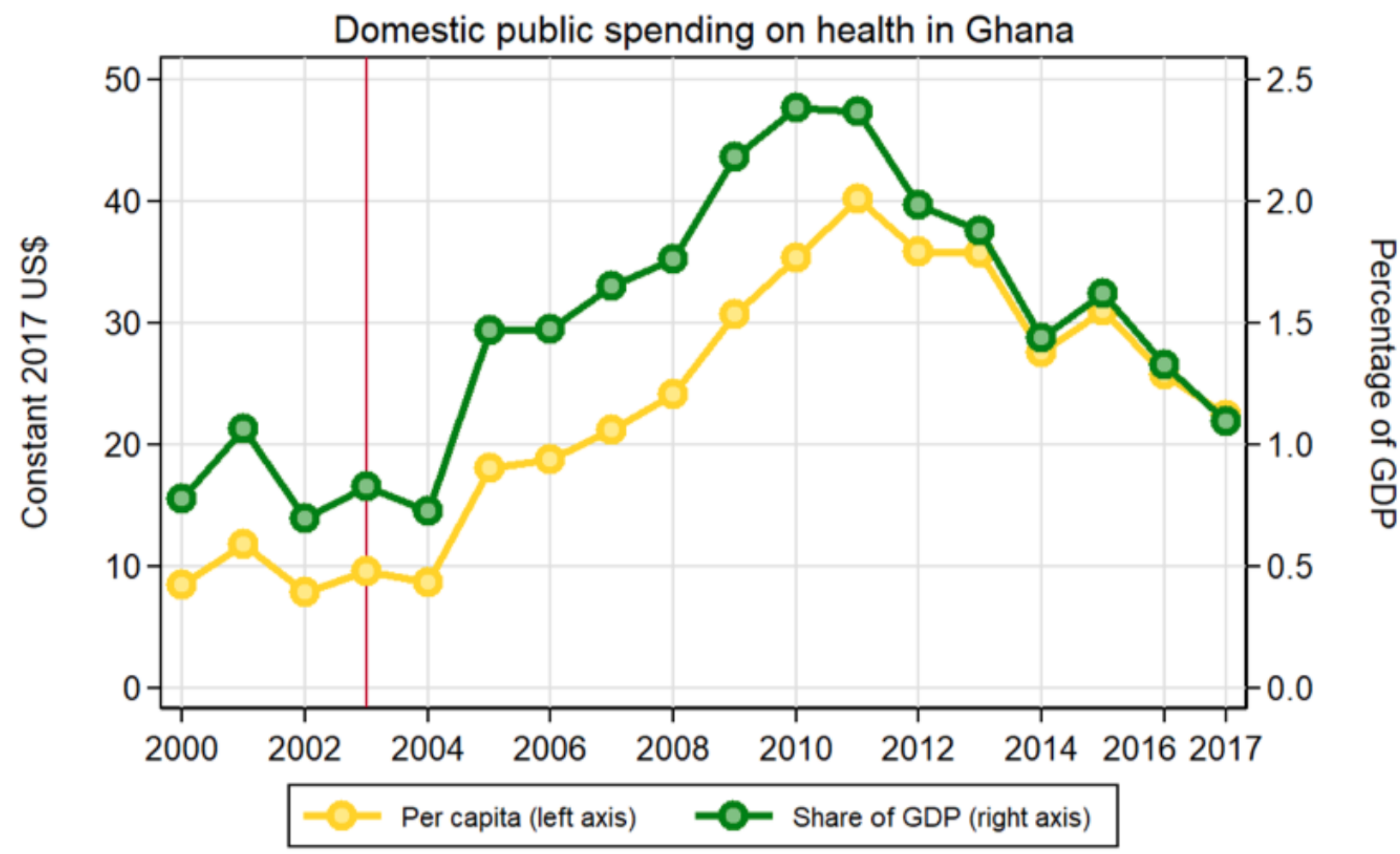
- Whether the earmarking has resulted in any negative fiscal consequences, such as greater budget rigidity, offsets or cuts in other areas of the budget, etc.;
- Any bottlenecks or challenges with the flow of funds, transfers to the NHIF, or other operational aspects of the earmarks.

HEALTH FINANCING WORKING PAPER NO. 5

EARMARKING FOR HEALTH

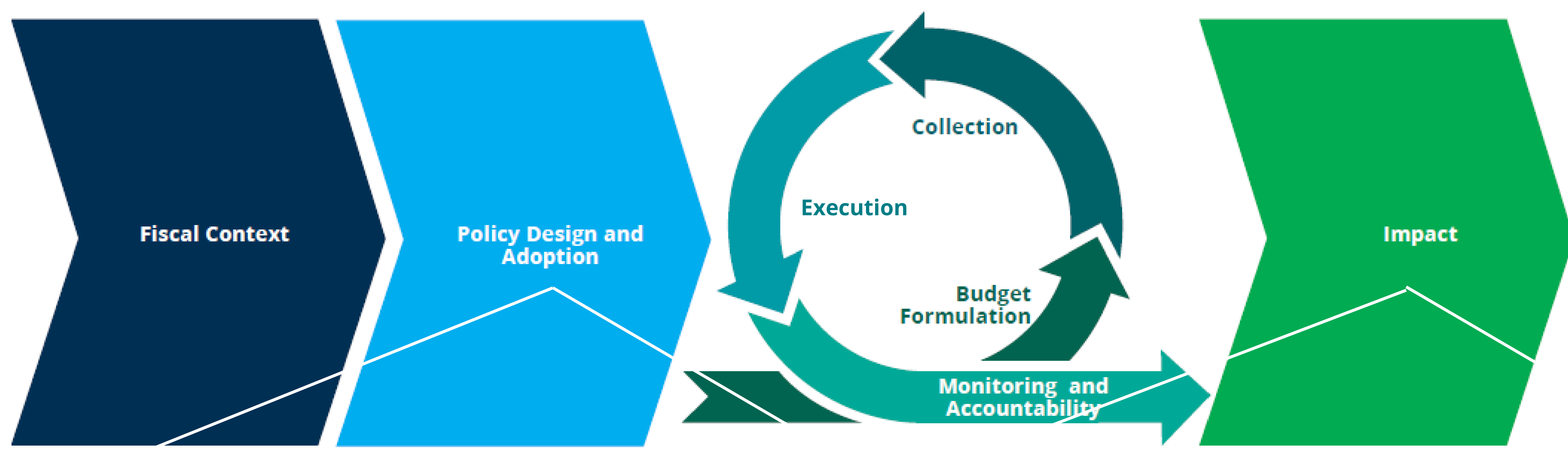
From Theory to Practice

Earmarking in Ghana- More revenue for health?



Note: Vertical red line indicates when National Health Insurance Scheme was established.

Revenue Use: Analytic Framework



REVENUE		EXPENDITURE	
Product	*Tobacco, alcohol, SSB, other*	General purpose	General sector- health General sector- non health Targeted program-health Targeted program- non health Targeted population- health Targeted population- non health
Type of instrument; and existing or new tax	*To specify (i.e., excise or "levy, surcharge, fee")*	Specific purpose	I.e., tobacco control/prevention, health promotion, education
Base	*To specify*	Revenue-expenditure linkage	Tight (only source, rules on expenditure ceilings); Loose (multiple sources, no rules on expenditure ceilings)
Rate	*To specify*	Benefits rationale	Weak, strong
Portion earmarked	*Total revenue Specific amount Specific percent*	Recipient autonomy	Allocation to budget/ dedicated to expenditure line or unit/ extrabudgetary fund
Rate	*To specify*	Expenditure flexibility	Hard/soft
Collection level	*National/subnational*	Timeframe	Single year/Multi year (x yrs.)/explicit sunset
		Legal basis	Y/N

Revenue sustainability	*Was the funding sustainable over time*
Revenue additionality	*Did the funding provide additional revenue for the sector overall*
Expenditure- intended policy impact	*Were funds used as intended for delivery of activities? What were the outcomes*
Expenditure (other +/-ve impacts)	*Were there any other notable impacts?*

Policy and design characteristics

REVENUE		EXPENDITURE	
Product	*Tobacco, alcohol, SSB, other*	General purpose	General sector- health General sector- non health Targeted program-health Targeted program- non health Targeted population- health Targeted population- non health
Type of instrument; and adjustment of existing or introduction of new tax	*Existing/new Excise or other/additional "levy, surcharge, fee"*	Specific purpose	I.e., tobacco control/prevention, health promotion, education
Structure	*Mixed, specific or ad valorem*	Revenue-expenditure linkage	Tight (only source, rules on expenditure ceilings); Loose (multiple sources, no rules on expenditure ceilings)
Rate	*To specify*	Benefits rationale	Weak, strong
Scope Base	*Products included* *Ad valorem- CIF, retail, etc.* *Specific- volume, sugar, per pack/stick; flat/tired etc.*	Recipient autonomy	Allocation to general budget Dedicated expenditure line or unit/ Extrabudgetary fund
Portion earmarked	*Total revenue* *Specific amount* *Specific percent*	Expenditure flexibility	Hard/soft/other
Rate	*To specify*	Timeframe	Single year/Multi year (x yrs.)/explicit sunset
Collection level	*National/subnational*	Legal basis	Y/N

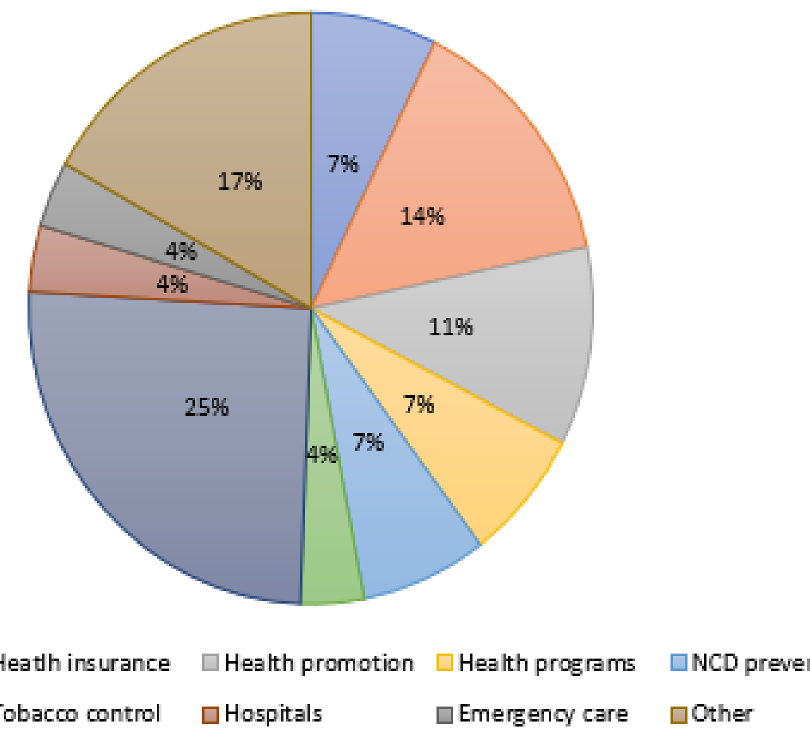
Preliminary findings- database

	Global	Latin America and Caribbean
Tobacco	66	14
Alcohol	18	9
Sugary drinks	10*	1
	75 Countries	14 Countries

*Mexico, Hungary, UK, US: No earmark, informal mechanisms to direct resources towards expenditure purposes

Preliminary findings- variety of expenditure purposes

Level	Frequency
General sector- health	13
General sector- non health	30
Targeted population- health	6
Targeted population- non health	2
Targeted program- health	83
Targeted program- non health	29
TBC	5
Grand Total	168



Expenditure purposes: Example of Panama

Panama Tobacco Earmark (2009)

- 50% of total tobacco tax revenues collected go to:
  - National Institute of Oncology
  - MOH for cessation services, capacity building, diagnostic support
  - Regional activities in tobacco, including Customs to fight illicit trade
- 5% ITBMS tax on tobacco also allocated to National Institute of Oncology

Cashin et al 2017; OECD 2020; WHO, 2016; Chao 2013

Preliminary findings: Case studies (7)*

Fiscal Context

Policy Design and Adoption

Collection

Implementation

Budget Formulation

Monitoring and Accountability

Impact

**Australia- VicHealth, Botswana (In Progress), Dominica, Indonesia (IP), US –Philadelphia, Jamaica (IP), Philippines (IP)*

Dominica and Jamaica studies funded by PAHO

Take aways- fiscal context and adoption

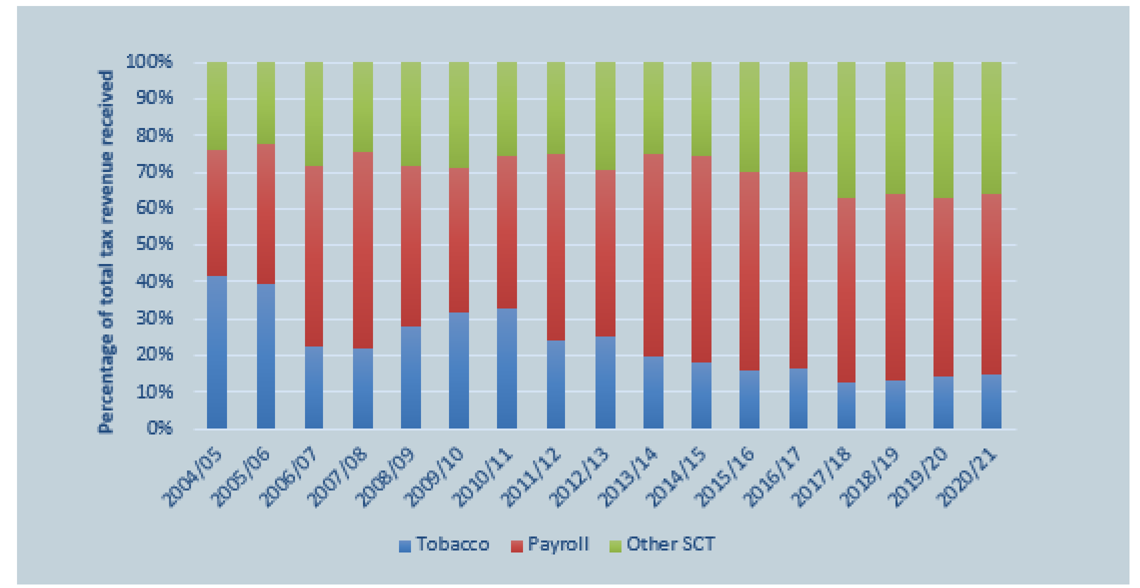
- Some countries in fiscal crisis at time of reform
- Many had earmarking as a part of their fiscal context; did not always equate to political space to apply as a tool
- Earmarking did not always protect resources from political priorities
- Inflationary impacts or other contextual factors mean that revenue was not always stable
- Tax design also limited the revenue potential for both the expenditure priority and the budget overall

Case study- Jamaica

Example- Jamaica National Health Fund Act (2003):

Initially three streams of earmarked revenues:

(1) 20% of Special Consumption Tax (SCT) revenues from tobacco products
(2) 5% of SCT revenues from alcohol and petroleum products
(3) 1% tax on gross salaries collected with the 4% National Insurance contribution



- Desire to ensure that government revenue from existing sources remained constant
- Changes in the excise tax structure on tobacco products, impact of 2006 manufacturing shift
- Revenue made up by payroll, and then other sources of revenue

Take aways (cont'd)

- Budget formulation
  - Many aligned with existing budget formulation processes
  - Where no earmark but alternate mechanism used, program budget facilitated budgeting for results
- Revenue collection
  - Most used existing collection channels
  - In some cases, complexity of design limited revenue collection
- Execution/implementation
  - Lack of clear and transparent plans for how funds will be used limited execution
  - In some cases, assigning program level priorities created rigidities that led to underspend
  - Use of alternate mechanisms allowed funds to be reallocated to other priorities during emergencies
- Monitoring and accountability
  - Lack of ability to monitor funds created issues in some cases
  - Strong and transparent reporting and governance facilitated buy in

Budget formulation – Philadelphia

CITY OF PHILADELPHIA FISCAL 2023 OPERATING BUDGET	SUPPORTING DETAIL: PROFESSIONAL SERVICES AND CARE OF INDIVIDUALS, BY PROGRAM
Department: Human Services — No. 22	Program: Prevention Services — No. 51
Fund: General/Grants Revenue — No. 01/08	

Class (1)	Description (2)	Fiscal 2021 Actual Obligations (3)	Fiscal 2022 Original Appropriation (4)	Fiscal 2022 Estimated Obligations (5)	Fiscal 2023 Department Budget (6)	Increase or (Decrease) (7)
250s	Professional Services (250-254, 257-259)	48,246,296	58,071,399	56,515,928	62,742,488	6,226,560
290	Payments for Care of Individuals					

Minor Object Code	Name of Contractor or Provider	Fiscal 2021 Actual Obligations	Fiscal 2022 Original Appropriation	Fiscal 2022 Estimated Obligations	Fiscal 2023 Department Budget	Describe purpose or scope of service provided. Include, if applicable, unit cost of service.
250	**Professional Services**					
0250	United Communities of Southeast Philadelphia	816,057	789,390	924,390	1,041,390	Truancy - short-term case management to youth referred from truancy courts in CUA #8
0250	Youth Services, Inc.	1,163,334	1,031,667	1,406,667	1,600,367	Truancy - short-term case management to youth referred from truancy courts in CUA #5
0250	Various vendors		562,223			Social services case management
0250	Various vendors	9,800				Lifeguarding
0250	Various vendors			4,076		Background checks
0250	Various vendors			1,822,465		Prevention services increases
					500,000	OST Summer Program Grant
	Subtotal - Child Welfare	**43,456,367**	**49,315,300**	**47,643,156**	**50,826,567**	
	Community Schools (Beverage Tax)					
250	Asociacion Puertoriquennos En Marcha, Inc		762,355	548,334	658,350	Case Management Support
250	Beyond Literacy	118,259	303,200	303,200	503,200	Adult Education CS
250	Cityspan			7,000	7,000	Database Upgrade
250	Cora Services, Inc		762,355	548,334	658,350	Case Management Support
250	District Management Group, LLC	128,800	217,000	300,000	300,000	Attendance Supports
250	Fund for Philadelphia-SERVE	42,000	42,000	28,000	140,000	VISTAs ($7k each)

Tax revenues and related expenditures reported in annual and 5-year budget.

Program-based budgeting: each department/agency organizes budgetary information by "program", including services/activities, objectives, and performance measures.

Main beverage tax spending areas are displayed as sub-programs (e.g., Community Schools) or services/activities (e.g., Pre-K program coordinator) spread across several departments and programs.

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Budget impact- Philadelphia

Revenue sustainability	*Revenue has been relatively stable over time (~$75 million).*
Revenue additionality	*Tax provided additional revenue for human services and parks & recreation. Community infrastructure has been prioritized.*
Expenditure- intended policy impact	*Fell slightly short of intended policy goals (see below).*

Target FY22*	**Actual FY22****
150-200 Rebuild Projects	90 Rebuild Projects (13 completed)
$500 million in Rebuild Funding	$433-$471 in Rebuild Funding***
6,500 PHL Pre-K Seats	4,300 PHL Pre-K Seats
25 Community Schools	20 Community Schools

*Based on initial targets in FY18-22 5-Year Plan
**Based on most recent City reports (2023)
***Includes actual and anticipated funding

Food for thought- modalities to achieve policy objectives

NON-EARMARKING

Complementary commitment- A separate policy action is taken as a result of a health tax being amended or adopted into law. Funding is directed towards a particular priority area *without being legislated as an earmark* and may include compensatory mechanisms taken on as a part of a fiscal package.

Mexico, Hungary, UK

Direct commitment – Funding is directed towards a particular priority area or set of priorities but *without being legislated as an earmark*. However, the amount of funding *can* be tracked back directly to priorities using existing channels and/or regular monitoring and reporting. May leverage budgetary tools (ie program budgeting, budget tagging).

Philadelphia

EARMARKING

Soft earmark – Use of existing budget channels to determine amount; typically broader expenditure purposes and more flexible revenue-expenditure links

Philippines

Hard earmark – Amount to expenditure purpose is fixed; may be only revenue source for the particular service or program and none of the earmarked revenue can be allocated to any other purpose

Australia

Thank you!

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Resources

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- WB 2022 Poverty and Shared Prosperity Report
- WB 2022 Double Shocks Double Recovery Report
- WHO 2010 World Health Report
- JLN 2022 Messaging Guide
- JLN Ghana Earmarking Blog Post
- JLN Philippines Earmarking Blog Post
- WHO 2017 Earmarking Working Paper
- Kutzin 2013 health financing for UHC
- WHO Imperial college 2023 Health Taxes: Policy and Practice
- WB 2020 Knowledge Brief: Health Earmarks and Health Taxes What Do We Know?