

Technical Cooperation Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Taxation policies and its effects on tobacco consumption
▪ TC Number:	RG-T3043
▪ Team Leader/Members:	Karen Astudillo, Team Leader (IFD/FMM); Alejandro Rasteletti (IFD/FMM); Alberto Barreix (IFD/FMM); Diana Pinto (SCL/SPH); Maria Fernanda Garcia (ORP/PTR); Claudia Ogialoro (ORP/GCM); Louis-Francois Chretien (LEG/SGO); and Diana Champi (IFD/FMM)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	n/a
▪ Date of TC Abstract authorization:	n/a
▪ Beneficiary:	Argentina, Brazil, Colombia, México and Perú
▪ Executing Agency:	Inter-American Development Bank
▪ Donors providing funding:	The Bloomberg Family Foundation Inc. ¹
▪ IDB Funding Requested:	US\$500,000.00
▪ Local counterpart funding, if any:	US\$0.00
▪ Disbursement period:	24 months (execution: 18 months)
▪ Required start date:	December 2017
▪ Types of consultants:	Individual
▪ Prepared by Unit:	IFD/FMM-Financial & Municipal Mgmt
▪ Unit of Disbursement Responsibility:	IFD/IFD
▪ TC Included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Social Inclusion and Equality and Institutional capacity and the rule of law

II. Objectives and Justification of the TC

II.1 Tobacco consumption and exposure is responsible for 6 million deaths per year worldwide. In Latin America, annual tobacco related mortality totals about 1 million people aged 30 to 70 years; thus, affecting economies and health systems in the region². Latin America spends approximately 0.5% of the region's GDP in health-related costs attributable to smoking, with some countries spending even more than 0.70% of their GDP; namely, Chile (0.86%), Bolivia (0.77%) and Argentina (0.70%). Latin America accounts for about 11% of the one billion smokers in the world and the prevalence of current tobacco smoking is about 17% slightly lower than the world's rate of 21%. However, considering that the region's population is 643 million—equivalent to 9% of the total's world's population of 7 billion, the prevalence of smoking of 17% is a cause of concern. Furthermore, some countries in the region have a very

¹ These funds will be administered by the IDB through a non-reimbursable project-specific grant (PSG). The Bloomberg Family Foundation Inc. will contribute US\$500,000. This PSG will be administered by the IDB pursuant to document SC-114. In accordance with that document, the commitment of The Bloomberg Family Foundation Inc. for the PSG will be established through a separate Administrative Agreement.

² PAHO. Pan American Journal of Public Health. Vol. 40, No. 4, October 2016.

high prevalence rate, such as Chile, where the prevalence rate is at about 40%. Evidence has demonstrated that smoking is a global health hazard and that has long-term health and economic implications affecting the world and the region. Furthermore, if current trends continue, tobacco consumption will kill more than 8 million people worldwide by 2030³.

- II.2 Tobacco consumption causes economic burden due to the negative effects in population's health. The total economic loss attributable to tobacco usage—from health expenditure and productivity losses together) will reach about US\$14 trillion over the next 20 years—or 1.8% of the world's annual GDP⁴. The economic toll and the ensuing reduction in productivity would likely increase poverty and hinder development. Specifically, in Latin America, the adverse consequences of smoking affect low- and middle-income countries where 11.4% of the world's smokers reside. PAHO's estimates that smoking related expenses consume US\$34 billion in the region's health annual budgets⁵.
- II.3 Tobacco taxation has the potential to reduce consumption, and generate revenue for governments to fund health programs and essential services. Indeed, tax and tax policies aimed at increasing consumer after-tax prices can effectively reduce tobacco consumption and alleviate the ensuing health related effects in the economy⁶. Empirical evidence on the effects of tobacco taxation on consumption in Latin America is recent and scarcer than in industrialized countries. However, a recent study on the financial impact of smoking on health systems in Latin America concludes that the use of revenue from taxes on tobacco products can strengthen health programs⁷. In Colombia, for example, the entire surcharge on cigarettes—10% over the retail price—is used for health insurance universalization, unification of contributory and subsidized health insurance regimes, and funding services for the poor population in areas not covered by subsidies. In Costa Rica, 60% of the collected revenue is used for the diagnosis, treatment and disease prevention associated with smoking, 20% is earmarked to the Ministry of Health to carry out control activities associated to tobacco's use, 10% goes to finance cessation programs of tobacco and derivatives use, and 10% is allocated to support sport activities. In Jamaica, 20% of the tobacco excise tax and 5% of the excise tax is earmarked to the Jamaican National Health Fund⁸.

³ Idem.

⁴ World Health Organization. WHO Report on the Global Tobacco Epidemic, 2015.

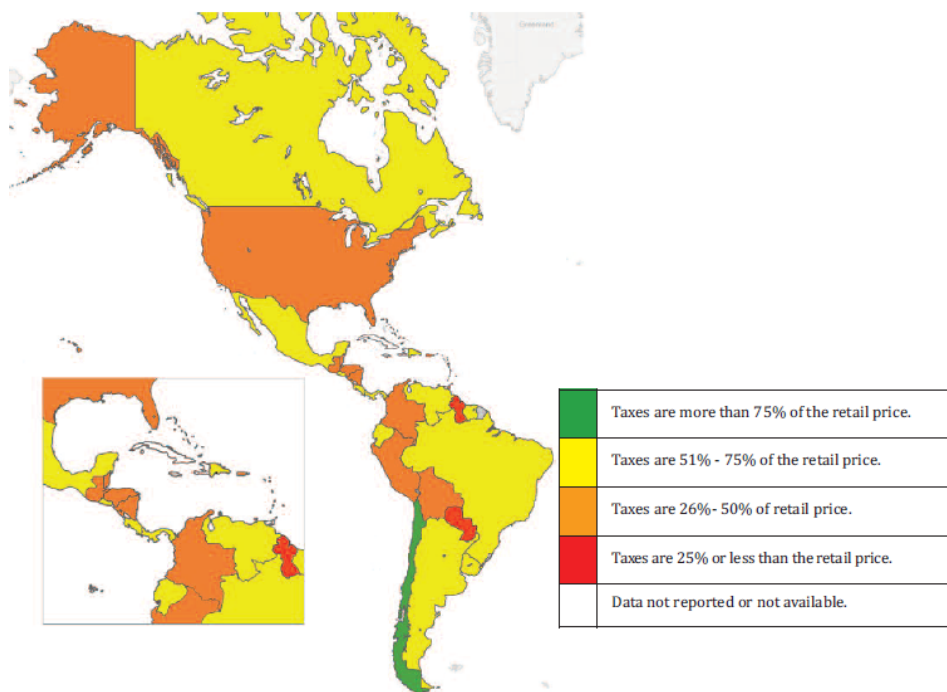
⁵ Pichon-Riviere A, Bardach A, Augustovski F, Alcaraz A, Reynales-Shigematsu LM, Teixeira Pinto M et al. Impacto económico del tabaquismo en los sistemas de salud de América Latina: un estudio en siete países y su extrapolación a nivel regional. *Rev Panam Salud Publica*. 2016;40(4):213-21

⁶ Idem.

⁷ PAHO. *Pan American Journal of Public Health*. Vol. 40, No. 4, October 2016.

⁸ Idem.

II.4 The figure below⁹ shows an overview of taxes on tobacco and its products in the Region.



II.5 Global efforts on tobacco control show the commitment of the international community to address the fact that tobacco use generates a substantial economic burden for society in general. The 2011 UN Declaration of the High-level Meeting of the General Assembly on the Prevention and Control of Non-communicable Diseases and the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals, highlight the imperative need to implement the WHO's Framework Convention on Tobacco Control (FCTC) by the FCTC Parties, where it is stated that the: "Higher direct health costs associated with tobacco-related disease, and higher indirect costs associated with premature loss of life, disability due to tobacco-related disease and productivity losses, create significant negative externalities of tobacco use." The IDB's intervention as proposed below will: (a) address the knowledge gaps on the economics of tobacco control in the Latin American region, (b) address the development issues of tobacco consumption such as increased productivity and increased fiscal revenues, and (c) align with the international community in its efforts to curtail tobacco consumption in Latin America.

II.6 The IDB proposes to carry out case studies in selected countries that will build upon the work that is being carried out by WHO and PAHO¹⁰ in tobacco tax policies. WHO's best practices in tobacco tax policy includes a simple tax system that applies

⁹ Pan American Health Organization. Report on Tobacco Control for the Region of the Americas. WHO Framework Convention on Tobacco Control: 10 Years Later. Washington, DC, 2016.

¹⁰ Sandoval RC, Belausteguigoitia I and Hennis A. The case of tobacco taxation: where we are and how to accelerate its use for public health. Rev Panam Salud Publica. 2016;40(4):200–1.

equivalent taxes to all tobacco products, with the total tax share representing more than 75% of the retail sale price, and the portion of that corresponding to excise taxes representing at least 70% of the final retail price¹¹. PAHO's research has demonstrated that although tax policies are the most effective intervention to discourage tobacco use, the Latin American region has been slow to implement such policies. To illustrate, WHO reports that no country has reached the 70% excise tax share threshold recommended in the WHO Technical Manual on Tobacco Tax Administration, and only one country (Chile) has reached the highest category of achievement described in the WHO Report on the Tobacco Epidemic, marked by a threshold of at least a 75% share of total tobacco taxes in the retail price of the most widely sold brand of cigarettes¹². Meanwhile, there are 13 countries in the second highest category of achievement, 14 countries in the third highest category of achievement, and five countries in the lowest category of achievement, where the respective thresholds are a 51-75%, 26-50%, and 0-25% share of total tobacco taxes in the retail price of the most widely sold brand¹³. In this context disseminating robust evidence on the economics of tobacco control that could facilitate dialogue with officials beyond the health sector could contribute in accelerating implementation of the FCTC's mandate related to tobacco taxes. This IDB's research will complement PAHO's research in five countries in the region where there are information gaps emanating from not enough evidence or for which the evidence has been limited to a few countries: (i) tobacco demand analysis, as the need for high quality studies estimating the country-specific price elasticities of demand for tobacco products continues to exist in many countries; (ii) equity issues related to tobacco, as there is limited regional evidence on the differential effects of the tobacco economics across different populations within countries; and (iii) cost of the epidemic, as studies estimating the country-specific cost of the epidemic.

- II.7 The general objective of this project is to carry out case studies in countries that have recently implemented changes in tobacco taxes to assess the effects that these changes have had in consumption. These case studies will illustrate practices that have a positive impact so as to inform policy makers in shed some light about on the potential of implementing taxes to decrease tobacco consumption, as well as to fund social security (or health services, etc.). In this context, the criteria to select the countries to be included¹⁴ in this study are representative of the Latin American region in which they have had similar policy changes: Argentina, Mexico, Colombia, Peru, and Brazil.

¹¹ World Health Organization. WHO Technical Manual on Tobacco Tax Administration. WHO: Geneva; 2010.

¹² World Health Organization. WHO report on the global tobacco epidemic, 2015: raising taxes on tobacco. WHO: Geneva; 2015.

¹³ World Health Organization. WHO report on the global tobacco epidemic, 2015: raising taxes on tobacco. Appendix IX. WHO: Geneva; 2015.

¹⁴ Final countries for case studies will be chosen in consultation with The Bloomberg Family Foundation Inc.

II.8 This TC is consistent with the Update to the Institutional Strategy 2010-2020 (AB-3008) and is aligned with the development challenge of Social Inclusion and Equality because the results of the research will complement current evidence that smoking is a global health hazard and that has long-term health and economic implications affecting the world and the Latin American region and the inclusion of tax policies that will affect tobacco consumption. The TC is also aligned with the cross-cutting theme of Institutional Capacity and Rule of Law through the strengthening of tax revenues and quality of expenditure in health matters related to tobacco consumption. Finally, this TC will contribute to the Corporate Results Framework's (CRFs) 2016-2019 (GN-2727-6) indicator related to the improvement of provision of public services.

III. Description of components/activities and budget

- III.1 The IDB will consult and will work with the respective units of the Ministries of Finance in each of the target countries. The project team will maintain a constant dialogue and meetings through FMM's specialists located in the respective Country Offices.
- III.2 **Component 1: Potential of revenues through excise taxes.** Specifically, this component will finance five case studies that will be developed through the following activities: (i) tobacco demand analysis; (ii) country specific demand elasticities; (iii) equity issues related to tobacco as there is limited regional evidence on the differential effects of the tobacco economics across different populations within countries; and (iv) cost of tobacco consumption on health. The analysis would also answer the question "What will be the impact on consumption and revenues?". The analysis would include policy implications, discussions and recommendations.
- III.3 **Component 2: Policy dialogue promotion.** This component will promote the policy dialogue with the relevant policy makers to tackle tobacco consumption through taxation policies. Specifically, the activities to be financed are six workshops where the results of the case studies will be presented to selected policy makers. There will be five national workshops one in each selected country (Argentina, Mexico, Colombia, Peru and Brazil). These workshops will be a platform to present and validate results of the case studies. There will be one regional workshop which will take place in a country to be selected later during project execution (Argentina, Mexico, Colombia, Peru or Brazil). This regional workshop will be the platform to present the results of the five national workshops to key stakeholders in the region.
- III.4 **Component 3: Dissemination.** This component will carry out activities conducive to the drafting of a monograph that will compile the research conducted in Component 1 and the input garnered from Component 2. This monograph will serve as a guide to future public policy decisions regarding tobacco consumption in the Latin American Region.
- III.5 To conduct the three components described above, the IDB will upon research carried out by PAHO that includes a systematic review on the impact of price and taxes on

the use of tobacco in Latin America and the Caribbean, which concludes that tax increases are an effective tool for reducing demand, but notes that the lack of individual-level data in the Region limits the policy relevance of studies. By building upon available evidence within these topics, the IDB will contribute to strengthen evidence-based tobacco control policies to reduce consumption and existing weaknesses in the body of work on the economics of tobacco within the region that includes gaps of information, advances of implementation of tax policies, and best practices.

Indicative Budget (US\$)

Component	IDB/PSG Funding
Component 1	280,000
▪ Expert to apply tool kit in selected countries to identify information gaps	60,000
▪ Country case studies in five selected countries that provides estimates of the impact of tobacco in health and economic costs	150,000
▪ Experts to peer review country case studies (external)	30,000
▪ Update data in demand analyses	40,000
Component 2	120,000
▪ Five national workshops	90,000
▪ One regional workshop	30,000
Component 3	75,000
▪ Monograph that compiles the research conducted and workshop's results	75,000
Fee 5%	25,000
Total	500,000

III.6 The Bloomberg Family Foundation Inc.¹⁵ expects to commit US\$500,000 to this project. The Bank shall work with the Donor and its partners to maximize ongoing media opportunities, where appropriate for the Program and its efforts, prior consultation with the donor.

III.7 Resources of this project to be received from The Bloomberg Family Foundation Inc. will be provided to the Bank through a Project Specific Grant (PSG). A PSG is administered by the Bank according to the "Report on COFABS, Ad-Hocs and CLFGS and a Proposal to Unify Them as Project Specific Grants (PSGs)" (Document SC-114). As contemplated in these procedures, the commitment from The Bloomberg Family Foundation Inc. will be established through a separate administrative arrangement. Under such arrangement, the resources for this project will be administered by the Bank and the Bank will charge an administrative fee of 5% of the contribution, which is duly identified in the budget of this project. The 5% administrative fee will be charged after the contribution has been received.

¹⁵ To reverse the global tobacco epidemic, The Bloomberg Family Foundation Inc. Initiative supports adoption of the MPOWER interventions, all of which are proven to be effective: 1. Monitor tobacco use and prevention policies; 2. Protect people from tobacco smoke; 3. Offer help to quit tobacco use; 4. Warn about the dangers of tobacco; 5. Enforce bans on tobacco advertising, promotion and sponsorship; 6. Raise taxes on tobacco. BI also supports work to expose tobacco industry wrong-doing and to draw attention to the tobacco industry's tactics.

IV. Executing agency and execution structure

- IV.1 The TC will be executed by the Bank, through IFD/FMM. The Bank, Project Team Leader and other FMM staff involved both in Headquarters and in the respective Country Office of each country involved in this study, have experience in the activities planned in this TC therefore making them qualified to select and hire consulting services required to carry out the planned activities. The Bank, as executing agency of this regional TC, will be able to also ensure that products meet the appropriate quality standards and their applicability to other countries in the region and provide both technical and operational advice.
- IV.2 The activities of this TC require to hire individual consultants. The hiring of these consultants will follow the guidelines established in the policy AM-650. In the event that the hiring of a consultancy firm becomes necessary, this procurement will follow policy GN-2765-1. The procurement of services other than consultancies will follow the guidelines established in the corporate procurement policy GN-2303-20.
- IV.3 The project team leader will be responsible for the preparation and submission to the donor of the project reporting in compliance with the stipulation of the Administration Agreement.
- IV.4 If at the end of project execution, the project is closed with a positive uncommitted and unspent balance, the project team will be responsible for informing ORP/GCM to transfer the unspent balance as agreed to by the donor and the Bank pursuant to the terms of the PSG Administration Agreement.

V. Risks

- V.1 No large risks are foreseen since the nature of this TC is to create a study. However, one possible risk could be the insufficient quality and availability of first hand information from the selected countries. To mitigate this risk, the Bank will complement with alternative sources of information, such as the Latin American Clinical Epidemiology Network's (LatinCLEN) Tobacco Research Group and the Institute for Clinical Effectiveness and Health Policy (IECS), and the World Bank, PAHO and WHO. Another possible risk is the lack of interest from the possible selected countries in participating in the case studies. To mitigate this risk, the Bank will meet with the responsible units in the Ministries of Finance to garner support and secure participation. In the extreme case that a country doesn't wish to participate, the IDB in consultation with The Bloomberg Family Foundation Inc., will select another country that is representative of the Latin American region in which they have had tobacco related policy changes.

VI. Exceptions to Bank policy

- VI.1 None

VII. Environmental and Social Strategy

VII.1 No adverse environmental impact is expected from this TC. Therefore, it is recommended that this TC is classified as category “C”.

Required Annexes:

[Annex II: Results matrix - RG-T3043](#)

[Annex III: Terms of Reference - RG-T3043](#)

[Annex IV: Procurement Plan - RG-T3043](#)

TAXATION POLICIES AND ITS EFFECTS ON TOBACCO CONSUMPTION

RG-T3043

CERTIFICATION

I hereby certify that this operation was approved for financing under Cofinancing Special Grants (COF) through a communication dated 11/28/2017 and signed by Ogialoro, Claudia. Also, I certify that resources from said funds are available for up to **US\$500,000.00** in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of **four (4) calendar months** counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

Certified by: Hertz, Kai on behalf of Rivera, Sonia M.
GCM Chief
Grants and Co-Financing Management Unit
ORP/GCM

12/20/2017
Date

Approved by: Fretes Cibils, Vicente
Division Chief
Financial & Municipal Mgmt
IFD/FMM

12/20/2017
Date