POLICY BRIEF

PRO-POOR TAXES FOR SUSTAINABLE DEVELOPMENT FINANCING

TOBACCO TAXATION TO ACCELERATE THE SDGs, EQUITY AND SUSTAINABILITY IN ASIA AND THE PACIFIC

Summary:

- Tobacco taxation should be a vital part of financing for sustainable development.
- Increasing tobacco taxes and prices is "one of the least used, but most effective, tobacco control measures to help countries address development needs".[1]
- Tobacco taxation can accelerate progress towards the Sustainable Development Goals and the pledge to leave no one behind. Simultaneously and cost-effectively, increasing tobacco taxes saves lives, reduces poverty, boosts labour productivity, stimulates economic growth, empowers women, protects youth, mitigates environmental damage and raises sustainable domestic revenues.
- Allocation of tobacco tax revenues to social protection such as universal health coverage enhances tax transparency, wins public support and makes tobacco taxation pro-poor.
- Strengthening governance of tobacco control, particularly by preventing tobacco industry interference and adopting a multisectoral response, is a critical determinant of implementing bold pro-poor tobacco tax policies.

1. Introduction

1.1 International commitments to taxing tobacco

The world has long confronted a silent pandemic of massive scale: tobacco use. Tobacco kills over 8 million people each year and causes disease and disability in many more millions. Tobacco disproportionately harms vulnerable populations such as poor people, women, youth, lesbian, gay, bisexual, transgender and intersex (LGBTI) people, persons with disabilities, people with mental conditions and indigenous people.[2] Tobacco-attributable health care expenditures and lost productivity alone incur an annual economic loss of US$1.4 trillion, equivalent to 1.5 percent of the global gross domestic product (GDP).[3]

To combat the tobacco pandemic, and its significant economic damage, global leaders adopted the World Health Organization Framework Convention on Tobacco Control (WHO FCTC), a legally binding treaty, in 2003. There are 182 parties to the Convention, including all Asia-Pacific countries except Indonesia. One of the key provisions of the WHO FCTC is Article 6, which commits parties to use tax and price measures to reduce tobacco use.[4]

A tobacco tax raises the prices of tobacco products, making them less affordable and reducing consumption. Although tobacco taxes are one of many health taxes, they have been noted as particularly effective, with multiple benefits. The international community has gathered robust evidence on the financial and development effectiveness of tobacco taxation.[5] According to the United Nations 'Financing for Sustainable Development Report 2022', "Excise taxes on tobacco … are pro-health taxes that reduce health inequities while increasing revenues."

At the third International Conference on Financing for Development in 2015, Heads of State and Ministers of Foreign Affairs and Development collectively endorsed tobacco taxes as a strategic instrument to finance sustainable development.[6] Subsequently, implementing the WHO FCTC was incorporated into the Sustainable Development Goals (SDGs) under SDG 3.a (see Box 1).

This policy brief demonstrates why tobacco taxation is an SDG accelerator and should be considered an essential component of financing for sustainable development. It

Box 1

SDG 3.a

"Strengthen the implementation of the WHO Framework Convention on Tobacco Control in all countries, as appropriate."

draws on the findings from the United Nations Development Programme (UNDP) 'Investment Case for Tobacco Control' (see section 2), together with additional evidence and good practices from the Philippines and other Asia-Pacific countries.

1.2 Tobacco taxation in the context of the COVID-19 response, recovery and beyond

As of October 2022, the world—and low- and middle-income countries (LMICs) in particular—is still grappling with the devastating impacts of the COVID-19 pandemic. The UNDP 'Global Dashboard for Vaccine Equity' indicates that low-income countries will have to increase their health care spending by 56.6 percent on average to cover the cost of vaccinating 70 percent of their population against COVID-19.[7]

On the other hand, through a prolonged economic contraction, the pandemic reduced the median tax-to-GDP ratio by 2.3 percentage points in Asia, to below 13 percent of GDP, while causing a drop of over 3.8 percentage points in the Pacific, which was the highest median year-on-year revenue reduction at the regional level.[8] External debt-servicing by LMICs is expected to reach US$3.18 trillion between 2022 and 2025, inclusive of US$1.44 trillion in public debt.[9] Deteriorating fiscal positions have forced some developing countries to cut health budgets,[10] despite increasing and neglected health care needs. LMIC governments face the dilemma of growing fiscal needs and shrinking tax revenues in the face of the pandemic.

In these circumstances, additional revenues and fiscal space generated through higher tobacco taxes would help governments raise resources to meet various social and economic needs, such as increasing COVID-19 vaccination coverage, enhancing social protection measures and strengthening health systems to protect poor and vulnerable people and build resilience against future pandemics.[11]

Additionally, by helping tobacco users quit or reduce smoking, increasing tobacco taxes reduces the risk of severe illness and death due to COVID-19, particularly among smokers, who face a 40–50 percent higher risk of severe outcomes.[12] Less severe COVID cases save lives, which in turn reduces the burden on limited health care resources and public expenditures. As non-communicable diseases, including those caused by tobacco, will likely continue to be risk factors in future, promoting tobacco prevention and cessation can play a critical role in reducing the risk of severe health and economic impacts in future pandemics.

In short, tobacco taxation could provide a strategic policy instrument to create fiscal space, help reduce health risks and thus help reduce future spending on other pandemics.

1.3 Heightened expectations for the potential of tobacco taxation

Several recent reports specifically refer to tobacco taxation as a viable option for developing economies. The United Nations 'Advisory Paper: Immediate Socio-Economic Response to COVID-19 in Sri Lanka'[13] calls for the exploration of tobacco taxation (and taxes on other harmful products) as part of a comprehensive health financing assessment to address health and development, including financing the COVID-19 response. The paper recommends that this assessment be integrated into a comprehensive Recovery and Development Finance Assessment (RDFA) for costing national recovery and development planning.

The International Monetary Fund (IMF) includes the use of specific excise taxes (see Box 2)[14] on tobacco (and other unhealthy products) as part of tax reform options for the COVID-19 recovery in 'Tax Policy for Inclusive Growth after the Pandemic'.[15]

"Governments will … have to embark on reforms to mobilize and sustain additional domestic resources" to invest in public health for future pandemics, "while enabling their economies to return to durable growth,"[16] says the 2021 'Report of the G20 High-Level Independent Panel on Financing the Global Commons for Pandemic Preparedness and Response'. Tobacco tax increases are aligned with both of these objectives.

The United Nations Interagency Task Force for Financing for Sustainable Development states that increasing excises on harmful products, including tobacco, can contribute to diversifying and broadening the tax base, which "can raise growth, improve equity, help to manage revenue volatility and finance an appropriate policy response".[17]

Box 2

What are excise taxes?

Excise taxes are applied to selected products such as tobacco, alcohol and fuels, generally payable by businesses. There are two types of excise taxes: (1) specific (based on quantity such as per cigarette stick or pack regardless of the price); and (2) *ad valorem* (based on value or price such as a percentage of the manufacture's price). Compared to ad valorem, specific excise taxes are easier to administer, predictable and not subject to industry price manipulation. WHO recommends that excise taxes account for at least 70 percent of the retail price of tobacco products, with periodic increases to outpace inflation and income growth so that tobacco products do not become more affordable over time.

2.
The Investment Case for Tobacco Control

Despite the multidimensional benefits of tobacco taxation described below, many countries, particularly LMICs, have underutilized tobacco taxation as an effective financial, health and development instrument. One reason is the lack of country-specific data and evidence on the socio-economic benefits of higher tobacco taxes relative to the costs of the status quo.[18]

In response to and at the request of the respective host government, UNDP has developed the Investment Case for Tobacco Control in countries around the world, together with the Secretariat of the WHO FCTC, WHO, RTI, governments and civil society partners (see Box 3). In the Asia-Pacific region, it has been carried out in six countries so far: Cambodia, Lao People's Democratic Republic (PDR), Myanmar, Nepal, Samoa and Sri Lanka, with more countries to come.[i]

Box 3

What is the Investment Case?

The Investment Case for Tobacco Control quantifies the size of the burden of tobacco on a country's economy, and analyses the extent to which investing in key WHO FCTC measures reduces this burden, generating health, economic and other development returns, accelerating the achievement of the SDGs. One of the key outputs is a return on investment, which measures the efficiency of investments in tobacco control by dividing the economic benefits that are gained from implementing the WHO FCTC tobacco control investments by the cost of the investments. An Investment Case for Tobacco Control has been developed for 24 countries so far, providing critical national evidence to inform policymakers and the public. For more details including the methodology, see the Investment Case reports.

2.1 Return on investment and additional revenues: Evidence from the Investment Cases

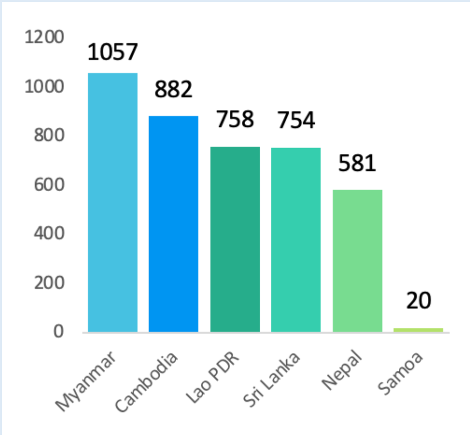
Increasing tobacco taxes is cost-effective. The Investment Cases for Tobacco Control from the six Asia-Pacific countries found that, among key tobacco control measures such as enforcing smoke-free laws, increasing tobacco excise taxes was by far the most cost-effective investment in most countries, in terms of saving lives and reducing the cost to the government and the economy. For every unit of local currency invested in increasing tobacco taxes, the countries would gain between 20 and 1,057 units in return over 15 years, or a return on investment (ROI) ratio of between 20:1 and 1,057:1. In other words, increasing tobacco taxes costs relatively little to implement but yields a high impact in terms of increased supply of labour, higher productivity and lower future health expenditure.

Figure 1 shows the ROIs over 15 years for increasing tobacco taxes from countries' current rates to the WHO recommended level of at least 75 percent of the retail price of the most sold brand, inclusive of an excise tax component of at least 70 percent.

The gains from tobacco taxes and other tobacco control measures extend far beyond health. ROIs for comprehensive tobacco control, based on 24 Investment Cases for Tobacco Control, reveal that averted productivity losses (indirect costs) comprise 85 percent of the costs averted, with health care expenditures (direct costs) comprising the remainder. The economic costs of tobacco use are usually most visible and measured in the health sector, but the vast majority of costs—and thus benefits from the action—are distributed across society.

Figure 1

Return on investment from tobacco tax increases



3.
Strategic tobacco tax policies for expanding revenue sources and fiscal space in LMICs

Significantly increasing tobacco tax also brings substantial revenue to the government. The Investment Case for Tobacco Control in Cambodia projected additional government revenue of KHR920 billion (US$230 million) over five years, or about KHR183 billion (US$45.8 million) annually, from the recommended levels of tobacco tax increases.[ii]

The revenue impact would be even more drastic in the case of Lao PDR. The Lao government has a 25-year Investment Licensing Agreement (ILA) with the country's largest tobacco company, which has a 90 percent market share. The ILA

i The Investment Case reports for Bhutan, Mongolia, Pakistan and Timor-Leste are expected to be completed in 2022.

ii Based on the tax increases and tax structure reforms as envisioned in Cambodia's 2019–2023 Tobacco Tax Roadmap.

restricts the government's ability to enforce higher taxes on tobacco products until 2026.

The Investment Case for Tobacco Control in Lao PDR projected additional government revenue totalling LAK1.8 trillion (US$187 million)—or an average of LAK354 billion (US$37 million) annually—between 2021 and 2025, if the government were able to raise tobacco taxes by an annual average of LAK940 or just US$0.10.[iii] The average additional annual revenue of US$37 million is equivalent to 0.2% of GDP[19] or more than 22 percent of the government's total health expenditure in 2018. Hence, this additional revenue could be an important source for the government.

The Government of Lao PDR is committed to achieving universal health coverage.[20] The findings from the Investment Case show the potential of tobacco taxation to mobilize domestic resources for financing universal health coverage. Lao PDR's particular case also highlights the massive opportunity cost of making agreements with the tobacco industry, particularly regarding tax policies.

Raising tobacco taxes can expand fiscal space beyond the additional tax revenues. Recently, LMICs have faced shrinking fiscal space due to COVID-related expenditures, swelling debts,[21,22] sovereign credit rating downgrades,[23] contracting economies and weak revenues. Governments need additional resources, including external financing.

The IMF and the World Bank's policy lending programmes increasingly include excise tax increases on tobacco (and other harmful products) as a 'prior action' or prerequisite for loan disbursement and successful results. Box 4 lists recent examples of IMF and World Bank prior actions for selected Asia-Pacific countries.

In Samoa, for example, the World Bank's November 2020 development policy grant states that "[a]s an indicative trigger…, Government will introduce excise tax increases on unhealthy foods and tobacco".[24] Furthermore, the concluding statement from the IMF's 2021 mission in Samoa as part of its loan conditionality recommends increasing excises on tobacco (and alcohol) as part of the country's holistic strategy for revenue mobilization.[25] The Investment Case for Tobacco Control in Samoa[26] also recommends tobacco tax increases, as the tax rate at the time of the research (at 36.5 percent) was still far below the WHO recommended level.

3.1 Sovereign credit ratings

Significant tobacco tax increases could also help improve a country's credit rating or creditworthiness.[27,28,29] Tobacco taxation helps improve a country's revenue generation. Improved revenue, in turn, creates more fiscal space and reduces the country's debt burden, hence also helping in the sovereign credit ratings, as shown by some of the countries. The higher credit ratings facilitate access to international financing, attract foreign investments, including government bonds, and allow more favourable loan terms, such as lower interest rates and longer maturities. Higher sovereign credit ratings can benefit a government's fiscal space while reducing its cost of borrowing, thus enabling vital investments for sustainable development. (SDGs 8: Economic growth and 17: Financial flows into LMICs)

iii Increasing the tax share in the retail cigarette price from the current 19 percent to 53 percent, and the retail price by 75 percent in real terms over present-day levels.

Box 4

Prior actions on tobacco and other health taxes in recent IMF and World Bank loan programmes

The International Monetary Fund

Pakistan, 2019: Raise excise and expand the base for tobacco, and introduce an excise on carbonated and uncarbonated drinks, juices and syrups.

Sri Lanka, 2019: Raise excises and customs duty on alcohol and tobacco.

The World Bank

Fiji, 2018: Increase excise taxes on tobacco and alcoholic beverages.

Philippines, 2019: Increase excises on tobacco to finance the Universal Health Care Law.

Samoa, 2018: Approve the Alcohol Control Bill.

Sources: IMF Staff Reports from http://www.imf.org and World Bank publications as quoted in Lane, C. et al. (2021) Using Health Taxes to Support Revenue: An Action Agenda for the IMF and World Bank.

Four major international credit rating agencies—Fitch,[30,31] Standard & Poor's,[32] Moody's[33] and the Japan Credit Rating Agency (JCRA)[34]—all upgraded the credit rating of the Philippines to an 'investment grade' (i.e. the country is safe to invest in) in 2013 for the first time in the country's history. Among the key drivers[35] for the upgrade was the passing of the 2012 Sin Tax Reform Law, which significantly increased tobacco (and alcohol) excise tax rates. The tax reform mobilized substantial additional revenues (see Figure 5) and strengthened prospects for the country's fiscal position. Standard & Poor's again upgraded the country's credit rating in 2019, coinciding with another major tobacco tax reform[36] (see section 4.3), referring to the country's "sustainable public finance".[37]

The COVID-19 pandemic triggered large-scale sovereign credit rating downgrades, 95 percent of which were issued for LMICs.[38] In 2021, only 23 percent (24 countries) of 105 emerging and developing economies had an investment-grade rating, with none among low-income countries.[39] The downgrades have made it even more difficult for developing countries to secure external financing and make necessary investments. The war in Ukraine and its global socio-economic repercussions, including high financial market volatility, oil and commodity price increases, and higher global interest rates associated with rising inflationary pressures, further compound the challenge.

In these severe financial circumstances, bold tax reforms, including tobacco taxation, could provide a strategic option for LMICs to increase domestic financing capacity, reverse or halt the sovereign credit ratings downgrades and pave the way for much-needed access to sustainable financing.

3.2 Eliminating duty-free policies

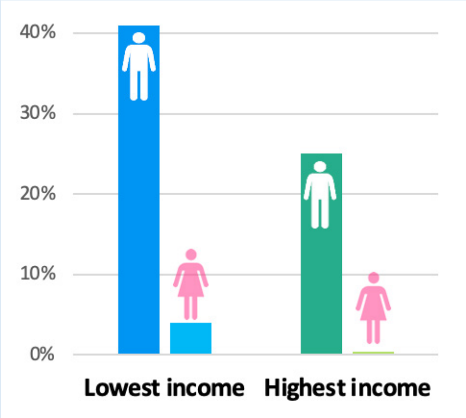
Eliminating duty-free tobacco products enhances the benefits of tobacco taxation. The importation and sale of duty-free tobacco products erode tax revenues for the government while undermining health and development goals. The benefits of duty-free tobacco products disproportionately accrue to the tobacco industry and those wealthy enough to travel.

Eliminating duty-free sales and importation of tobacco products alone would generate around US$7 billion in additional tax revenue globally.[40] This amount is equivalent to 64 percent of the 2022 funding gap (US$11 billion as of 2 October 2022) to fully implement the Access to COVID-19 Tools Accelerator (ACT-A),[41] led by the WHO to facilitate equitable access to COVID-19 tests, vaccines and other essential products, particularly for LMICs.

In Asia, Brunei, Singapore and Sri Lanka have banned duty-free tobacco sales and allowances, protecting both their important revenue source and people's health. Although not completely banned, Australia[42] has periodically and drastically reduced the duty-free tobacco allowance, from 250 grams or 250 cigarettes to 50 grams or 50 cigarettes in 2012, and then to 25 grams or 25 cigarettes in 2017.[43]

Figure 2

Smoking prevalence by income level and sex in Myanmar



4. Development benefits of tobacco taxation

4.1 Tobacco tax increases are pro-poor, pro-youth and pro-SDGs

Increasing tobacco taxes is pro-poor. Around the world, people with low incomes—both men and women—are more likely to use tobacco than their wealthier counterparts (see Figure 2, an example from Myanmar).[44] Poor people disproportionately suffer health and development harms from tobacco use. Smoking is responsible for nearly half of the difference in death rates between rich and poor people.[45]

Higher tobacco taxes disproportionally benefit poor people because poor people are more likely than wealthy users to quit, reduce or never start using tobacco when taxes and prices are raised (see Box 5).[46] This advances health equity and reduces impoverishment: "... [A]ccumulated evidence from across the globe shows how tobacco taxes help reduce poverty", as the World Bank states.[47] Higher tobacco taxes also work for tobacco use prevention and cessation among youth, who have limited income and are thus also highly price-sensitive.

Box 5

Price elasticity of demand

People with different incomes respond differently to tax/price increases. A study in Bangladesh, for example, found that poorer people (the bottom three quintiles) are much more sensitive to cigarette price increases than wealthier people (the top two quintiles).

If the price is increased by 10 percent, cigarette demand among poorer people would decrease by 9 percent, compared to by just 3.9 percent among wealthier people.

Tobacco use causes additional considerable financial hardships in low-income households. These include out-of-pocket health expenditures to treat tobacco-attributable diseases, as well as income loss from workforce drop-out or absenteeism due to illness, disability or premature death among breadwinners. In rural China, the risk of medical impoverishment nearly doubled for households with members with chronic diseases, for which tobacco use is a leading risk factor,[48] in comparison with households without such members.[49] Evidence also shows that smokers earn less over time than non-smokers[50] and die about 10 years earlier,[51] with significant financial repercussions for households, particularly women and children.

Low-income households spend a greater proportion of their limited income on tobacco products than higher-income households. Expenditures on tobacco products account for 10 percent or more of total household income in some low-income countries.[52] In Indonesia, which has one of the world's highest male tobacco use prevalence (71 percent in 2020),[53] cigarettes were the second-largest household expenditure after rice in low-income households in 2018.[54] Tobacco-using households may spend a significant percentage of their remaining income on alcohol use, as smokers are more likely to drink alcohol, be heavy drinkers[55,56] and spend more on alcohol.[57] The deadly tobacco–alcohol combination becomes a considerable drain on poor households' income and welfare.

Tobacco use nullifies the significant investments governments make in developing human resources through education, health care and public safety. And it is soaking up critical resources that poor households could otherwise use for productive investments in nutritional food, children's education, better housing, insurance, farming equipment and other long-term development benefits. Reducing avoidable tobacco-related costs is critical to prevent impoverishment, lifting and keeping the poor out of poverty and accelerate sustainable development. (SDGs 1: Reduce poverty, 2: Zero hunger, and 10.4: Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality)

Figure 3

Reduction in smoking prevalence before/after tax increase in Myanmar

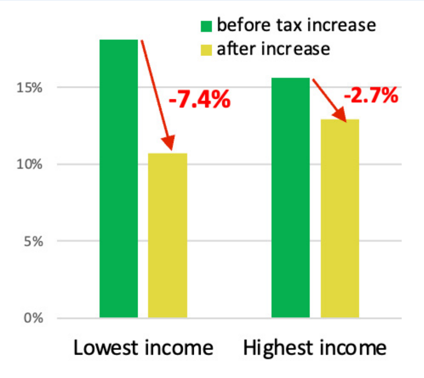
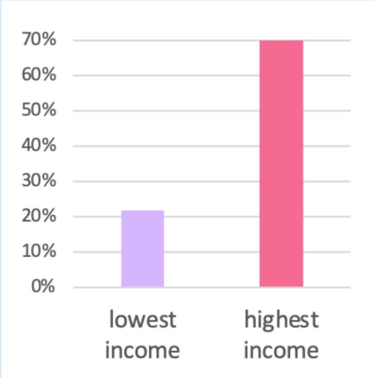


Figure 4

Tax burden increase due to higher tax in Myanmar



The tobacco industry spares no effort to make decision makers and the public believe that tobacco taxes hurt poor people unfairly. They argue that the tax burden represents a larger share of their income than that of wealthy users and is, therefore, unfair to poor people. While it may be true that those in lower income groups who do not change their behaviour after tobacco tax increases will be worse off, for poor people overall, there are net benefits, as the effects of quitting or never starting smoking are much larger for those that are better off. Evidence is clear that tobacco use widens health and development inequities between poor people and wealthy people.

Country-specific Investment Cases for Tobacco Control highlight the power of tobacco taxation to reduce equity gaps in health and development. The Investment Case for Tobacco Control in Cambodia estimated that a tax increase[iv] could avert nearly 17,000 cases of catastrophic health expenditures, 53 percent of which would occur in the poorest 40 percent of households. Averting the catastrophic expenditure would also prevent 1,500 individuals from falling into poverty every year in Cambodia.

Similarly, ‘The Bill China Cannot Afford: Health, Economic and Social Costs of Tobacco Epidemic’, a joint report by the WHO and UNDP, projected that 11.6 million cases of impoverishment in China would be averted over 50 years following a 75 percent increase in the retail cigarette price; 72 percent of the averted cases of impoverishment would be in the poorest 40 percent of households, who would pay just 18 percent of the additional US$19.1 billion annual excise tax revenue generated.[58] The Investment Case for Tobacco Control in Myanmar (2018) also demonstrates how a cigarette tax increase[v] would deliver the greatest benefits to the poorest 20 percent of the population. The lowest income quintile would benefit from the largest drop in smoking prevalence (7.4 percent), compared with a 2.7 percent drop for the highest income quintile (Figure 3). The lowest income quintile would also benefit from the highest proportion of deaths averted (40 percent), while facing the smallest additional tax paid on cigarettes (21.7 percent, compared to 70 percent for the highest income group) (Figure 4).

This same pattern—the pro-poor attributes of tobacco tax increases—was consistently observed across 13 separate equity impact analyses, as part of Investment Cases for Tobacco Control across the world.

The Asian Development Bank’s report ‘How Tobacco Taxes Can Expand Fiscal Space and Benefit the Poor’ also confirms that tobacco tax increases provide disproportionate benefits to poor people, which far exceed their extra tax burden,[59] consistent with Investment Case and other research findings.

The initial, short-term negative impact of tobacco tax increases on low-income tobacco users will be eventually replaced by gains, according to the World Bank’s ‘Distributional Effects of Tobacco Taxation: A Comparative Analysis’.[60] The World Bank concludes, “[W]hen we look at all the facts, tobacco taxes are not regressive, but highly progressive, as the full health and economic benefits of this measure far outweigh its relative cost.”[61]

4.2 Tobacco tax increases deliver broad development gains

Besides the financial, health, poverty and equity gains described above, increasing tobacco taxes contributes to considerable other development gains towards multiple SDGs. The following sections present examples of gender and environmental impacts.

4.2.1 Gender impacts

Reduced tobacco use and associated savings from household spending on tobacco products empower and protect women. (SDG 5: Gender equality) As most tobacco users are men, reduced household expenditure on tobacco effectively “enables an income transfer from male smokers to females…”[62] Women are more likely than men to invest household income in health, housing and nutritious food, benefiting family welfare and human development.[63]

By preventing or reducing smoking, increasing tobacco taxes can also protect women from second-hand smoke exposure at home or work. Second-hand smoke exposure

iv A 28 percent increase in the retail price following Cambodia’s 2019–2023 Tobacco Tax Roadmap.

v Raising the price of cigarettes by about 10 percent year on year until 2023, followed by more gradual increases of 3–4 percent until 2033.

kills nearly 400,000 women every year, accounting for 64 percent of global premature deaths due to second-hand smoke.[64] In Viet Nam, where 45.3 percent of men but only 0.9 percent of women smoke,[65] tobacco-related causes account for over 14 percent of deaths among women.[66]

Women often face challenges in negotiating smoke-free spaces, due to power inequalities in the home and workplace.[67] Tobacco tax increases could also contribute to reducing violence against women: both poverty, which can be triggered or exacerbated by tobacco use, as well as alcohol use, particularly at harmful levels, which is associated with smoking,[68,69] elevate the risk of domestic violence.[70,71]

Research in Thailand found a 1.6-fold greater risk of domestic violence in families with tobacco users compared to tobacco-free families.[72] As part of Thailand's recent comprehensive tobacco control policies, including tobacco excise tax increases, second-hand smoke exposure was incorporated into the 2019 Promotion of Development and Protection of the Family Institution Act, which aims to reduce domestic violence.[73,74]

4.2.2 Environmental impacts

Tobacco kills not just people but also the environment. Environmental protection is another development benefit of increasing tobacco taxes. The WHO's reports 'Tobacco: Poisoning Our Planet'[75] and 'Tobacco and Its Environmental Impact: An Overview'[76] warn how farming, curing, manufacturing and supplying 6.25 trillion cigarette sticks every year damage the environment, including air, water and soil pollution, poisoning marine life, biodiversity loss and deforestation. (Environment-related SDGs: 6, 11, 12, 13, 14 and 15)

Tobacco production accelerates deforestation[77] for farming and curing. For example, tobacco farming and curing clear about 200,000 hectares of land every year,[78] which is equivalent to almost three times the size of Singapore.[79] Tobacco farming was responsible for 4 percent of deforestation globally by early 2000, with a more significant impact in certain LMICs, including Bangladesh (over 30 percent) and China (18 percent).[80] One tree is required to cure the tobacco leaf to produce just 300 cigarettes.[81] Globally, an estimated 600 million trees are chopped down every year for tobacco production.[82]

Greenhouse gases from tobacco smoke contribute to climate change.[83] Smoking three cigarettes produces a PM2.5 level 10 times higher than the amount emitted by a diesel car engine idling for 30 minutes.[84] There were 1.1 billion smokers worldwide in 2019, who consumed 7.4 trillion smoking tobacco products.[85] The sheer magnitude of global tobacco consumption suggests enormous pollutants emitted into the atmosphere.

Cigarette butts are made of plastic (cellulose acetate), containing more than 4,000 toxic chemicals.[86] Every year, 4.5 trillion cigarette butts are dumped in the environment,[87] making them the world's number one littered plastic item.[88] Many end up on the streets, in children's parks, on beaches and in oceans,[89] damaging ecosystems and the natural environment, a vital tourism resource for many LMICs in Asia and the Pacific.

The WHO estimates the annual cost of cleaning up littered tobacco waste to be about US$2.6 billion for China and US$766 million for India.[90] The Thai government has banned smoking and littering of cigarette butts on the 24 most popular beaches since 2018, to protect locals, tourists and the environment, and to save the clean-up cost.

LMICs bear the disproportionate environmental burdens and cost of tobacco, as they accommodate 90 percent of global tobacco production[91] and over 80 percent of the 1.3 billion tobacco users in the world.[92] Asia hosts seven of the world's top 10 countries with the highest number of smokers: Bangladesh, China, India, Indonesia, Japan, the Philippines and Viet Nam.[93]

4.3 Making tobacco tax policies highly pro-poor and pro-development: Examples from the Philippines

The pro-poor impact of tobacco tax can amplify even further if tobacco tax revenues are allocated to measures that disproportionately benefit the poor such as universal health coverage and tobacco cessation support. The Philippines is globally renowned for its highly pro-poor and pro-development tobacco tax policies.

Between 2012 and 2020, the Philippines introduced bold tobacco and alcohol tax (sin tax) reforms embedded with pro-poor measures, made possible by substantial and sustained excise tax increases (e.g. up to a 1,000 percent increase in five years for low-priced cigarette brands,[94] with further annual increases). The sin tax revenue grew from about Philippine Pesos (PHP) 50 billion (US$0.99 billion) in 2012[95] to an estimated PHP332.3 billion (US$6.6 billion) in 2020. This is equivalent to 1.8% of GDP and about 11.3% of total government revenue in 2020.[96] The sin tax revenue is projected to reach at least PHP480 billion (US$9.54 billion) in 2024, according to the Philippine Department of Finance[97] (see Figure 5). (SDG 17.1: Strengthen domestic resource mobilization)

Figure 5

Growing sin tax revenue in the Philippines (US$ billion)

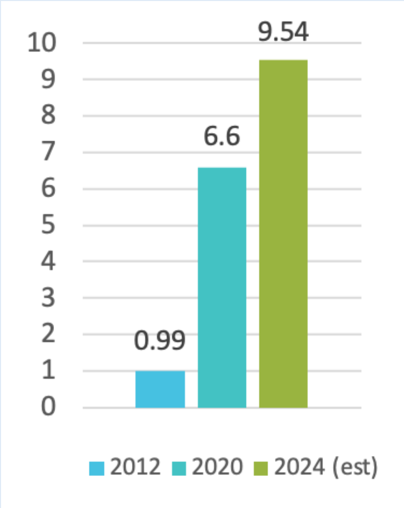
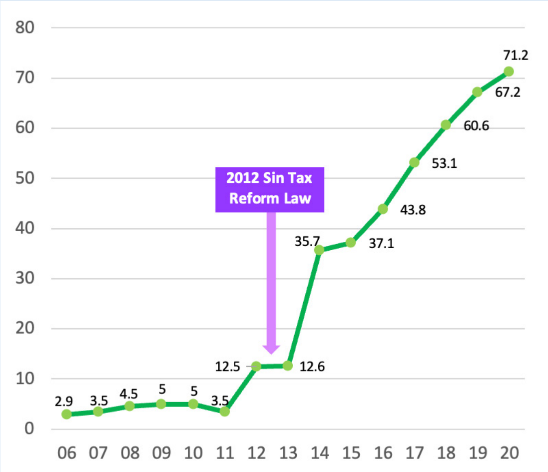


Figure 6

Growing fiscal space to fund health insurance premiums for poor people (PHP billions)



The sin tax reforms contributed to the improvement of the country's debt-to-GDP ratio from 49.2 percent in 2012 to its historically lowest level of 39.6 percent in 2019, although it deteriorated rapidly in 2020 because of COVID-19.[98,99] The country's improved fiscal position also contributed to higher sovereign credit ratings, as described above.

The 2012 Sin Tax Reform Law allocated 80 percent of the incremental excise tax revenues (i.e. the difference in revenues between the previous and new tax structures) to advance universal health coverage (SDG 3.8: Achieve universal health coverage), the Millennium Development Goals and health promotion.[100]

The fiscal space for covering health insurance premiums for poor people expanded significantly from PHP12.6 billion (US$250 million) in 2013 to PHP35.3 billion (US$700 million) in 2014,[101] and grew continuously to PHP71.2 billion (US$1.4 billion) in 2020[102] (see Figure 6).

As a result, the number of poor and near-poor households with health insurance tripled in just three years, from 5.2 million in 2013 to 15.3 million households, or 45.4 million poor people, in 2015. Tobacco accounted for 80 percent of the incremental revenues.[103] (SDGs 1: No poverty, 2: No hunger, 3: Good health, and 10: Reduced inequalities)

At the same time, the sin tax revenue allocated to health, including for the Department of Health and universal health coverage, increased from PHP34 billion in 2014 to PHP94 billion in 2020.[104] The department's budget grew from PHP42 billion in 2012 to PHP101 billion in 2020.[105]

Additionally, the extra revenues, which had already surpassed the initial projections by 44 percent as of 2015,[106] enabled fully subsidized health coverage for all elderly citizens. Furthermore, 15 percent of the incremental revenues were allocated to support tobacco farmers and workers in tobacco-growing regions who may be affected by declining tobacco sales, including their transition to alternative non-tobacco crops and livelihoods. (SDGs 2: Promote sustainable agriculture, and 8: Decent work)

A series of additional tobacco and sin tax reforms in recent years (e.g. the 2018 Tax Reform for Acceleration and Inclusion (TRAIN) Act, the 2019 Tobacco Tax Law, the 2019 Universal Health Care Act and the 2020 tax law amendment)[107,108] further increased tobacco and alcohol excises and now cover sweetened beverages, electronic cigarettes and other vaping products, which are becoming popular, particularly among youth.

These tax reforms, accompanied by increased revenues, laid the financial foundations for passing landmark legislation in 2019, the Universal Health Care Act. The Act[109] guarantees all Filipino citizens equitable access to health care, including tobacco cessation support,[110] and protects them against financial risk.

Under the current tax structure, the Philippines' universal health coverage, including health facility enhancement, draws funding from, among others, 50 percent of the total excise tax revenue collected from tobacco products and sugar-sweetened beverages, and 80 percent of the total excise tax revenue collected from alcohol products, heated tobacco products and vapour products. The remaining 20 percent of the total alcohol and heated tobacco and vapour product excise revenue is allocated to SDG efforts, as determined by the National Economic Development Authority (NEDA).[111,112,113] Additionally, 5 percent of the total tobacco excise tax revenue is earmarked to support tobacco farmers, including their shift to non-tobacco crop cultivation and other alternative livelihoods.

Furthermore, the 2020 tax law amendment (increasing excise taxes on alcohol products, electronic cigarettes (e-cigarettes) or vapes, and heated tobacco products), with further projected additional revenues, also introduced an exemption of the 12 percent value-added tax (VAT) on medicines for major non-communicable diseases, including diabetes, cancer and hypertension.[114,115] The VAT exemption makes life-saving medicines more affordable, particularly benefiting poor and vulnerable households that care for people with non-communicable diseases, which often require repeated, long-term medicine purchases. (SDGs 1: No poverty, 3: Good health, and 10: Reduced inequalities)

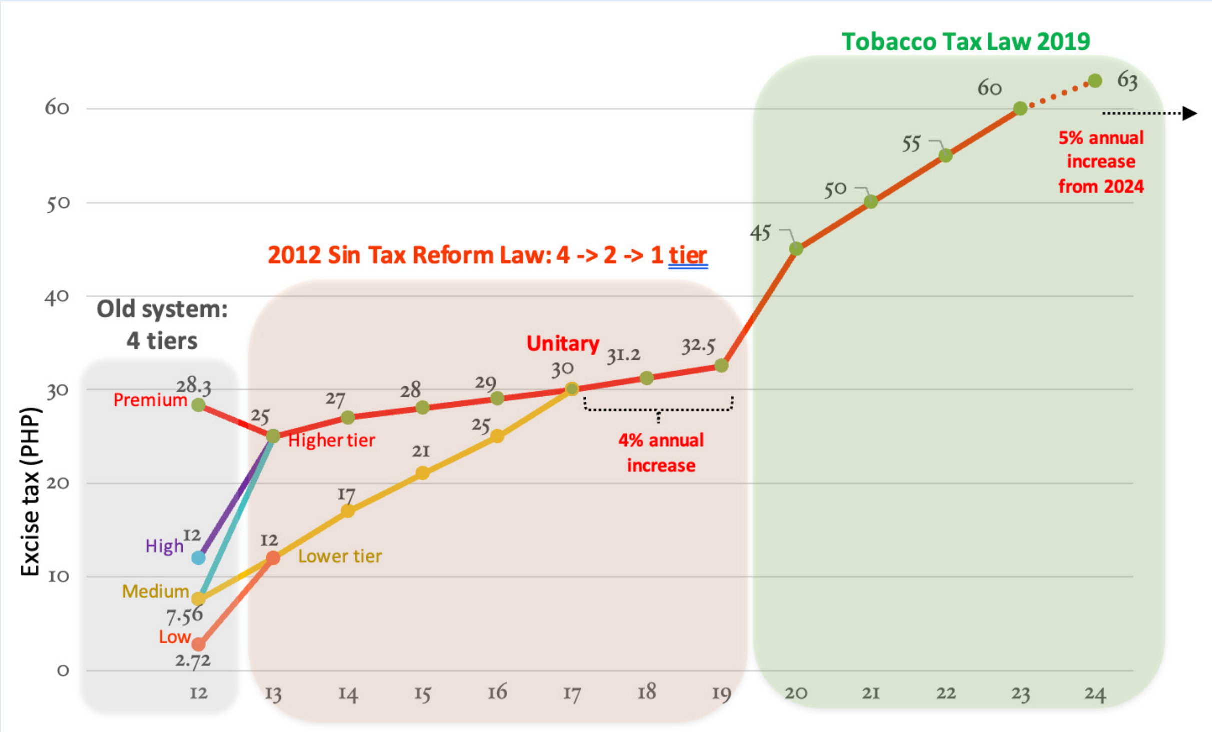
Between 2012 and 2015, substantial tax increases and higher tobacco prices decreased cigarette sales by 28.1 percent in the Philippines.[116] The number of smokers declined by 3 million, with the largest reduction among the poorest population.[117] The simplification of the tobacco tax structure (i.e. gradual transition of four different excise tax rates for different brands into a unitary or single rate—a uniform specific excise structure)[118] also helped people quit tobacco use by eliminating an option to switch to lower-taxed, cheaper brands, called downward substitution (see Figure 7).

The *Financial Times* reported in 2018 that the Philippines had achieved the highest proportion of cigarette quitters among the member countries of the Association of Southeast Asian Nations (ASEAN).[119] Despite these reductions in cigarette sales and users, the tobacco tax revenue continued to grow because high-income users continued to pay higher prices (see Figure 5).

A number of other Asia-Pacific countries also use a portion of tobacco excise tax revenues for health, tobacco control or other development purposes, as illustrated in Box 6.

Figure 7

Achievement of a unitary excise tax rate under the Sin Tax Reform Law and annual tax increases to account for inflation and raise revenue



Sources: Graph reconstructed based on Campaign for Tobacco-Free Kids (2017) Tax Reform Case Study: Philippines; and Philippines Department of Finance (2019) Republic Act No. 1134 (Tobacco Tax Law 2019).

However, the tobacco tax policies of these countries lag behind those of the Philippines in terms of the magnitude, comprehensiveness and pro-poor design, indicating gaps and the potential for strengthening pro-poor tobacco taxation policies in these countries.

5. Challenges and obstacles

5.1 Underutilization of tobacco taxes in low- and middle-income countries

Globally, the retail price of tobacco products is about 70 percent cheaper in lower-income countries than in high-income countries, even after accounting for purchasing power.[120] One decisive factor is the low level of excise taxes, which on average account for only 19.28 percent of the retail price of cigarettes in low-income countries, compared with 51.29 percent in high-income countries.[121]

In Australia, which has one of the world's highest cigarette prices, excise tax accounts for 66.1 percent (US$0.69 per stick), and the total tax accounted for 75.2 percent of the retail price of a pack of 40 cigarettes (US$42) in 2020.[122] In contrast, the Investment Case for Tobacco Control in Nepal[123] shows that, in 2016, a pack of 20 cigarettes of the cheapest brand cost only NPR33.5 (US$0.30) in Nepal, inclusive of NPR8.8 (US$0.08) tax—or a total tax rate of 26 percent.

The low tax levels suggest a greater scope for LMICs, particularly low-income countries, to generate significant domestic revenues (SDG 17.1) through bold tobacco excise increases, as achieved by the Philippines. The World Bank[124] estimates that a cigarette excise increase of US$0.25 per pack would expand government revenue by 1.14 percent, 0.89 percent and 0.64 percent, respectively, for low- (LIC), lower-middle- (LMIC) and upper-middle-income (UMIC) countries (see Figure 8).

Excise taxes (including on tobacco products) also present a viable and pragmatic instrument for LMICs due to their relative ease of collection.[125] Examining a range of potential tax options, such as wealth and digital service taxes, to fill fiscal gaps following the COVID-19 crisis, a 2021 study argues that raising excise taxes is most impactful and applicable for LMICs.[126] Increasing tobacco excise taxes[vi] would generate an estimated average annual revenue of 0.24 percent of GDP for the 59 LMICs examined in the study. It would further reach 0.72–1.6 percent of GDP if combined with excise increases on alcohol and sugar-sweetened beverage products.

The need for stronger tobacco tax policies manifests as low scores in the Tobacco Tax Scorecard,[127] which assesses the performance of tobacco tax policies across 174 countries with the following criteria: 1) the absolute price of cigarettes; 2) changes in affordability; 3) the tax share of the price; and 4) the tax structure used, with a maximum total score of 5.

vi To 70 percent of the retail price, in line with the WHO recommendation.

Box 6:

Using tobacco tax revenues to finance health

The world has witnessed growing public demand for and the political importance of universal health coverage (UHC) in recent years. UHC is now part of the SDGs (SDG 3.8), and the Political Declaration of the 2019 United Nations High-Level Meeting on Universal Health Coverage positioned UHC as "fundamental for achieving the Sustainable Development Goals".[128]

A global coalition of more than 360 economists, led by Lawrence H. Summers of Harvard University, issued the 'Economists' Declaration on Universal Health Coverage', calling for political action to advance UHC "[b]ecause investing in health makes economic sense".[129] The United Nations Secretary-General said, "Looking ahead, the recovery from COVID-19 must address the pre-existing conditions it has exposed and exploited... Stronger health systems and Universal Health Coverage must be a priority."[130]

However, mobilizing sufficient domestic resources has been one of the largest stumbling blocks in the way of LMICs pursuing UHC. The Philippines has demonstrated a strategic solution, as the country has successfully achieved and expanded UHC by utilizing tobacco tax revenues through bold tobacco tax reforms, as described previously.

Today, nearly 50 countries in the world use portions of tobacco tax revenues to finance health, including UHC and tobacco control.[131] Examples from Asia-Pacific countries are listed below.[132]

Bangladesh: A 1 percent Health Development Surcharge is levied on all tobacco products, designed to support tobacco control and non-communicable disease prevention. The annual revenue collected is over US$71 million.[133]

Cook Island: A half of excise revenue is designated to support non-communicable disease efforts.

Indonesia: Two percent of federal tobacco excise tax revenue is used to support various development programmes, half of which is allocated to Jaminan Kesehatan Nasional (JKN), the country's UHC scheme.

Lao PDR: The government passed a decree in 2013 to establish the Tobacco Control Fund, financed by a mandatory contribution of 2 percent of tobacco company profits and a surcharge of LAK200 (US$0.015) per pack. However, the tobacco companies have refused to pay because of the Investment Licensing Agreement (see pages 4 and 5).

Maldives: Since January 2021, under the Export-Import Act of Maldives (Act No. 31/79), 3 percent of the revenue from import duty on tobacco products is directed to support tobacco prevention.[134]

Mongolia: Two percent of tobacco and 1 percent of alcohol excise tax revenues are distributed to the Health Promotion Foundation, which aims to reduce health risks, including exposure to tobacco and alcohol.[135]

Nepal: Twenty-five percent of tobacco excise revenues are allocated to the Health Tax Fund. Recently, for the 2019/2020 fiscal year, the Health Hazard Tax was introduced, targeting the production and import of tobacco-related products.[136]

The Philippines: Fifty percent of the total tobacco excise tax revenue and 80 percent of the total excise tax revenues from alcohol products, heated tobacco and vapour products are allocated to health, including PhilHealth, the country's UHC scheme (see section 4.3).

Republic of Korea: The government allocates 25.3 percent of tobacco tax revenues to the National Health Promotion Fund, which supports tobacco cessation, health promotion and UHC, among other initiatives.[137] In 2015, the Fund collected US$117 million.[138]

Thailand: A 2 percent surcharge on the tobacco and alcohol excise taxes (amounting to US$132 million in 2017) is allocated to fund the Thai Health Promotion Foundation, which finances health promotion activities, including tobacco control.[139]

Viet Nam: A 2 percent surcharge on tobacco excise is allocated to the National Tobacco Control Fund (US$15.1 million in 2016), established specifically to finance tobacco control.[140]

Figure 8

Fiscal space created by a US$0.25 cigarette excise tax increase

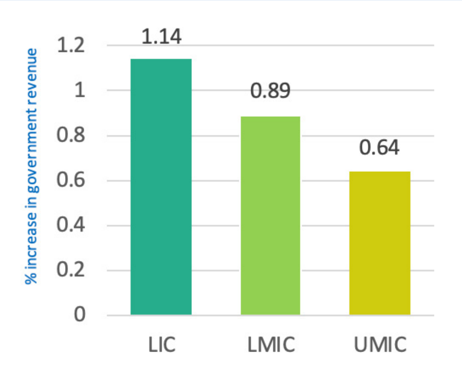
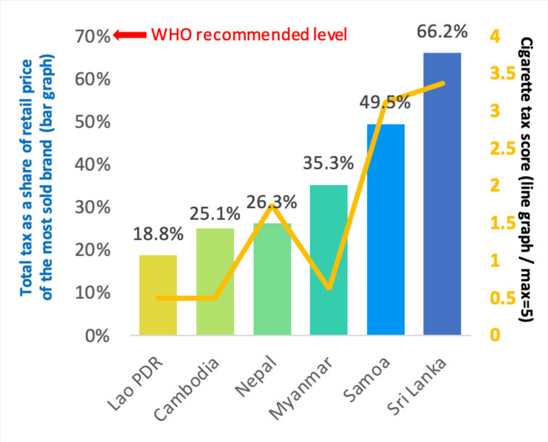


Figure 9

Cigarette tax rates and scores



Among the six Asia-Pacific countries for which the Investment Case for Tobacco Control was developed, Lao PDR and Cambodia received a low overall score of 0.5, corresponding to their low tax rates (18.8 percent and 25.1 percent,[vii] respectively) (see Figure 9). For reference, the Philippines scored 3.75, the fourth highest in the world.

5.2 Do tobacco tax increases cause unemployment and fuel illicit tobacco trade?

The tobacco industry warns and intimidates policymakers and the public that large tobacco tax and price increases cause massive job losses, thriving illicit trade and significant government revenue loss. Evidence from across the world reveals, however, that these arguments are false or grossly exaggerated, often with manipulative data supplied by the tobacco industry.[141]

5.2.1 Higher tobacco taxes do not cause massive unemployment

Studies have found no or limited negative impact of tobacco tax increases on employment; rather, they have found a net positive impact.[142] The World Bank states, "Studies show that over time there is likely a net gain rather than a loss in employment in nearly all countries that raise tobacco excise rates."[143] (SDG 8: Decent work and economic growth)

Jobs lost as a result of higher tobacco taxes will eventually be offset by new jobs created in other sectors: the money not spent on tobacco products will be spent on different products and services, and additional tobacco tax revenues will increase government investments. Both pathways will create employment opportunities and facilitate economic diversification.[144,145,146]

In Indonesia, researchers estimated a net gain of 84,340 jobs following a 30 percent tobacco tax increase.[147] The Philippines' achievement of the 'investment-grade' credit rating prompted by the significant tobacco (and alcohol) tax increases could also facilitate job creation through greater foreign investments.[148,149]

Even with these positive prospects, countries considering significant tobacco tax increases should implement complementary measures to support affected workers during their transition to non-tobacco sectors and during the time of income loss. Support measures include, for example, skills-building, loans with favourable terms, technical assistance for crop diversification, and temporary cash transfers. Countries can refer to the Philippines' example of using tobacco tax revenues to support tobacco farmers and workers with their transition to alternative livelihoods.

5.2.2 Higher tobacco taxes do not cause a massive increase in illicit tobacco trade and do not reduce tax revenues

It is estimated that the world is losing US$40–50 billion annually in tax revenues due to illicit tobacco trade.[150]

The World Bank's report 'Confronting Illicit Tobacco Trade: A Global Review of Country Experiences'[151] reveals that tobacco taxes have a limited impact on illicit trade. In the Philippines,[152] the level of illicit trade in 2018 almost matched the 1998 level, despite the substantial tobacco tax increases following the tobacco tax reforms in 2012 and thereafter. The World Bank concludes: "To date, there is no conclusive evidence showing that increases in tobacco taxation directly cause increases in illicit trade."[153]

To reduce illicit trade and government revenue losses, the IMF, the World Bank and the WHO FCTC recommend strengthening governance of tobacco control, including tobacco tax administration, law enforcement, control over corruption, border control measures, criminal network crackdowns and regional/global cooperation.[154] (SDG 16.4: Reduce illicit financial flows and combat all forms of organized crime)

Governments can strengthen efforts against illicit trade with international support by joining the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products,[155] which entered into force in 2018. (SDG 16.a: Strengthen national institutions

vii Tax rates at the time of developing the Investment Case, which might differ from the most recent rates.

through international cooperation to combat crime) As of September 2022, only nine developing countries from the Asia-Pacific region have joined the Protocol (China, Fiji, India, Iran, Mongolia, Myanmar, Pakistan, Samoa and Sri Lanka).[156]

Also, tobacco tax increases do not cause government revenue losses. On the contrary, evidence demonstrates that higher tobacco taxes raise revenue reliably and sustainably. Research shows that "in every country that has raised tobacco taxes by a non-trivial amount, consumption fell and revenues rose".[157] This is consistent with the findings from China, the Philippines and other countries mentioned above.

More importantly, any revenue impact assessment of tobacco taxation should also consider savings in health and social protection expenditures. The Investment Case for Tobacco Control in Myanmar (2018) found that the country would save MMK962 billion (US$586 million) by avoiding tobacco-attributable health care expenditures alone over 15 years by implementing effective tobacco control measures, including raising tobacco taxes.

5.3 Tobacco tax increases have broad public support

Increasing tobacco taxes generally receives strong public support, even among tobacco users, contrary to other types of tax hikes[158] and the tobacco industry narrative.[159,160] For example, a study in Indonesia found that 87.9 percent of respondents supported cigarette price increases, including 80.5 percent among smokers.[161]

The studies have shown that the level of public support can grow further if tobacco tax revenues are allocated transparently to health and other social programmes,[162] as in the case of the Philippines. In the Philippines, the proportion of government survey respondents favouring tobacco tax increases grew from 67 percent in 2018 to 75 percent in 2019, including 54 percent among smokers.[163]

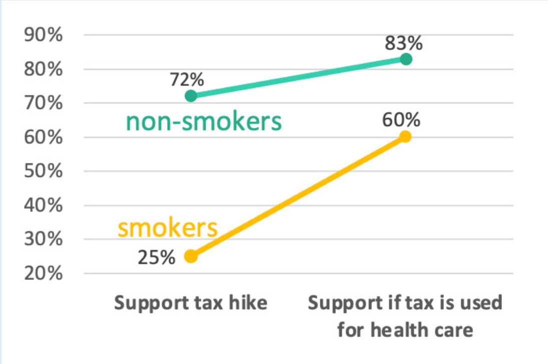
Research in New York recorded 72 percent and 25 percent support for tobacco tax hikes among non-smokers and smokers, respectively.[164] Their support jumped to 83 percent and 60 percent, respectively, if the tax revenues were used for health care (see Figure 10). Similarly, in Western Australia, public support for increasing tobacco taxes grew from 60 percent for an unconditional increase to 88 percent if tobacco tax revenues were to be allocated for public health.[165]

Ministries of finance generally do not prefer earmarking or allocating a whole or a portion of tax revenues to specific purposes. They reason that earmarking could cause inflexibility and distortions in budgeting and planning, and suboptimal resource allocation.[166] Hence the earmarking of taxes has been somewhat debatable, but it can still be an effective tool in short to medium term when public finance management is weak in a country. As tobacco taxes produce multiple pro-poor and pro-development effects, earmarking can be considered, exemplified by recent studies[167] and examples such as the Philippines.

In the case of the Philippines, the Department of Finance was willing to take risks associated with earmarking in exchange for considerable fiscal expansion[168] projected by the substantial tobacco and alcohol tax increases. Additionally, it started with 'soft earmarking' based on the incremental revenue from the tax increase on the specific sources (tobacco and alcohol) rather than the total tobacco and alcohol tax revenues. Furthermore, the Department of

Figure 10

Public support for tobacco tax hikes in New York



Budget and Management retained power over the allocation of the earmarked revenues for health. These factors might have facilitated the buy-in of the financial authorities, offering a valuable governance lesson for other countries.[169]

Also, as the above examples show, the earmarking of tobacco tax revenues for health and other social measures receives substantial public support, which is needed for political acceptability in favour of taxation. Finally, tobacco tax hikes are more likely to be supported by educated individuals,[170] who are less likely to use tobacco and more likely to vote,[171] providing additional assurance for politicians and policymakers.

5.4 Tobacco industry interference: a surmountable obstacle to higher tobacco taxes

Despite the clear, far-reaching benefits of higher tobacco taxes, why are so many LMICs not proactively pursuing the policy? One of the most significant stumbling blocks is tobacco industry interference: "WHO is well aware of the long history and the extent of tobacco industry efforts to avoid, delay and dilute the advancement of effective tobacco control policies and interventions."[172]

Finance and planning authorities often view the tobacco industry as a contributor to tax revenues, employment and the economy, just like any other business. This is particularly the case if policymakers are unaware of the devastating social, economic and environmental damage caused by tobacco, and if they are constantly exposed to manipulative data, narratives and tactics of the tobacco industry, including hijacking the political and legislative process.[173]

As mentioned previously, Lao PDR, a least developed country, entered into an agreement with the tobacco company that resulted in the government losing the sovereign authority to enforce tobacco tax policies for 25 years.[174] As a result, the country lost an estimated US$144 million between 2002 and 2017[175] and is projected to lose another US$220 million[viii] between 2021 and 2025, not to mention the additional loss of thousands of lives and development opportunities. Globally, the tobacco

viii Projected amount based on a hypothetical scenario. See the Investment Case for Tobacco Control in Lao PDR for detail.

industry has also exploited the COVID-19 pandemic and the vulnerable government position to advance its interests.[176,177]

There exists a fundamental conflict between tobacco industry objectives and sustainable development. As such, the United Nations Global Compact, which is "the world's largest corporate sustainability initiative… to advance broader societal goals, such as the UN Sustainable Development Goals",[178] decided in 2017 to exclude tobacco companies from its membership.[179] Similarly, many United Nations organizations, including UNDP,[180] exclude partnerships with the tobacco industry through their due diligence policies.[181]

Governments can protect public policies against the commercial and other vested interests of the tobacco industry by implementing the WHO FCTC, which obliges Parties to protect tobacco control policymaking and implementation from tobacco industry interference.[182] Some countries have adopted a code of conduct for public officials that prohibits unnecessary interaction with the tobacco industry. (SDG 16.5: Reduce corruption and bribery, and 16.6: Develop effective, accountable and transparent institutions) To be fully effective, such a code of conduct must be directed to all government officials, not just those in the health sector.

In the Philippines, the 'Civil Service Commission–Department of Health Joint Memorandum Circular on the Protection of the Bureaucracy Against Tobacco Interference' covers all government officials and public servants with disciplinary action in case of violation, including criminal and civil charges.[183] The presence of the whole-of-government code of conduct may have played an essential role in the successful passage of bold tobacco tax reforms in the country. UNDP and the WHO FCTC Secretariat developed a model code of conduct covering all government sectors.[184]

6. Recommendations

The following are key recommendations for policymakers, development practitioners, civil society organizations and other stakeholders involved in sustainable financing solutions for the COVID-19 response and the SDGs.

6.1 Include tobacco taxation as part of sustainable financing, the COVID-19 response and SDG efforts

Tobacco taxes are a proven financing instrument for sustainable development.[185] Higher tobacco taxes can strengthen the COVID-19 response and a country's fiscal position, on top of saving lives and catalysing development gains. Tobacco taxation mobilizes sustainable financing and simultaneously addresses multiple SDGs, including poverty, gender, economic growth, equality, environmental protection and governance, among others.

Therefore, tobacco taxation should be integrated into poverty reduction and other relevant sectoral development strategies as a viable policy option, including in national COVID-19 recovery plans and Integrated National Financing Frameworks (INFFs) for the SDGs and beyond. As previously described, the Philippines allocates a portion of tobacco tax revenues specifically to SDG efforts, in addition to universal health coverage, both of which are pro-poor and pro-vulnerable.

The presence of national data and evidence is indispensable to evidence-informed policymaking. The robust evidence from the Investment Cases for Tobacco Control can help inform policymakers and the public of the enormous development benefits of increasing tobacco taxes, which are often unknown or underappreciated. UNDP's 2021 report 'Cambodia's Development Finance Assessment' refers to the potential of raising taxes on harmful products, including tobacco and alcohol, for sustainable development financing.[186] Cambodia is one of the six Asia-Pacific countries for which the Investment Case for Tobacco Control was developed.

6.2 Substantially strengthen tobacco tax policies with built-in pro-poor measures

Tobacco taxes should be raised sufficiently high (towards the WHO recommended level of at least 75 percent of the retail price, inclusive of an excise component of at least 70 percent), with periodical increases to outpace growing income and inflation and suppress affordability over time. It is critical to ensure that tobacco tax increases are translated into higher prices by monitoring and regulating manipulative pricing strategies by the tobacco industry.[187]

To unleash the full potential of tax increases and to enable effective tobacco tax administration, the tobacco tax structure should be simplified. This could be achieved by eliminating different tax rates for different brands and adopting a uniform excise tax rate based on quantity, or a specific excise tax, as opposed to *ad valorem* excise tax, which is susceptible to manipulation[188] (see Box 2 on page 2). A uniform tax rate can help users quit, rather than enabling them to switch to cheaper brands or other types of tobacco products that are taxed less.

Heated tobacco, electronic cigarettes and vaping products should also be appropriately taxed and regulated under the tobacco control regime, if they are not prohibited by law. Duty-free importation, sales and allowances of tobacco products should also be banned or significantly curtailed. Overall, tobacco governance should be strengthened, including tobacco tax administration, anti-corruption and border measures.

Countries should consider reinvesting a portion of additional tobacco tax revenues into measures to assist tobacco cessation and prevention efforts, support affected workers such as tobacco farmers, and strengthen social protection, particularly universal health coverage. The annual amount of total tobacco excise tax revenues collected by governments around the world exceeds US$250 billion. However, only about US$1 billion is spent on tobacco control worldwide, 95 percent of which occurs in high-income countries.[189]

Countries are also encouraged to join and take advantage of the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products to boost the national capacity and global cooperation for preventing tobacco tax revenue losses and cutting off illegal financial sources of criminal networks. Also, in addition to the Investment Case for Tobacco Control, the UNDP–WHO joint sectoral brief 'What Ministries of Finance, Tax and Revenue Need to Know' about non-communicable diseases can provide practical guidance for action.[190]

All these measures disproportionately benefit poor people, furthering the pro-poor, pro-SDG attributes of tobacco taxation. Therefore, tobacco taxation should be viewed as a strategic investment,[191] an integrated and innovative development solution, and an SDG enabler and accelerator.

6.3 Ensure multisectoral engagement

Developing and implementing effective tobacco tax policies requires a 'whole-of-government', 'whole-of-society' approach. This means involving diverse ministries and sectors beyond finance and health to ensure policy coherence and that benefits of tobacco control are maximized across sectors. Stopping tobacco industry interference is critical, and a code of conduct covering all public officials—regardless of the sector—should be adopted, as in the Philippines.

This multisectoral approach requires generating, sustaining and strengthening broad political and public support by raising awareness among all government sectors, parliament, civil society, the public, the media, development partners, youth, academic institutions and businesses. Stakeholders need to be informed of the economic, social and environmental harms of tobacco use, the tobacco industry myths and tactics, and the multidimensional benefits of higher tobacco taxes.

For example, lost productivity due to tobacco-related illness or death means lost profits for business owners, lost incomes for employees and their families, lost tax revenues for the government, and lost opportunities for economic growth and financing SDG efforts. References such as 'National Coordinating Mechanisms for Tobacco Control: Toolkit for Parties to Implement Article 5.2(a) of WHO FCTC'[192] and 'Tobacco Control as an Accelerator for Sustainable Development Goals',[193] joint publications of UNDP, the WHO FCTC Secretariat and the WHO, can inform and guide multisectoral coalition-building to achieve stronger tobacco tax policies.

It is hoped that informed stakeholders would lead to increased support for the lowest income groups through measures such as free tobacco cessation support and universal health coverage, as poor people are most likely to be affected by tobacco tax increases.

7. Conclusion

This policy brief outlined the untapped potential of tobacco taxation for financing and advancing numerous SDGs and the COVID-19 response and recovery in LMICs, to 'build back better and fairer'.[194] Increasing tobacco taxes is needed and justified more than ever, due to the pandemic's extraordinary social and economic challenges, including increasing fiscal stress across countries.

The McKinsey Global Institute projects that health improvement could achieve a global GDP in 2040 that is US$12 trillion—or 8 percent—higher than the baseline scenario, with 0.4 percent greater annual GDP growth.[195] This economic growth would be attributable to fewer diseases and premature deaths (between the ages of 30 and 69 years), a greater number of healthier workers, and increased labour productivity.[196]

By reducing a key modifiable risk factor for major diseases, premature deaths, disability and labour productivity loss, higher tobacco taxation can even boost the global economy, on top of sustainably benefiting individuals, households, fiscal space, and development at the national level.

The pro-poor, pro-SDG impacts of tobacco taxation must be widely acknowledged as a strategic investment with significant sustainable returns. It should be integrated into national development, poverty reduction and sustainable financing strategies. Robust evidence and strong public support exist. Political commitment and bold actions are needed. The extraordinary circumstances that have emerged from the COVID-19 pandemic offer an extraordinary opportunity to act decisively.

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