

# The Philippines Sin Tax Reform: Role of poverty and social impact analysis

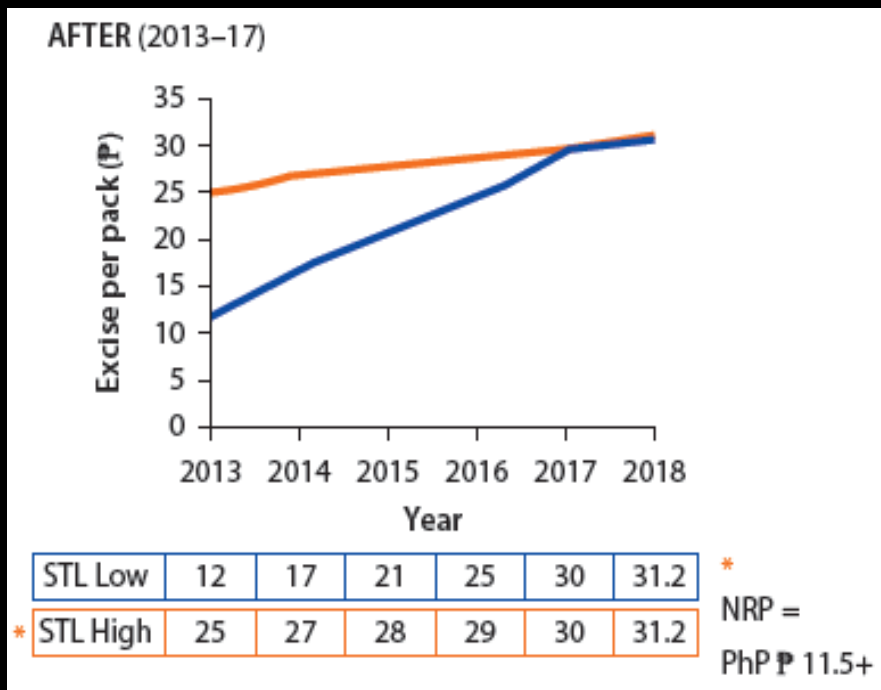


Caryn Bredenkamp  
Senior Economist, World Bank  
Global Conference on Prosperity, Equality and Sustainability  
New Delhi, 3 June 2016

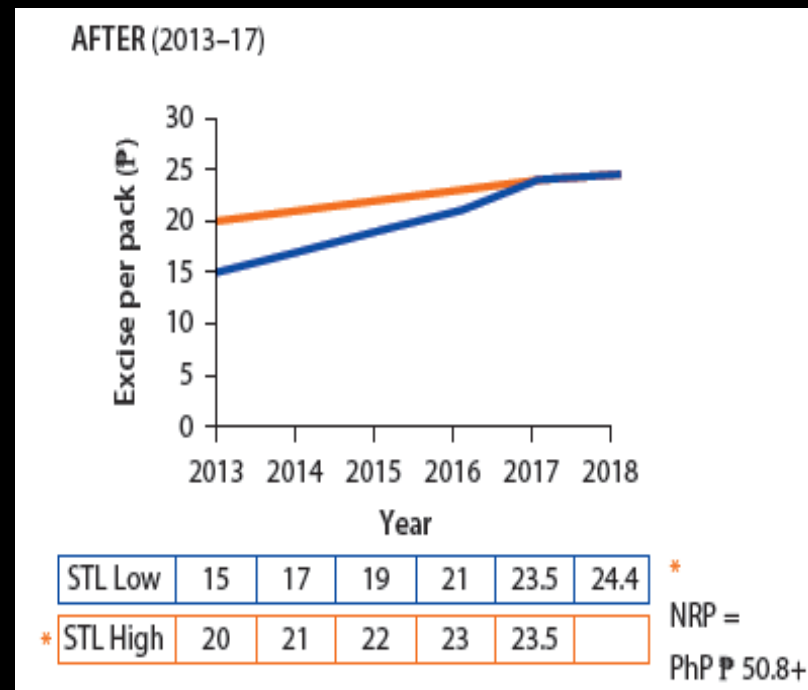
# A landmark tax reform...

- Increased taxes on cigarettes, beer and spirits
- Higher floor prices
- Simplified overall tax structure

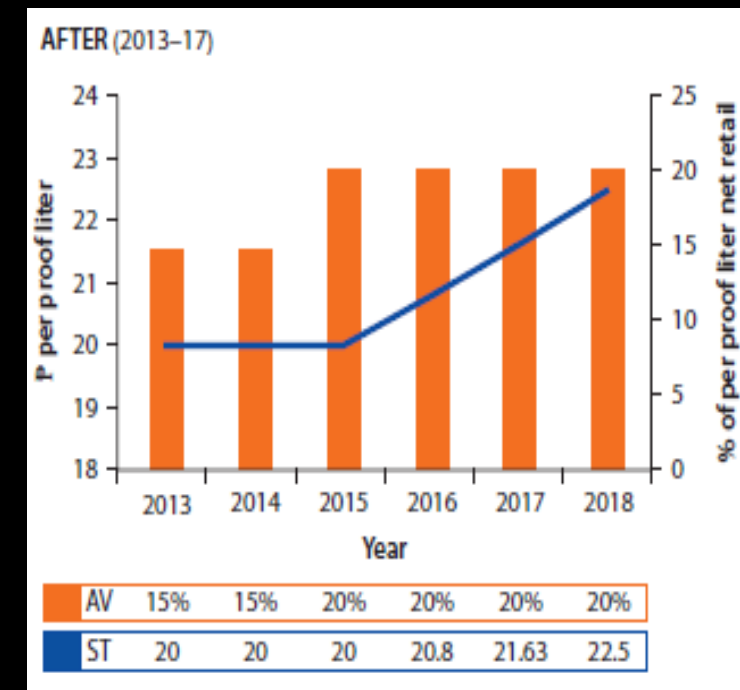
## Cigarettes



## Beer



## Spirits



... but not an easy passage...

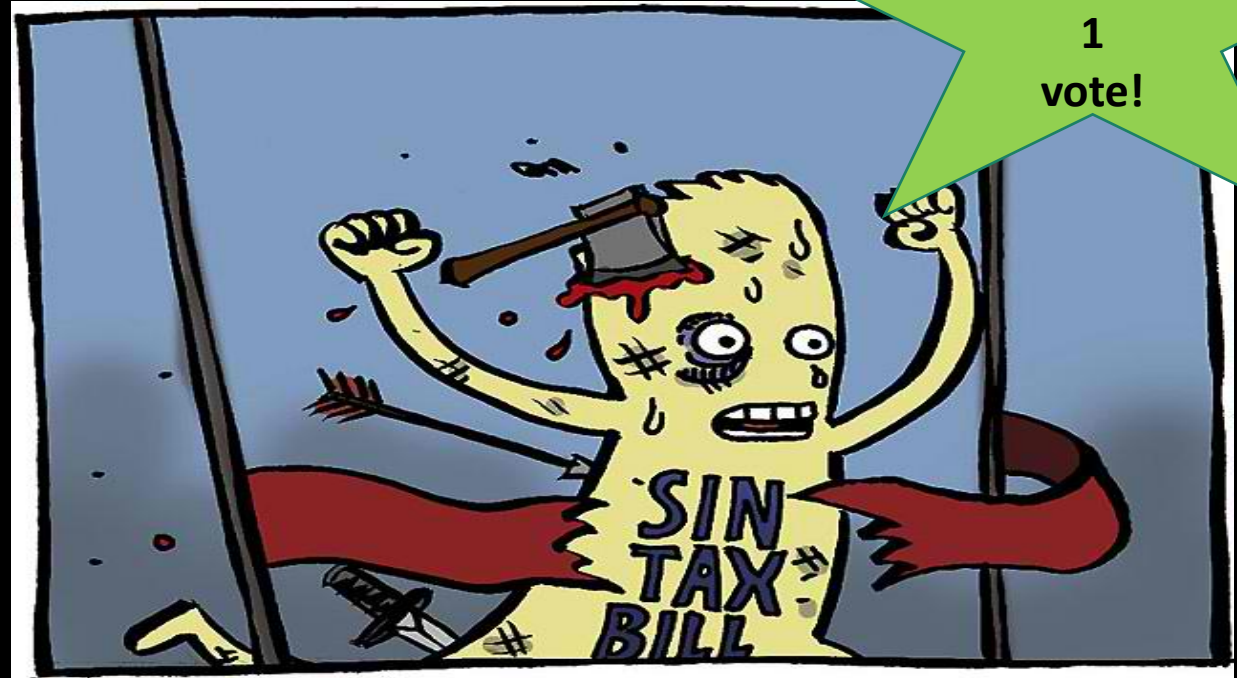
Passed by  
1  
vote!

Impact on tobacco industry

Impact on alcohol industries

Would the reform encourage smuggling and illicit trade?

Would small tobacco farmers be adversely impacted?



Is the tax regressive?  
Would the poor (who smoke most) suffer disproportionately from the tax increases?

Would rates of smoking (and excessive drinking) actually fall?

**The poverty and social impact of the reform was central to the debate**

# Significant earmarking for health and the poor helped push through the reform

Enhanced historical earmark for tobacco farmers

- Around 15% of tobacco excises for farmer livelihoods in tobacco-growing regions.

Of the remainder:

- Eighty percent (80%) for:
  - National Health Insurance Program – free insurance for 14.7 mn families
  - Attainment of the Millennium Development Goals (MDGs)
  - Health awareness programs
- Twenty percent (20%):
  - Medical assistance (MAP)
  - Health Facilities Enhancement Program (HFEP)

## Earmarking was used to:

- Position the reform, and associated tax increases, as in the interests of the health of the poor
- Mitigating the risk of adverse poverty and social impacts

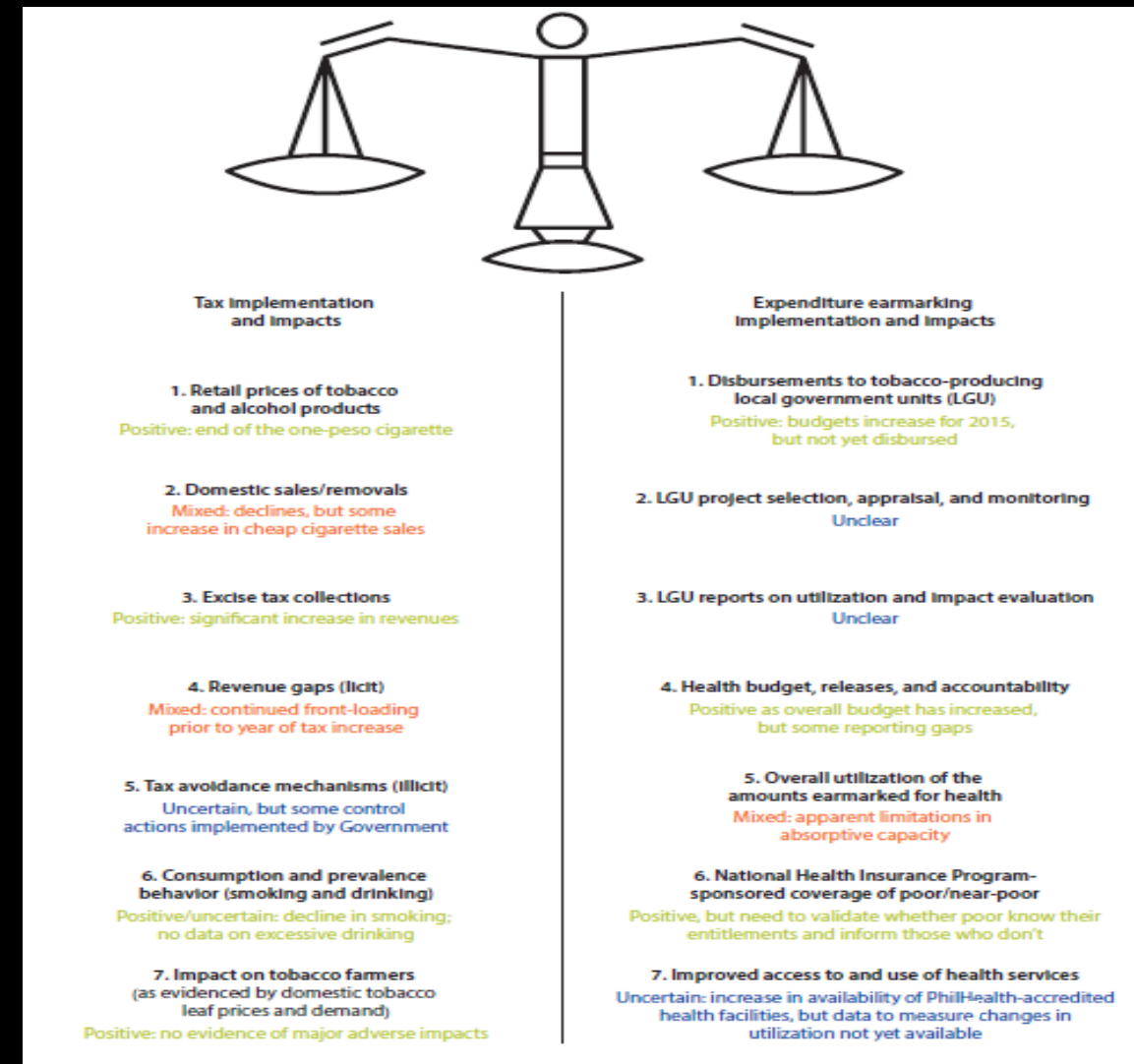
The reform was framed as a health issue rather than a tax issue

# Role of ex-ante and ex-post Poverty and Social Impact Analysis

## Ex-ante: Just-in-time analysis

1. Revenue projections and post-reform scenarios
2. Earmarking revenues for health
3. Poverty and equity impacts of excise tax
4. Tobacco farmer impacts
5. Industry impacts
6. Philippines beer, spirits, and wine excise reform
7. Cigarette smuggling risks

## Ex-post: Implementation monitoring



# Example of ex-ante PSIA analysis

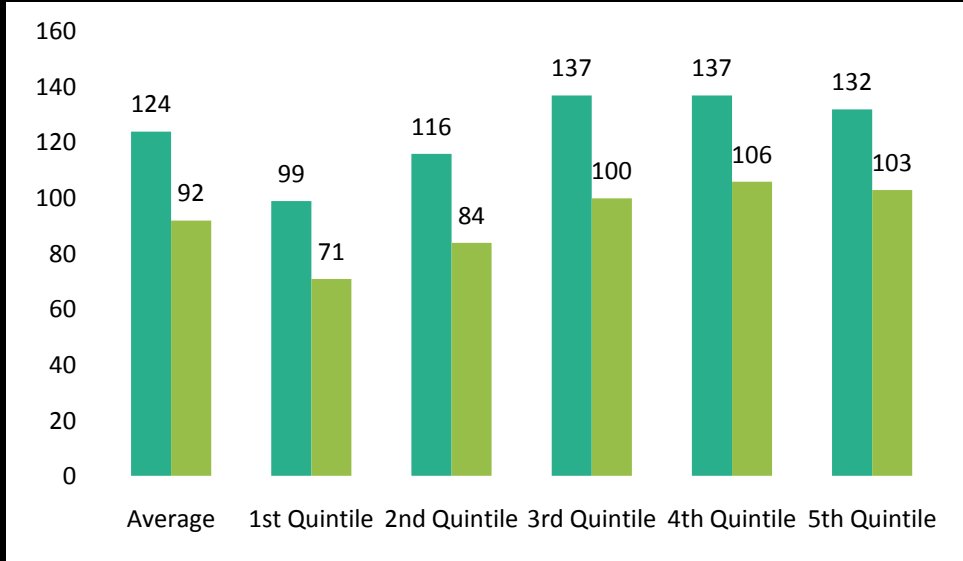
# Who bears the burden of increased tobacco taxes?

- Data: 2009 Family Income and Expenditure Survey (FIES); Price data (NSO)
- Step 1: Generate price elasticities of demand for packs – by income group - using a selection model (probit, OLS)

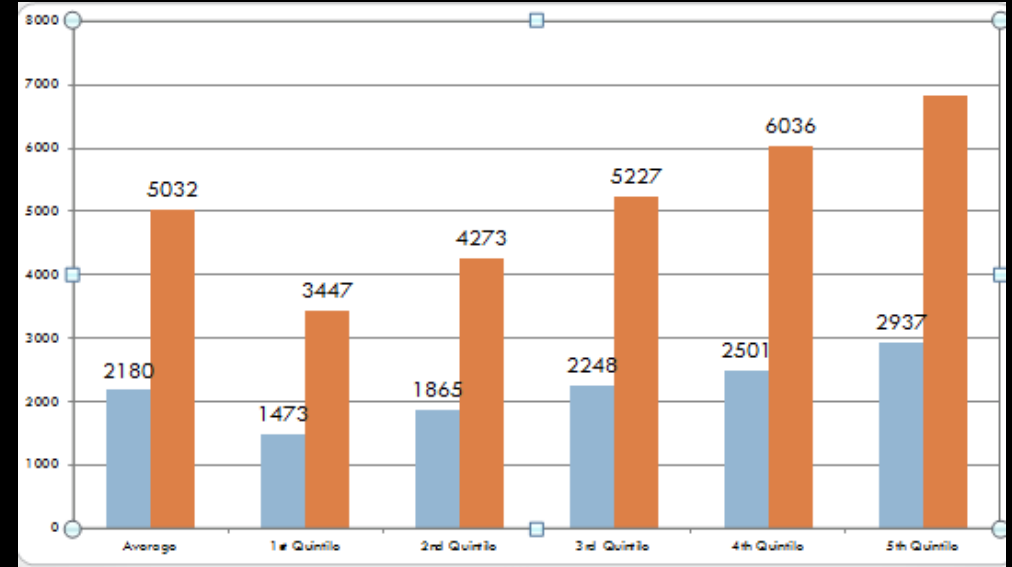
	Overall	Q1	Q2	Q3	Q4	Q5
Total price elasticity	-0.49	-0.61	-0.56	-0.51	-0.37	-0.29

- Step 2: Calculate new prices (end-2013) after tax increase
  - Low tier: 75.9% / Middle tier: 88.6% / High tier: 46.3%
- Step 3: Use income-specific price elasticities to obtain estimates of changes in packs consumed and taxes paid

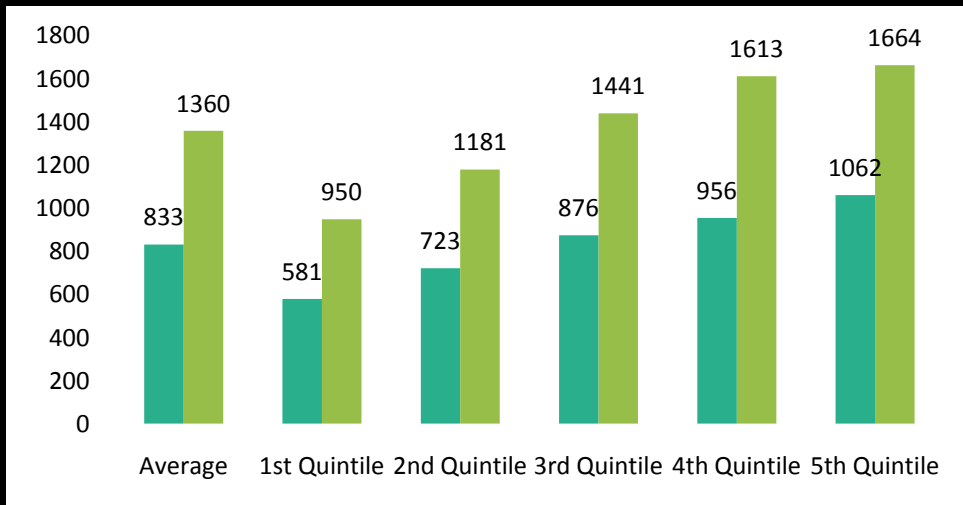
Prediction 1: Packs consumed per household per year



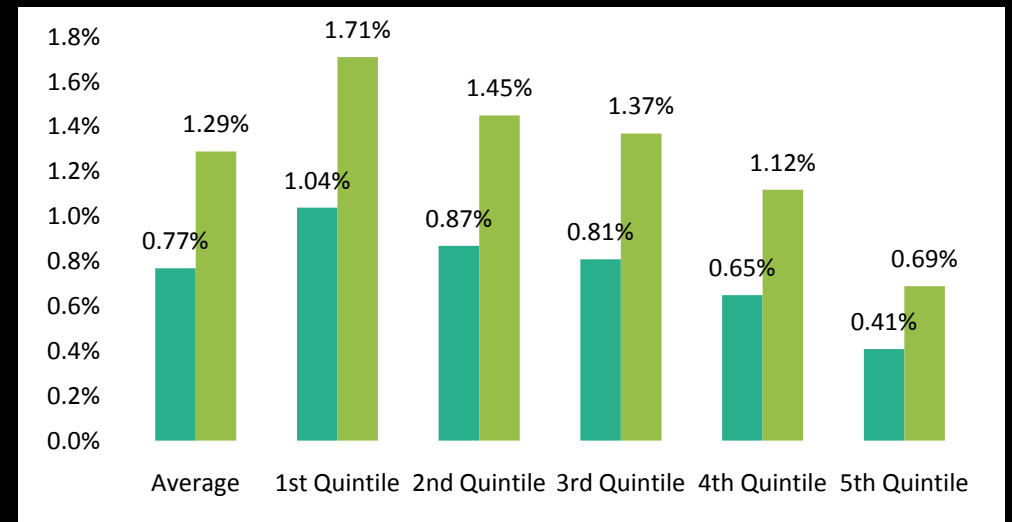
Prediction 2: Cigarette expenditure per household per year (pesos)



Prediction 3: Cigarette taxes paid per household per year (pesos)



Prediction 4: Cigarette tax as share of total expenditure

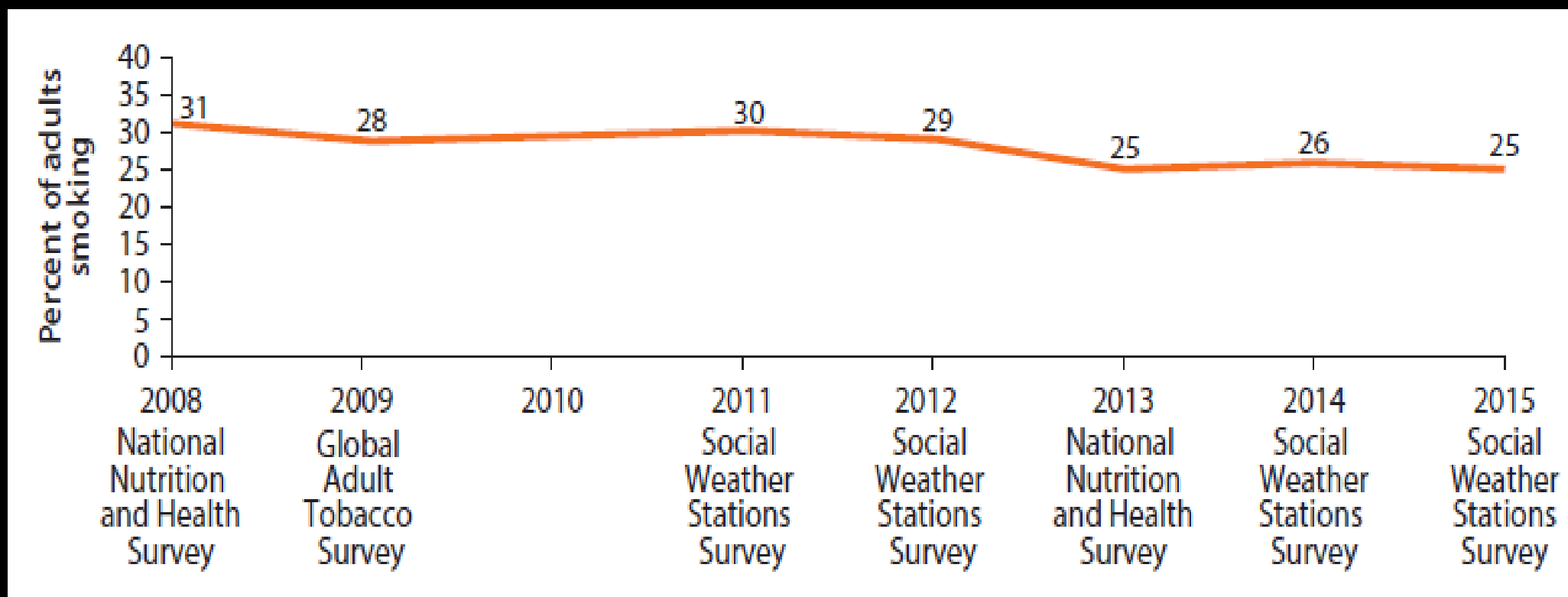


**Can earmarking for health offset the increased regressivity of tax incidence?**



# Examples of ex-post PSIA analysis

# Decline in smoking

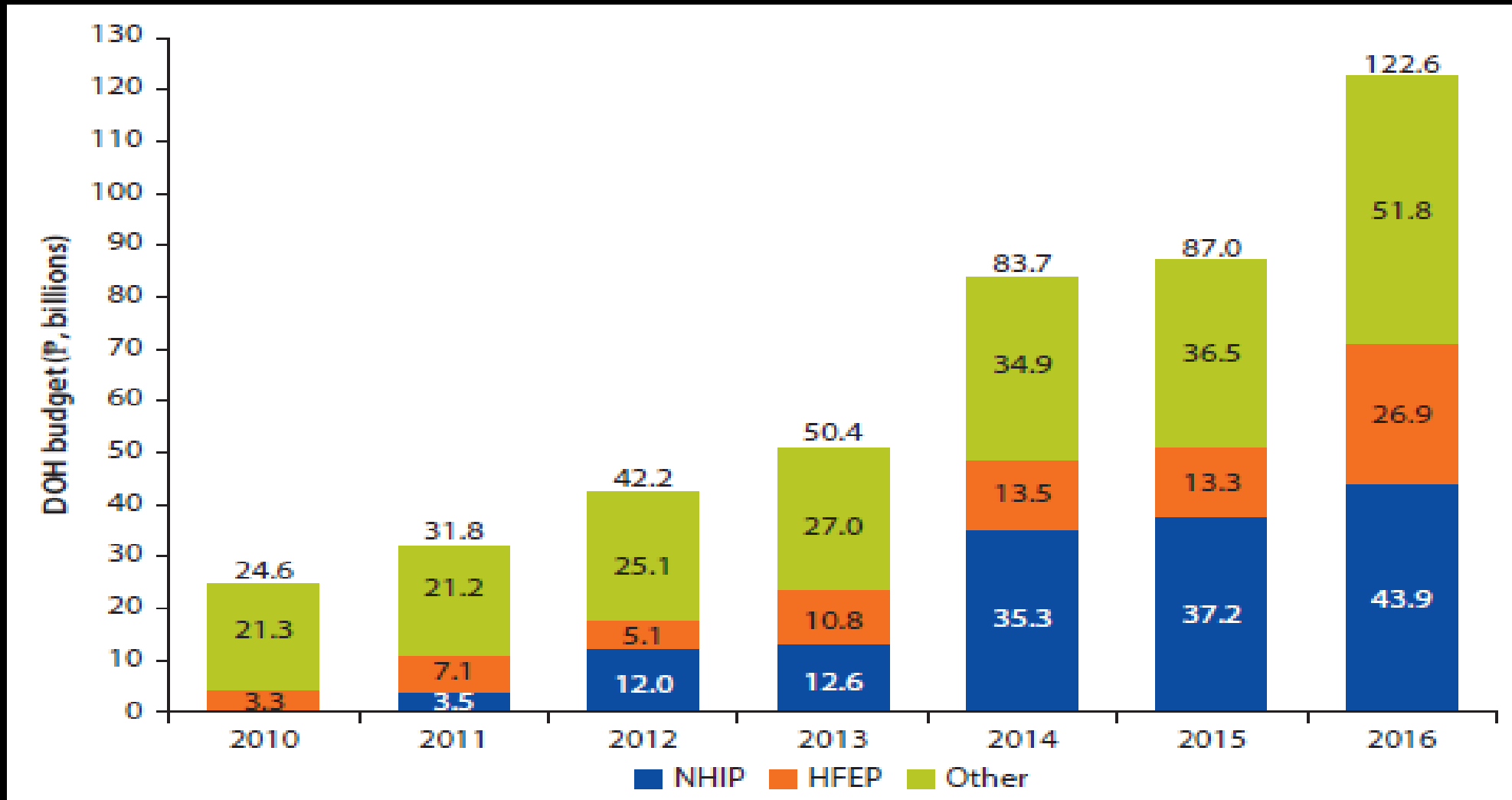


SWS surveys:

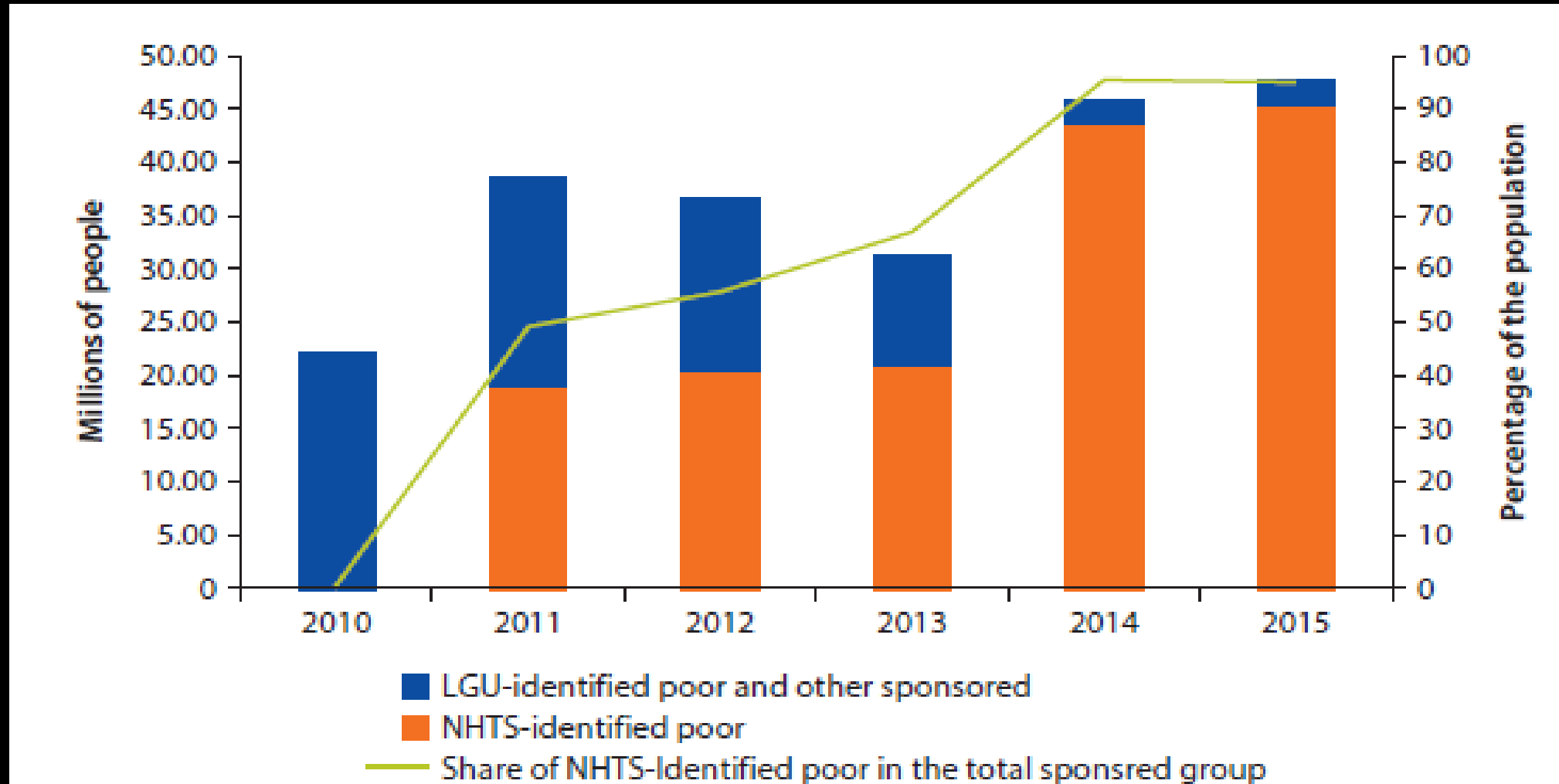
Even sharper reduction in smoking among the **youth** (18-24 years): 35% to 22%, between 2012 and 2015

Even sharper decline in smoking among the poorest (38% to 27%) than among the middle class (constant at 26%)

# Increase in health budget

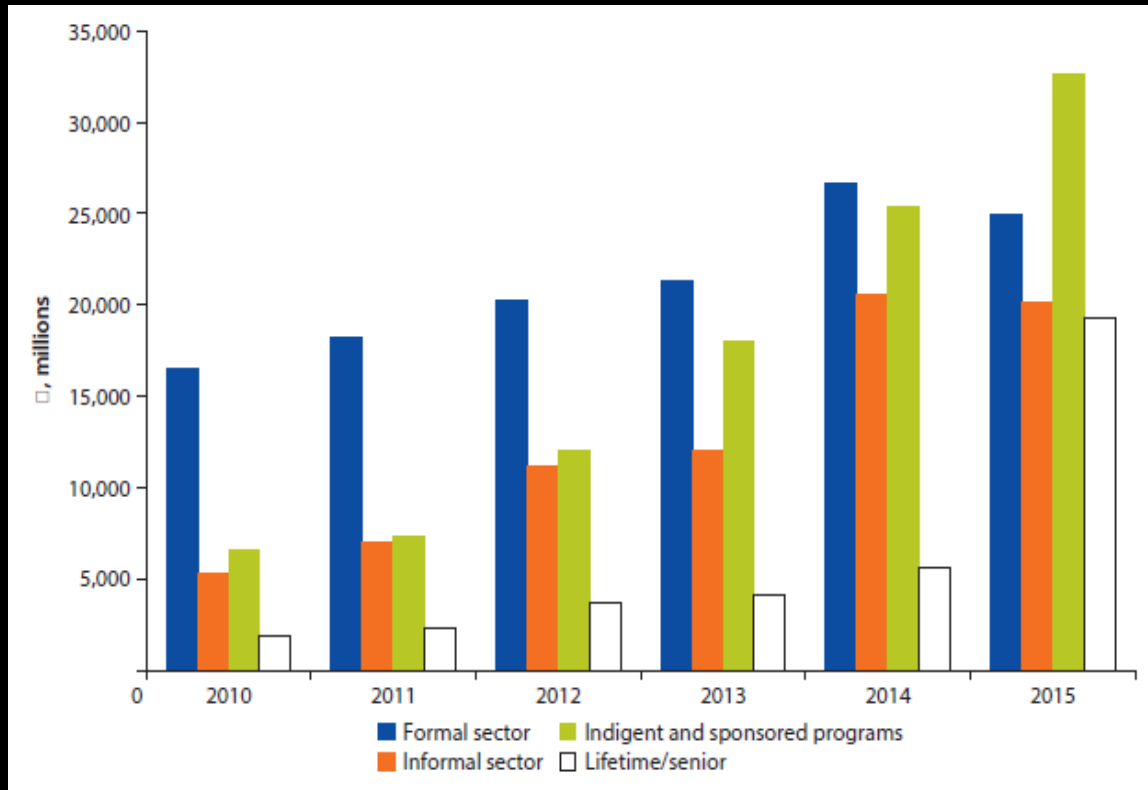


# Increase in coverage of the poor by free (government-subsidized) health insurance

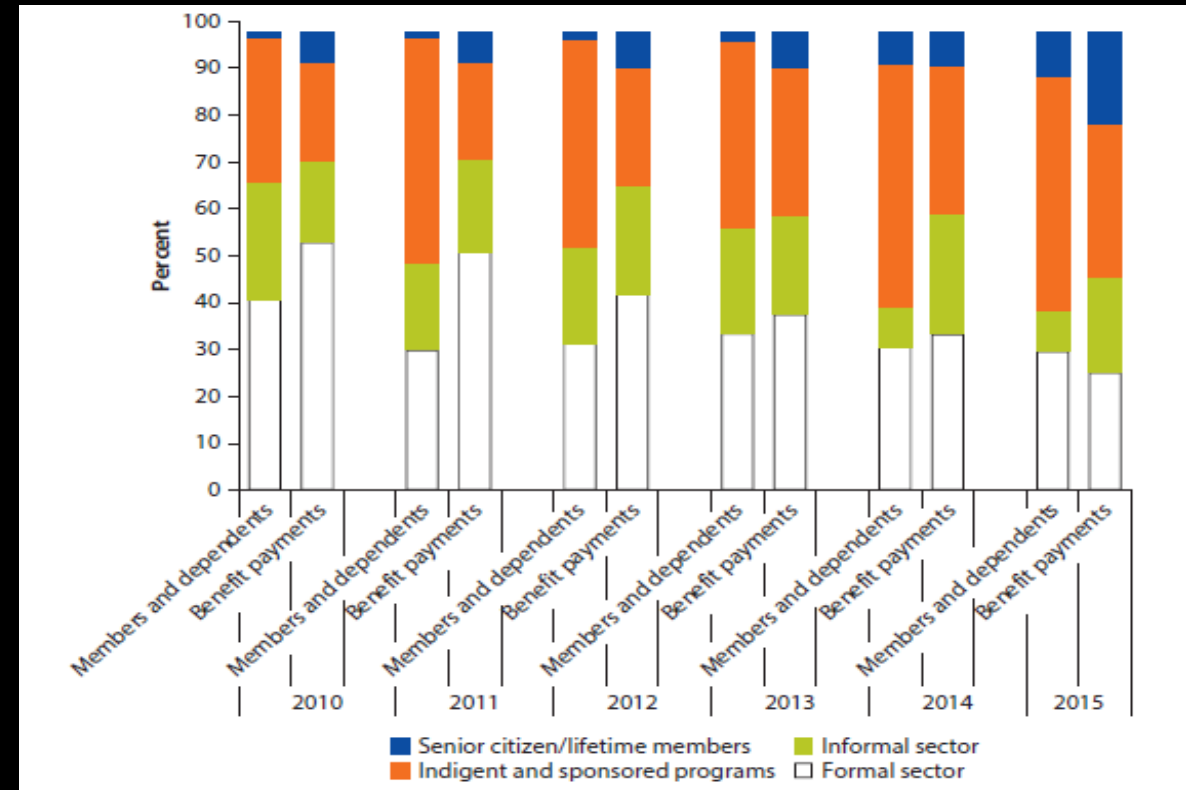


# Benefit payments to the poor are increasing, but they still get less than their share

## Number of PhilHealth claims



## Membership vs claims share



# Household survey analysis: do the poor know of their coverage and benefits?

- Do all those who are entitled know of their entitlement?
- Do all those who are entitled know of all the benefits for which they are eligible? And where do they get the information?
- Which of the poor have access to health insurance for the first time? Or is government subsidizing people who previously had other forms of coverage?

# What we do not yet know

- Has the increase in coverage translated into increased health service utilization among the poor?
  - Analyze household survey data to examine utilization patterns
- Was the incidence of taxation as regressive (as anticipated)?
  - Require the 2015 FIES survey (yet to be released)
- Did the benefits of the reform to the poor (in terms of health insurance coverage and facility access) outweigh the increased taxes?

# Reflections on role of poverty and social impact analysis in the Philippines sin tax reform

- Ex-ante poverty and social impact analysis
  - Debunk the myths
  - Figure out the magnitudes and how changes to reform features would affect the magnitudes
  - Develop strategies to compensate the losers
- Ex-post poverty and social impact analysis
  - Separate the allegations of the detractors from the facts
  - Inform implementation to ensure that shoddy policy implementation does not undermine good policy reform
  - Protect the reform for the future – and even advocate for further reform

