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INNOVATIVE FINANCING MECHANISMS: POTENTIAL SOURCES OF FINANCING THE WHO TOBACCO CONVENTION

Deborah Ko Sy, Nirmalya Syam and Germán Velásquez

RESEARCH PAPERS

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INNOVATIVE FINANCING MECHANISMS: POTENTIAL SOURCES OF FINANCING THE WHO TOBACCO CONVENTION[1]

Deborah Ko Sy[*], Nirmalya Syam[#] and Germán Velásquez[♣]

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ABBREVIATIONS AND ACRONYMS

AIDS	Acquired Immunodeficiency Syndrome
CTT	Currency Transaction Tax
DAP	Drugs Action Programme
DSF	Digital Solidarity Fund
EWG	Expert Working Group on Research and Development: financing and coordination
FCTC	WHO Framework Convention on Tobacco Control
FTT	Financial Transaction Tax
GEF	Global Environmental Facility
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GPGs	global public goods
HIV	Human Immunodeficiency Virus
IAs	Implementing Agencies
ICTs	information and communication technologies
IFMs	innovative financing mechanisms
LCT	Luxury Car Tax
MSA	Tobacco Master Settlement Agreement
NCDs	Non-communicable diseases
NPMs	Non-Participating Manufacturers
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OPMs	Original Participating Manufacturers
SMS	short messaging system
SPMs	Subsequent Participating Manufacturers
STC	solidarity tobacco contribution
STL	solidarity tobacco levy
TRTP	Tax on Repatriated Tobacco Profits
TTCs	transnational tobacco companies
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UNEP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change

VSC	Mobile Phone Voluntary Solidarity Contribution
WHO	World Health Organization
WSIS	World Summit on the Information Society
WTO	World Trade Organization

I. INTRODUCTION AND OBJECTIVES

This research paper is produced as part of a research being conducted by the South Centre on expanding fiscal policies for global and national tobacco control. The objective of this research is to identify innovative solutions to fill the funding gaps in the implementation of the WHO Framework Convention on Tobacco Control (FCTC). In this context, the analysis in this paper could be useful for the Working Group on Sustainable Measures to Strengthen the Implementation of the WHO FCTC, in its deliberations around resource mobilization and developmental cooperation. Ideas and mechanisms for generating additional funding may be spawned from a review of the popular forms of non-traditional financing mechanisms that have been aimed at mobilizing resources for developmental programmes. Innovative financing mechanisms have generated considerable interest for financing health systems, and in that context there may be scope for exploring the potential for innovative financing mechanisms for tobacco control.

Non-traditional means of raising and disbursing funds for development have been called “innovative financing for development.” Because this terminology is used differently in different contexts, it is so broad that it evades a precise definition. For this paper, it has two separate definitions:

a. For new means of financing that refer to **global activities** such as – in the context of tobacco funds for cooperation or joint activities with multilateral agencies such as the FAO, WCO, etc. or funding incremental FCTC Secretariat’s activities; “innovative financing” will refer generally to funding and mechanisms that depart from the traditional approaches in developmental cooperation such as those customarily channelled bilaterally or multilaterally, including the provision of extra-budgetary contributions for global activities/grants through the international agencies (such as the FCTC Secretariat and WHO-Tobacco Free Initiative (TFI)). Examples of innovative financing for global activities will be discussed under the chapter on Current Practices and Proposed Mechanisms for Global Activities.

b. For new means of financing that refers to **country-level activities** such as—in the context of tobacco—funds for tobacco control advocacy and research in the country, “innovative financing” will refer generally to funding and mechanisms that depart from the traditional sources such as the general budget, the national appropriations system, or the grants received through traditional mechanisms such as government, foreign government aid agencies, WHO-TFI or FCTC Secretariat, or development assistance through the private sector, NGOs, and its conduits such as medical associations, Bloomberg Philanthropies, Gates Foundation, etc. Examples of innovative financing for country level activities will be discussed under the chapter on Potential Sources of Funds for Treaty Implementation at Country Level.

It is worth stressing, however, **that innovative financing for country level activities can also be used to fund global activities**, either directly through traditional channels, for instance, as a voluntary contribution to a multilateral agency or through new mechanisms set up to efficiently administer and pool funds.

To simplify the discussion, this paper focuses on well-known innovative financing mechanisms that pool new or **additional funding or tap new sources of funds** while omitting those that focus on various means to deliver Official Development Assistance (ODA) funds and those that refer to the granting of loans. This is not to suggest that the latter are less viable or welcome sources of financing but only to focus one's attention on new opportunities that other developmental issues have considered and that have already yielded additional funding and success stories in some sectors.

II. METHODOLOGY

The research was conducted by a team comprising a lead research consultant and two researchers from the South Centre. Qualitative research methods were employed in gathering data for the review of related literature. Specifically, an online library research was conducted using Georgetown University's off-campus online portal. It took four months to accomplish the online search and literature review, starting from October to November 2012 for the first batch of reference materials, and then from May to June 2013 for the supplementary reference materials. Google Scholar was also used for the auxiliary data search.

Permutations of key terms were used in doing the online research (e.g., "innovative," "financing mechanisms," "health," and "tobacco control"), yielding a number of reference materials which were later sorted and narrowed down in terms of relevance, quality, and recentness of publication.

The first batch of online research produced at least ten (10) key reference materials comprehensively discussing the topic on innovative financing mechanisms (IFMs). This included publications by WHO, UNDP, UN Department of Economic and Social Affairs, and the Taskforce on Innovative International Financing for Health Systems.

After sifting through these materials, a snowballing technique was employed in looking for other ancillary references, as well as a purposive search of specific IFMs, taking into account their sources and purposes; classifications (existing or proposed); amounts collected and budgeted; mechanisms of fund administration, collection, and allocation; institutional backings and partners; success factors; and, other notable features.

Some IFMs, like the global financing mechanisms (e.g., GEF, Global Fund, UNITAID), required direct visits to their official websites for data gathering and updating. Cross-referencing was used for all IFM searches to ensure reliability and validity of data.

To present the data in a systematic format for analysis, a comparative matrix was utilized to show the vital aspects of the IFMs in terms of their general description/ objectives, pertinent details on the mechanisms, general assessment including advantages, and disadvantages.

III. CURRENT PRACTICES AND PROPOSED MECHANISMS FOR GLOBAL ACTIVITIES

A. Global Financing Mechanisms

1. Global Environmental Facility Trust Fund[2] (Public/Government Fund)

a. General Description/Objective

The GEF "refers to the totality of legal, institutional, and procedural arrangements that regulate and make possible the flow of financial resources"[i] as mandated by the United Nations Framework Convention on Climate Change (UNFCCC).[3]

Established in 1991, the Global Environment Facility (GEF) is composed of 183 member governments whose purposes are mainly: (1) to address environmental issues at the global level; and, (2) to assist in carrying out sustainable development initiatives at the country level.

b. Pertinent Details

Institutionally, the GEF is governed by the GEF Council composed of 32 countries chosen from the assembly of member countries and representing the following country categories: 16 developing countries, 14 developed countries, and 2 from Central and Eastern Europe and the former Soviet Union.

Funding for the GEF Trust Fund is collected based on pledges of donor countries,[4] replenished every four years, and utilized to finance strategic programme thrusts identified during the replenishment discussions.[5]

After five replenishment periods, the GEF has collected a total of $15.225 billion.

The United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP), and the World Bank serve as the implementing agencies of the GEF, with the latter serving as its Trustee and providing administrative services.

Partner agencies in implementing GEF-financed activities are the UN Food and Agriculture Organization, the UN Industrial Development Organization, the African

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[2] Data in this section were derived mainly from the official website of the Global Environment Facility: http://www.thegef.org/gef/home.

[3] Aside from providing fresh and supplementary grant and concessional financial assistance for the implementation of the UNFCCC, the GEF likewise supports the implementation of other international conventions, such as the Convention on Biological Diversity (CBD), Stockholm Convention on Persistent Organic Pollutants (POPs), and the UN Convention to Combat Desertification (UNCCD).

[4] At present, there are thirty-nine (39) donor countries, namely: Argentina, Australia, Austria, Bangladesh, Belgium, Brazil, Canada, China, Côte d'Ivoire, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, India, Indonesia, Ireland, Italy, Japan, Republic of Korea, Luxembourg, Mexico, Netherlands, New Zealand, Nigeria, Norway, Pakistan, Portugal, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, and the United States.

[5] Priorities supported by the GEF include: (1) biological diversity; (2) climate change; (3) international waters; (4) land degradation, primarily desertification and deforestation; (5) ozone layer depletion; and (6) persistent organic pollutants.

Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank, and the International Fund for Agricultural Development.

c. General Assessment

As a significant source of large-scale funding for conservation projects, the GEF has supported various institutions coming from both public and private sectors and civil society organizations. According to the Conservation Finance—an international alliance of individuals and institutions involved in the sustainable financing of biodiversity conservation—the GEF also finances Conservation Trust Funds, and "supports other innovative finance mechanisms, such as environmental investment funds, and is currently examining other innovative opportunities for deploying its capital".[ii]

A major weakness of the GEF is its heavy reliance on the voluntary monetary contributions of donor countries. The Conservation Finance pointed out that its short-funding cycle constrains its potential to attain sustainability of funding,[iii] and identified four other weaknesses, as follows:

- "Can take a long time (three years or more) and significant commitment of resources to secure funding, particularly for full-size projects.
- The diverse range of actors involved in the project cycle can make project approval a complex process.
- Project proponents must learn to successfully negotiate complex project development procedures of Implementing Agencies (IAs).
- Only incremental costs related to realizing global biodiversity benefits are funded directly."[6]

2. The Global Fund to Fight AIDS, Tuberculosis and Malaria[7] (Public-Private Fund)

a. General Description/Objective

Established in 2002, the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) is a public-private partnership and an international financing institution seeking to attract and allocate additional resources for the prevention of HIV/AIDs, tuberculosis and malaria. Dependent mainly on voluntary financial contributions from governments, private sector, social enterprises, philanthropic foundations, and individuals, the GFATM as of mid-2012 has a total approved funding of US$ 22.9 billion supporting more than 1,000 programmes in 151 countries.

Since its inception, the GFATM has been able to draw mostly public sector pledges amounting to US$ 28.3 billion. This amount roughly represents 95 per cent of total pledges to the Fund, while the remaining 5 per cent (or US$ 1.6 billion) has been sourced from the

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[6] Full text sourced from www.conservationfinance.org/guide/guide/images/global_e.doc (last visited 22 May 2013).

[7] Data in this section was derived mainly from the official website of the GFATM: http://www.theglobalfund.org/en/.

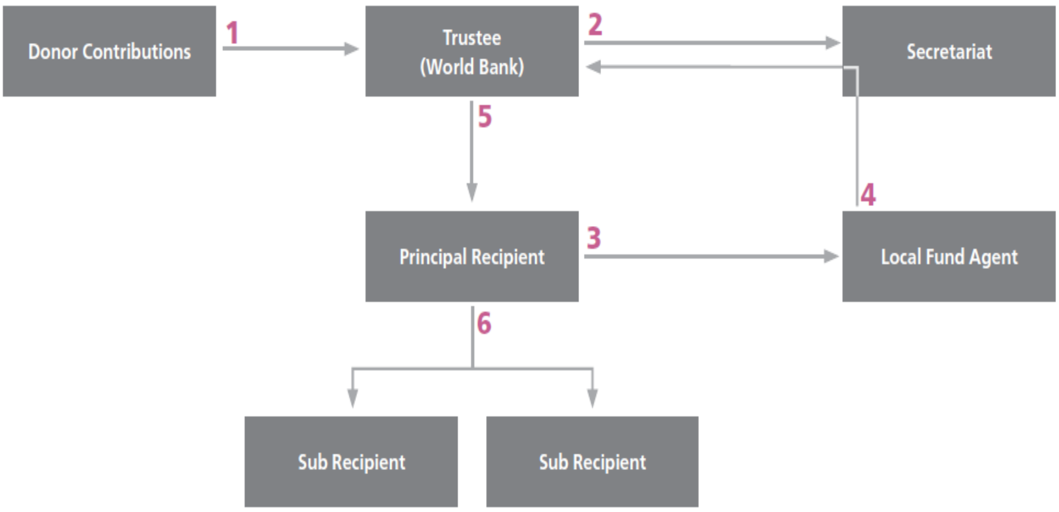
private sector and other financing initiatives. Donor pledges were made by a total of 54 donor countries which have paid a total of US$ 17.2 billion thus far.

b. *Pertinent Details*

In 2005, the GFATM adopted a voluntary replenishment model to enhance "the reliability and regularity of income streams and to ensure sustained and predictable support to countries".[iv] Every three years, a pledging conference is conducted to enable public and private sector donors to commit their assistance to the Fund. Aside from this, ad hoc pledges and contributions are additionally received outside the pledging conferences.

The GFATM is governed by the Global Fund Board composed of representatives from donor and recipient governments, civil society organizations, private sector, foundations, and communities affected by the three identified diseases. Its Secretariat administers the grant portfolio, screens submitted proposals, issues instructions for fund disbursement to grant recipients, and conducts performance-based funding of grants.[8] Serving as GFATM's Trustee since 2002, the World Bank is responsible for the GFATM's financial accountability on fund collection, disbursement, investment, and reporting.

The figure below shows how donations to the GFATM flow from donors to recipients.



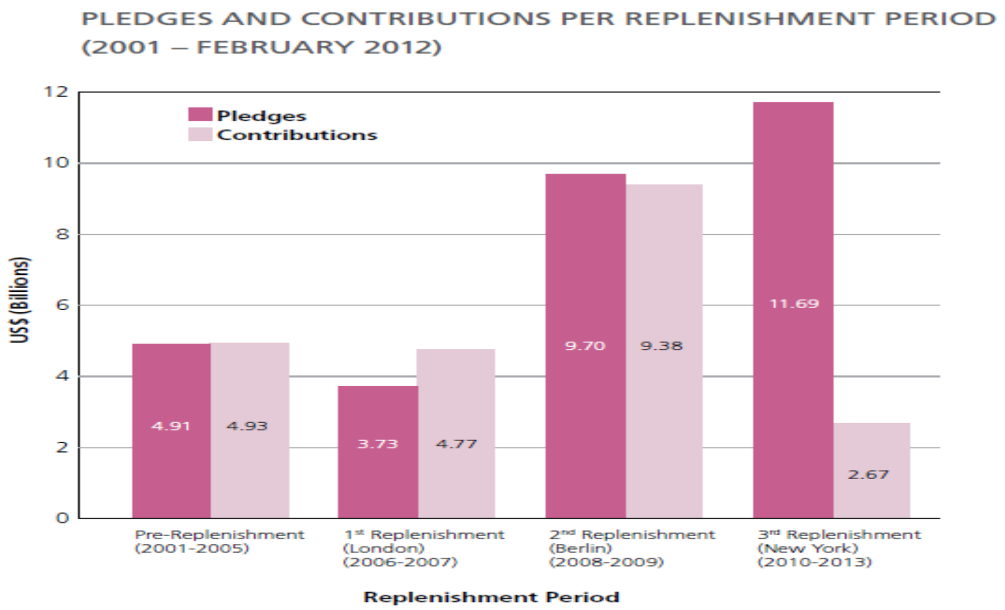
Source: The Global Fund to Fight AIDS, Tuberculosis and Malaria. Governance Handbook: Financial Resources Mobilization, Management and Oversight.

Only official contributions of member countries to the Fund are considered official development assistance (ODA).[v]

[8] The Global Fund's resources are allocated based on proposals from low-income countries. Allocation is basically performance-based, i.e., its fund recipients should establish measureable and successful results to enable them to receive additional financial support. [Source: Girishankar, Navin (2009). *Innovating Development Finance: From Financing Sources to Financial Solutions*. The World Bank. Policy Research Working Paper 5111].

c. General Assessment

The charts below show the pledges and actual contributions to the GFATM since 2001. Although the total financial pledge was high during the 3rd replenishment period in October 2010, the GFATM noted that they "fell short of estimated resource needs to scale up the response to the three diseases during the 2011-2013 calendar period, and some pledges have proven difficult to materialize into contributions in a timely manner."[vi]



Source: The Global Fund to Fight AIDS, Tuberculosis and Malaria. Governance Handbook: Financial Resources Mobilization, Management and Oversight

SRGIC
Source: Investments for Impact: Global Fund Results Report 2012.

In May 2011, the GFATM reported that it was short of US$ 1.3 billion to cover minimum estimated needs for the period 2011 to 2013. Since 2002, the annual conversion of pledges into contributions as scheduled has dropped from 100 per cent to 89 per cent in 2008 and to 79 per cent in 2010 and 2011. This reduction, however, reflects only delays in payment rather than non-payment of donors,[vii] with the global financial crisis in 2008 as a major factor for the delay.

The GFATM was likewise hounded by corruption and fund misuse issues,[9] causing donor countries, like Sweden and Germany, to temporarily suspend donations to the Fund.[viii] With the resignation of its General Manager in January 2012, the GFATM is expected to initiate reforms to ensure more financial transparency and accountability.

In evaluating the Fund's allotment of resources for HIV programmes, Avdeeva et al. (2011) in their study entitled *The Global Fund's resource allocation decisions for HIV programmes* concluded that "prevention in most-at-risk populations is not adequately prioritized in most of the recipient countries."[ix] Consequently, its Board has adjusted its criteria in order to strategically target the most vulnerable populations.[x]

In 2005, Radelet and Caines also pointed out that the GFATM's mandate and organization have caused "difficulties in integrating with existing systems with different objectives, especially given its small secretariat and large number of client countries,"[xi] adding that its dependence on its partners to perform complementary functions has caused unexpected burden on the latter to allocate resources and to modify their own procedures.[xii]

3. UNITAID[10] (Public Funds from Specific Sources)

a. General Description/ Objective

The UNITAID is a global health initiative that seeks to "provide sustainable, predictable, additional funding"[xiii] to influence market functioning for the reduction of prices of medicines for the treatment of HIV/AIDS, Tuberculosis, and Malaria, thereby increasing their accessibility and supply for affected populations in low and middle-income countries.

b. Pertinent Details

The UNITAID's fund is generated mainly from international solidarity levy on airline tickets and augmented through "traditional multi-year budgetary contributions from bilateral partners and other donors."[xiv] Airline companies in donor countries are responsible for collecting airline ticket levy, which is added to a plane ticket's final price. The amount generated at the national level is then coordinated for allocation to the UNITAID's international purchasing facility.

Since 2006, UNITAID has collected approximately US$ 2 billion. Solidarity levy on airline tickets collected in nine (9)[11] out of 29[12] member countries account for two-thirds of

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[9] For example, media exposé about the US$ 25 million missing fund for community programs and corruption issues in a number of South African countries, like Djibouti, Mali, Mauritania, and Zambia

[10] Data in this section were derived mainly from the official website of the UNITAID: http://www.unitaid.eu/en/.

[11] As of 2012, these nine counties are Cameroon, Chile, Congo, France, Madagascar, Mali, Mauritius, Niger, and the Republic of Korea.

[12] Another literature mentioned 38 countries at present providing financial assistance and 23 countries contributing to UNITAID, with 15 countries implementing airline ticket levy. [Source: Bermudez, Jorge &

this amount.[13] The remaining one-third of its fund comes from traditional funding from donor governments (e.g., Brazil, Norway, Spain, and United Kingdom) and the Bill and Melinda Gates Foundation.

UNITAID is governed by a 12-member Executive Board[14] whose main functions are to decide on the utilization of its fund and to map out its future action plans. Its funding allocation prioritizes low-income countries with high-disease incidence and highly-at-risk populations,[15] with the following project cycle and management process being implemented to foster operational efficiency and effectiveness.

c. General Assessment

The UNITAID resource mobilization has been successful because it has attained its funding targets, collecting on average US$ 320 million annually from 2006 to 2011. As a pioneering innovative financing mechanism, the solidarity levy on airline tickets—deemed as sustainable and secure[xv]—can be considered "additional," "technically feasible," and a significant "proof of concept."[xvi]

Nonetheless, its overdependence on the performance of the air travel sector has made it highly susceptible to the aberrations in the global economy. In its 2012 report, the Center for Global Development noted that the UNITAID revenues had significantly dropped by 21 per cent from 2008 to 2009 due to the global economic crisis. Another weakness cited is its dependence on a narrow spectrum of donors, mainly France and the United Kingdom contributing 62 per cent and 16 per cent to its revenue from 2006 to 2011. High-income country donors, including the Bill and Melinda Gates Foundation, account for 95.8 per cent of the UNITAID's revenue, while low- and middle-income countries account for less than 5 per cent.[xvii]

B. Global Contributions from Tobacco Source (Proposed)

1. Proposed Solidarity Tobacco Levy (STL)

a. General Description/ Objectives

The solidarity tobacco levy (STL) is a "micro-tax" being proposed by the WHO-TFI to be imposed on each pack of cigarettes in order to fund non-communicable diseases (NCDs) and tobacco control both at the national and international levels,[xviii] particularly in low- and middle-income countries.[xix] The proposal was discussed during the 1st Global Ministerial

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Douste-Blazy, Philippe. "UNITAID." In *Innovative financing for development*. The I–8 Group Leading Innovative Financing for Equity (L.I.F.E.)]

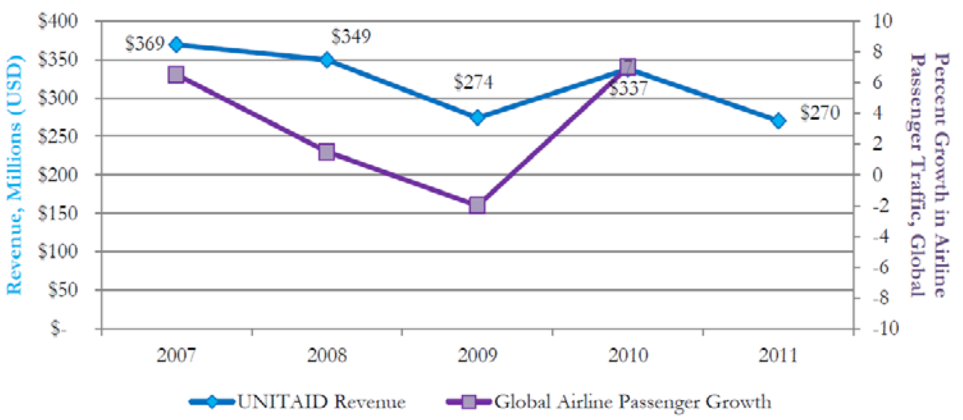
[13] France, one of the biggest contributors, had contributed about 90 per cent of its airline ticket levy collection to UNITAID (or US$ 997 million out of US$ 1.1 billion) for the period 2006 to 2011.

[14] Composed of six from Brazil, Chile, France, Norway, Spain, and the United Kingdom, 1 from Africa, 1 from South Korea, 2 from civil society organizations coming from communities affected by HIV/AIDS, TB, and Malaria, one 1 from the foundations sector, and 1 from the World Health Organization (WHO), with the latter serving as a non-voting member and hosting the UNITAID's secretariat in Geneva.

[15] The formula is 85 per cent of its allocation should go to low-income countries, 10 per cent to lower-middle income countries, and no more than 5 per cent to upper middle-income countries. [Source: Bermudez, Jorge & Douste-Blazy, Philippe. "UNITAID." *In Innovative financing for development*. The I–8 Group Leading Innovative Financing for Equity (L.I.F.E.)].

Conference on Healthy Lifestyles and NCD Control of the WHO in April 2011 after it came out as one of the recommendations of the High-Level Task Force on Innovative Financing in 2009.[xx]

Figure 1: UNITAID Revenue and Global Airline Profitability, 2007-201[23]



Source: Center for Global Development, 2012.

b. Pertinent Details

Under the proposed scheme, revenue agencies of participating countries would levy a “micro-tax” on the price of cigarette packs on top of existing tobacco tax. Governments can easily implement this scheme “through a small number of gatekeepers”[xxi] and via existing national taxation mechanisms.

Its implementation would be totally under the decision-making power of national governments, with STL collection going directly to the government coffers. Countries may then voluntarily donate a portion of their collection to a pooled global fund, and may freely determine the amount of their contribution.[xxii]

Sources	**Projections**
WHO (2011)	A solidarity tobacco contribution (STC), if implemented in 43 "G-20+" countries, could rise from US$ 5.5 billion to US$ 16.0 billion in extra excise tax every year depending on chosen scenarios.[xxiii]
Callard & Collishaw (2011)	STL collection from 72 countries is estimated to reach $6.2 billion, including $1.86 billion for international efforts.[xxiv]
Wreford-Howard (2010)	If countries would implement an automatic STL allocation key of 30 per cent for the fund, about US$ 2 billion could be generated.[xxv]
Stenberg, et al. (2010)	A 50 per cent increase in tobacco taxes would generate US$ 1.42 billion in additional funds in 22 low-income countries.[xxvi]
World Bank & WHO (2003)	In the South-East Asia Region, studies show that cumulative revenue gains from increasing tobacco prices by 5 per cent in real terms annually could bring in an extra US$ 440 million in Nepal, US$ 725 million in Sri Lanka, and US$ 994 million in Bangladesh (estimates for 2010).[xxvii]

A number of literatures have presented revenue projections to be derived from additional tobacco tax, with amounts varying depending on the chosen assumptions and scenarios.

The proposed STL scheme could raise funding in both developing and developed countries, thereby making it a "hybrid 'North-South' and 'South-South' solidarity levy with potential for a high proportion of the proceeds staying in developing counties."[xxviii] If STL is to be pursued as an innovative financing mechanism, **the WHO (2011) highlighted the need for member states to thoroughly deliberate on its political viability, administration, fund investment, and utilization.**[xxix]

c. General Assessment

The STL passes all the criteria for innovative financing, namely, "sufficiency, market impact, feasibility, and sustainability and suitability."[xxx] It is appropriate in generating resources when depending on markets and a big population base. It is also expected to have a negligible impact on the global economy, and will have a redistributive effect as it will channel collected revenues to tobacco control programs in developing countries.[xxxi]

Wreford-Howard (2010) succinctly stipulated the following arguments for the STL:

- It could be easily accepted by governments and consumers
- It could be quickly launched as a pilot
- Has double-impact: proceeds may be used for international health and also serve tobacco control
- STL funds originate more from the global economy's haves than the have-nots
- STL funds are collected from a large base
- STL funds are predictable and stable over time
- Micro-tax: STL funds are collected in a way that minimally distorts the global economy
- Is technically and legally immediately feasible[16]

Critics of STL, however, claim that the proposed scheme could have the following deficiencies:

- It would tax more smokers in low-income countries that have high-smoking incidence (Callard and Collishaw)
- It is intrinsically regressive (Callard and Collishaw; key informant interview).[xxxii]
- Many governments are likely to be resistant to the idea of earmarking taxes for global pooling (Hurley, 2012; key informant interview).

[16] Full text sourced from Wreford-Howard, Simon (2010). WHO Support to Innovative Financing for Health Tokyo (PowerPoint). Leading Group on Innovative Financing for Development, Tokyo, 16-17 December 2010.

2. Proposed Tax on Repatriated Tobacco Profits (TRTP)

a. General Description/Objective

A tax on repatriated tobacco profits (TRTP) is a levy being proposed to be collected from transmittals of profits by transnational tobacco companies (TTCs) from countries where they sell their products to countries where these TTCs are based/headquartered and where they also distribute dividends to their owners and investors.[xxxiii] Its purpose is basically to redirect a share of their earnings to fund the implementation of the Framework Convention on Tobacco Control (FCTC) particularly in low-income countries.[xxxiv]

Aside from applying the "polluter pay" principle, the TRTP's chief rationale is to reverse the present trend of TTCs' profits flowing from low-income countries to TTCs' headquarters in developed countries.

The concept of a tax on repatriated profits is not new. Brazil had submitted such a proposal to the WHO Expert Working Group (EWG) on R&D financing to explore options for raising funds for research and development of diseases that disproportionately affect developing countries. In its proposal, Brazil had suggested that funds could be raised by taxing the profits of non-domestic pharmaceutical companies, and the proceeds could be recycled by a directing council on the lines of UNITAID. The Brazilian proposal had estimated that if all low and middle-income countries participate in this mechanism, a 1 per cent tax on relevant profits would generate US$160 million annually. The WHO EWG had considered this proposal to be "particularly attractive".[17]

b. Pertinent Details

In their paper "Financing international action to reduce NCDs: why a tax on repatriated tobacco profits may be less regressive than a solidarity levy on cigarettes," Callard and Collishaw[18] explained that the operation of the TRTP would be "voluntary" in nature because it is contingent upon the willingness of countries to enact and implement laws and regulations for its implementation. The scheme may be administered through the voluntary participation of countries and through existing or new international institutions, i.e., the WHO, FCTC, or a new Global Fund for NCDs.[xxxv]

According to the Physicians for a Smoke-Free Canada (2009), about US$ 20 billion profit was made by four major transnational tobacco companies[19] outside their national base in 2008.[xxxvi] Consequently, expected annual revenue that could be generated from a 1 per cent TRTP is about US$ 200 million. If a 10 per cent TRTP is imposed on the earnings of these four major TTCs, projected revenue is expected to reach US$ 2 billion, with TRTP on PMI profits at US$ 1 billion, followed by BAT (US$ 720 million), ITG (US$ 340 million), and JTI (US$ 120 million).[xxxvii] The estimated US$ 2 billion revenue "represents less than one-third of 1 per cent of the value of the $558 billion global tobacco market (of which at least $170

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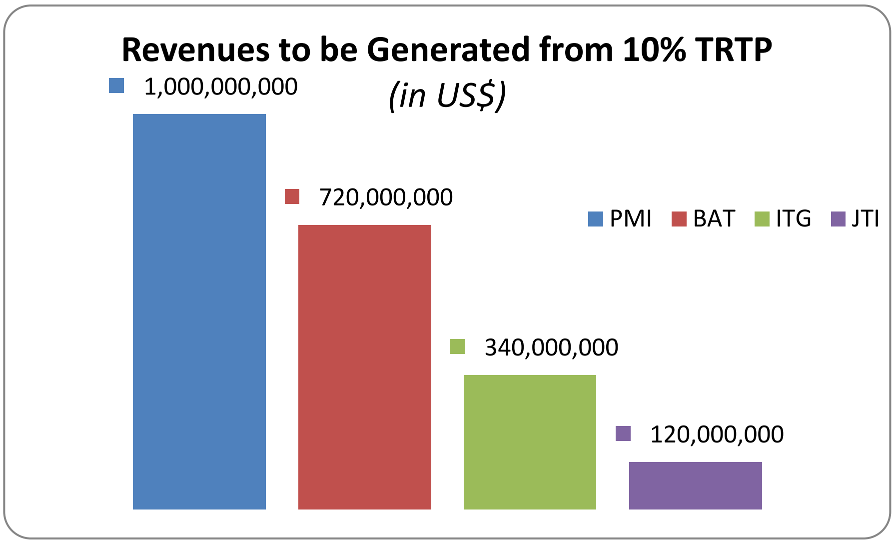
[17] WHO (2012), Report of the Consultative Expert Working Group on Research and Development: Financing and Coordination, P.66, http://www.who.int/phi/CEWG_Report_5_April_2012.pdf.

[18] As an example, the authors cited that in Canada, a TRTP-style surtax has been collected since 1994; tobacco companies pay 50 per cent additional income tax, and branch earnings are also taxed when remitted to head offices abroad. In Brazil, a similar scheme is being proposed to levy additional tax on remittances of pharmaceutical companies to finance medical research and development.

[19] British American Tobacco and Associates (BAT), Imperial Tobacco Group (ITG), Japan Tobacco (JTI), and Philip Morris International (PMI).

billion is paid to governments in income and tobacco taxes), but would provide a 13 per cent increase in global development assistance for health."[xxxviii]



Source: Callard & Collishaw (2011); based on 2009 business results/data.

c. *Advantages and Disadvantages*

Since TTCs are based in high-income countries, the TRTP is intrinsically progressive as it burdens these countries more compared to low-income, lower-middle, and upper-middle income countries where these TTCs sell most of their cigarette products and earn substantial profits.[xxxix] The biggest five contributing high-income countries (United States, United Kingdom, Japan, Luxembourg, and Switzerland) would absorb at least 63 per cent of the TRTP burden; while the succeeding ones (Germany, Canada, Netherlands, Lebanon, and South Africa) would shoulder at least 4 per cent of the TRTP burden.[xl]

The viability of implementing the TRTP rests upon the ability of implementing countries to monitor the total profits earned by the TTCs and to effectively collect this tax whenever TTCs remit their profits to their headquarters overseas. Indubitably, the TTCs would strongly lobby against the passage of any enabling TRTP law; and, assuming that one is enacted, they could come up with "avoidance" schemes (e.g., keeping their profits overseas) to circumvent its implementation.

As observed by the WHO Consultative Expert Working Group on Research and Development on the Brazilian proposal for a tax on repatriated pharmaceutical industry profits, appropriate assessment of the feasibility of this concept would require further information and knowledge on specific matters related to transfer pricing, international corporate taxation, applicable tax agreements, relationships with national industry, as well as commitments by individual countries as part of bilateral and multilateral trade and investment agreements. [20]

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[20] WHO (2012), Report of the Consultative Expert Working Group on Research and Development: Financing and Coordination, P.66, http://www.who.int/phi/CEWG_Report_5_April_2012.pdf.

C. Global Contributions from Non-Tobacco Sources

1. Solidarity Levy on Airline Tickets

a. General Description/ Objective

Launched in 2006, this type of tax is imposed on airline ticket prices charged to passengers taking off from airports of countries implementing it.[xli] As a major funding source of the UNITAID International Drug Purchase Facility, it seeks to generate resources to improve access to medicine and diagnostics in countries with a high incidence of HIV/AIDS, Tuberculosis, and Malaria.

b. Pertinent Details

Nine out of 14 countries with existing legislations mandating its implementation are already contributing to UNITAID.[21] Airline companies are responsible for the declaration and collection of the levy. Collection costs are minimal – only about 1 per cent to 3 per cent of collected revenues[xlii] – because airline companies just add the levy to the final price of a plane ticket. Participating countries then donate all or a portion of the collection to UNITAID.

As of November 2010, rates in seven countries varied by type of flight (domestic or international) and travel class (economy/business/first class). For example, for domestic flights, France charges €1 (for economy class) and €10 (for business and first class). On the other hand, for international flights, it charges €4 (for economy class) and €40 (for business and first class).

Country	Domestic flights	International flights
Chile	No tax	2/2/2 (US$)
Republic of Korea	No tax	US $1/1/1 (US $)
France	1/10/10 (€)	4/40/40 (€)
Madagascar	0/2/2 (€)	0/2/2 (€)
Mali	From 0.76 (€)	To 10.67 (€)
Mauritius	No tax	1/2/2 (€)
Niger	0.76/3/3 (€)	3.8/15/15 (€)

Source: French Ministry of Foreign and European Affairs, UNITAID, and Cour des Comptes; data compiled and cited in Porcher & Kerouedan (2011).[xliii]

In 2010, the Leading Group pointed out that "such a flat contribution, provided it is non-discriminatory, is in line with the Chicago Convention, bilateral treaties and agreements, European regulations, and World Trade Organization (WTO) agreements. The mechanism is based on territoriality, not nationality. All airline companies, whatever their nationality, have to levy the contribution if departing from an airport located in a participating country."[xliv]

If politically supported by participating countries, its implementation could easily be done within a timeframe of two (2) to twelve (12) months upon approval.[xlv]

[21] Cameroon, Chile, Congo, France, Madagascar, Mali, Mauritius, Niger, and Republic of Korea

The following are some revenue projections and data on airline ticket levy:

Sources	Projections/Data
UNDP (2012)	Estimated the revenue collected from 2006 to 2011 at US$ 1 billion[xlvi]
OECD (2009)	Estimated annual revenue at US$ 251 million[xlvii]
IIED (2008)	If a minimum levy of US$ 1 is charged for economy and US$ 5 for premium class, yearly revenue could reach US$1 billion. This amount could eventually increase to US$ 1.2 billion in the sixth year. If a standard levy of US$ 2 is implemented, revenue collection could rise from US$ 1.4 billion to US$ 1.8 billion in the sixth year. Other revenue projections after six years of implementation are: US$ 228 million (for *worst-case scenario*); US$ 24.6 billion (for *best-case scenario*); and, US$ 1.1 billion (for *conservative scenario*).[xlviii]
De Ferranti, et al. (2008)	Projected the yearly revenue to reach €180 million[xlix]
Binger (2003)	Prior to its launching in 2006, Binger (2003) projected that the airline ticket levy could generate yearly revenues between €10 billion and €16 billion.[l]
French Ministry of Foreign Affairs	According to its Ministry of Foreign Affairs, France was actually able to collect an additional €160 million in conventional aid.[li] Based on initial calculations, France would be able to generate €200 million.

c. *General Assessment*

Implementing a mandatory airline ticket levy can provide "continuing, automatic, and assured source of funds, and is politically attractive."[lii] In addition, the levy is expected to have only a marginal impact on low-income countries and passengers. On balance, the cost of its implementation is small compared to the benefits it can provide, particularly to low-income countries (e.g., development assistance for health).

De Ferranti, et al. (2008) summarized the following arguments for and against the levy, as follows:[liii]

Arguments for the levy	• An airline tax can be introduced using pre-existing airport tax systems, as the French example illustrates, with relatively low implementation costs and possibly limited negative effects on the industry. • The airline tax does not affect the sovereignty of countries given that each national government can make its own decisions on the amount of the levy and which passengers must pay it. • The tax can be largely "exported" if developing countries tax only international first and business class passengers. • Air traffic has grown historically at about 8 per cent a year globally, so if the tax does not disrupt the industry, it can become a

	consistent and growing source of revenue for global health.
Argument against the levy	• An argument against any such tax is that it will reduce economic activity and incomes.
Risk	• Some countries already rely heavily on airline and airport taxes. Adding another increment could reduce a country's competitiveness at the margin.

Source: Full text sourced from de Ferranti, et al. (2008)

2. Proposed Financial Transaction Tax (FTT)

a. General Description/ Objective

A financial transaction tax (FTT) is a type of tax imposed on a particular type of financial transaction, like bonds, derivative contracts, shares, and exchange of currencies.[liv] A broad FTT may likewise apply to futures, options, equities, and commodities.[lv] Funds to be generated from FTTs are proposed to be remitted to an identified aid delivery modality and utilized for development.[lvi]

b. Pertinent Details

Some forms of securities transaction tax already exist in fifteen (15) G20 countries, which if scaled up, could generate up to US$ 15 billion annually. [lvii] Global financial centres (e.g., Australia, Hong Kong, Japan, Singapore, South Korea, Switzerland, Taiwan, and the United States) have their own versions of FTTs which can be generally categorized "according to the principal tax design into capital duties and transfer taxes."[lviii] Since August 2012, France has also started to implement a national levy of 0.2pc paid on all share purchases.[22] Doing a cross-country comparison of FTTs, however, is quite thorny due to their specific peculiarities.[lix]

FTT projections estimate revenues to be generated anywhere from US$ 9 billion (if a small tax of 10 basis points on equities and 2 basis points on bonds is implemented in the European economies) to as high as US$ 48 billion (if implemented G20-wide).[lx]

More optimistic projections range from US$ 100 billion to US$ 250 billion, particularly if derivatives are added to the equation.[lxi] In 2012, the UNDP reported that a "low-rate FTT, with a large tax base, could yield nearly €200 billion annually at the European Union level and US$ 650 billion at the global level."[lxii]

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[22] Imposed regardless of the address of the seller or buyer, its FTT is collected on transactions involving French companies with market values bigger than €1 billion. With an applicable tax rate of 0.1 per cent of the acquisition price of shares, "the tax is due by the financial intermediary that has executed the purchase order or, when there is no financial intermediary, by the custodian, irrespective of its place of establishment." [Sources: PWC. *French Financial Transaction Tax and other Financial Related Taxes*. Retrieved from http://www.pwc.be/en/financial-services-newsalert/2012/french-financial-transaction-tax.jhtml#1 (last visited 15 March 2013); Information Daily. *French Financial Transaction Tax comes into effect.* Retrieved on 22 October 2012 from http://www.theinformationdaily.com/2012/08/02/french-financial-transaction-tax-comes-into-effect].

Griffith-Jones & Persaud proposed the following schemes in FTT implementation:

Categories	Implementation Schemes
FTT on locally issued securities	"No special mechanisms are needed to implement this. The revenue authorities can establish automatic electronic stamping of certificates where there are automatic electronic payment schemes and these are likely to be established by payment settlement agents."
FTT on foreign securities	"The same rate as for local securities would be required to be paid by residents in their annual tax declaration of investment activity. In countries that have capital gains tax on security sales the information required to calculate the transaction tax is already declared. Additionally, there is often a withholding tax on dividends to foreign residents and so there is a substantial incentive—far greater than the tax—to declare the transaction in order to receive a tax rebate from the foreign tax authorities."

Sources: Full text sourced from Persaud, Avinash (2012). The economic consequences of the EU proposal for a financial transaction tax. Intelligence Capital; Griffith-Jones, Stephany & Persaud, Avinash. Financial transaction taxes.

c. General Assessment

Because of its comprehensiveness in terms of scope,[lxiii] the FTT is projected to raise substantial revenues, particularly in countries that are major financial hubs. Aside from its potential to generate sizeable revenues, FTTs are expected to enhance the functioning of financial markets.[lxiv]

However, the legal and technical viability of the FTT's wide-ranging mechanism remains uncertain,[lxv] with some governments not inclined to support such taxes.[lxvi] In addition, FTTs are susceptible to the issues of "geographical asymmetry in revenue collection" and "domestic revenue problem."[lxvii] In 2010, the Leading Group on Innovative Financing to Fund Development reported that "while an FTT might be appropriate within particular jurisdictions for specific fiscal or regulatory purposes, **it is less well suited to the task of funding public goods at the global level."**[lxviii]

3. Proposed Currency Transaction Tax (CTT)

a. General Description/ Objective

A currency transaction tax (CTT) is a form of FTT that seeks to impose a tiny amount of tax on exchange of major foreign currencies.[lxix] A number of scholarly journals have investigated the viability and advantages of the CTT not only in ensuring exchange rate stabilization, but also in raising needed resources to finance global public goods (GPGs).[lxx]

b. Pertinent Details

The current global financial settlement systems (e.g., Continuous Linked Settlement Bank or SWIFT) can collect the CTT regardless of the location and manner of foreign exchange trading. CTT collection would be easy to implement automatically and electronically via existing financial institutions at low cost.[lxxi] It can be programmed to be collected at the point where currency transactions are settled through established financial networks. A number of literatures have projected the huge amount that could be generated from CTT, as follows:

Sources	**Projections**
UNDP (2012)	"CTT could generate approximately US$ 33B annually in the region covered by the Organization for Economic Cooperation and Development (OECD) if a coordinated 0.005 per cent tax on all the major currencies is implemented." [lxxii]
Barbier (2011)	"In 2007, foreign exchange transactions totalled US$ 800 trillion, which means that even a negligible tax rate could raise substantial revenues for global public goods."[lxxiii]
Addison & Mavrotas (2004)	"The tax could generate at a minimum $15-28bn for global public use."[lxxiv]
Binger (2003)	"A tax of 0.2 per cent combined with a 50 per cent reduction in transactions and existing trading volume of US$ 300 trillion would generate annual revenue of about $ 300 billion. A tax of 0.1 per cent would yield annual revenue of US$ 132 billion."[lxxv]
Carnegie Council on Ethics & International Affairs (undated)	"A lower tax rate of only 0.01 per cent could generate an annual revenue of $ 17 billion to $19 billion, while 0.02 per cent could generate $30 billion to $35 billion."[lxxvi]

c. General Assessment

As concluded by a UN paper, collecting CTT "would be administratively inexpensive and compliance costs would be low."[lxxvii] Dodging CTT payment would also be difficult due to modern and centralized settlement systems,[lxxviii] which play an important role in implementing collection as in the cases of United Kingdom and Norway.[23]

Furthermore, CTT is expected to dampen currency speculations, thereby helping thwart financial and economic instability. Only tiny additional costs would be borne by low-income groups, and its overall effect is presumed to be redistributive.[lxxix] Revenues are expected to be collected in an "asymmetrical manner" by countries with global financial hubs and would be redistributed globally to fund GPGs.[lxxx]

In 2010, after examining the intricate legal and technical issues on the global implementation of the CTT, the Leading Group on Innovative Financing to Fund Development concluded that it is technically and legally feasible.[lxxxi]

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[23] In the United Kingdom, "the Clearing House Automated Payment System (CHAPS) is a key body. . . CHAPS is the organization through which most high-value wholesale payments are processed, and it operates an RTGS system. Sterling currency transactions are settled either through CHAPS or the Continuous Linked Settlement (CLS) Bank." In Norway, "the equivalent is the Norges Bank's (the Central Bank of Norway) own settlement system, NBO. The Norges bank has also authorised two other payment and settlement systems—DnB NOR Bank ASA and Norwegian Interbank Clearing System (NICS)—but these settle smaller amounts and, in fact, operate under the supervision of the central bank." [Source: Kapoor S, Hillman, D & Spratt, S (2007). *Taking the Next Step - Implementing a Currency Transaction Development Levy*. Commissioned by the Norwegian Ministry of Foreign Affairs. MPRA Paper No. 4054. Retrieved from http://mpra.ub.uni-muenchen.de/4054/ (last visited 18 July 2013)].

Notwithstanding its advantages, the CTT proposal has not taken off since talks about it started in 1972 mainly due to the following reasons:[lxxxii]

- No country is willing to spearhead and unilaterally carry out CTT with the probability that other counties would also do the same or follow;[24]
- Possible discord on the utilization of collected revenues considering that the CTT could generate enormous funds from just a few countries that are major financial hubs;[25] and,
- Problems in CTT collection due to the possible avoidance schemes to be employed by currency traders (although pro-CTT proponents have identified compelling methods to counter these avoidance schemes).

4. Proposed Arms Trade Tax

a. General Description/ Objective

The proposed arms trade tax is a levy to be imposed on the sale and trade of arms in order to fund global development work, disarmament, and even payment for victims of specific weapons.[lxxxiii] The Carnegie Council on Ethics and International Affairs defines it as a form of "tax on trade of conventional arms covered in the UN Register of Conventional Arms."[lxxxiv]

b. Pertinent Details

Although concrete mechanisms for the collection of the proposed tax have not yet been identified, most likely it would depend on the taxing system of implementing governments. Concerned government revenue agencies are expected to collect and remit their tax collection to an international organization that would be responsible for its management and allocation.[lxxxv] Ideally, tax collection should be done at the point of export as there are only a few countries exporting weapons (i.e., mostly developed industrialized countries that have more capable and efficacious customs and tax collection system).[lxxxvi]

The following literatures have estimated the revenues that could be raised by the proposed tax:

Sources	Projections
Carnegie Council on Ethics & International Affairs (2003)	A 5 per cent tax rate would generate an annual revenue of US$ 2.5 billion.[lxxxvii]
Brzoska (2001)	Assuming that the trade volume of weapons amounts to US$ 50 billion,[26] a 10 per cent tax on arms trade could raise yearly revenues of US$ 5 billion.[lxxxviii]

[24] "The cost of reaching a political consensus and commitment towards the universal adoption of CTT remains high." [Nissanke, Machiko (2003). *Revenue potential of the currency transaction tax for development finance: A critical appraisal*. WIDER Discussion Papers // World Institute for Development Economics (UNU-WIDER), No. 2003/81. Retrieved from http://www.wider.unu.edu/stc/repec/pdfs/rp2003/dp2003-81.pdf (last visited 18 July 2013)].

[25] Seventy-five per cent (75 per cent) of global currency trade are accounted for by the United States, Japan, and the European Union; and 15 per cent, by Hong Kong, Singapore, and Switzerland. [Source: Binger, Albert (2003). *Global Public Goods and Potential Mechanisms for Financing Availability*. Background paper prepared for the Fifth Session of the Committee for Development Policy Meeting].

Sources	**Projections**
Burrows (2000) *as cited in Dunne (2007)*	Projected that a 1 per cent arms trade tax could raise about US$ 326 million while a 10 per cent tax could generate about US$ 3 billion[lxxxix]
ILO (1994) *as cited in Dunne (2007)*	Estimated revenues from a 10 per cent tax at US$ 2 billion and from a 25 per cent tax at US$ 5 billion for 1994[xc]

Estimated implementation cost of the proposal is about US$ 500 million.[xci]

c. General Assessment

In general, proponents of the tax identified the following advantages: reduction in the volume of arms trade and expenditures on purchases of weapons; compensation for war victims;[xcii] generation of resources for international development, including addressing the problems of conflicts and poverty.[xciii]

Although the proposal has been discussed in various fora (e.g., United Nations General Assembly and G8 summit) since the 1950s,[xciv] it has failed to take off due to the lukewarm reception of countries involved and partly due to political impediments.[xcv] Its critics argue that it is hard to persuade governments of weapons-producing countries to implement it, adding that arms suppliers will not consent to it unless it is applied to all major suppliers. Moreover, there seems to be no enforcement agency that can oversee its implementation and penalize non-complying countries.[xcvi]

Aside from the difficulty of attaining compliance, other issues raised are: possible tax avoidance through illicit trade and local arms production; tax burden on the part of buyers which are mostly developing countries; and, "fundamental objections against demeritorizing arms transfers and against differential treatment of domestic production and exports."[xcvii]

From the point of view of disarmament, Vignard (2003) pointed out that the proposal has a "perverse disadvantage" of binding resource generation with the perpetuation (rather than reduction) of arms trade.[xcviii]

D. Private/Semi-Private Contributions to Global Initiatives (apart from contributions directly made by philanthropic organizations)

1. (Product) RED[27]

a. General Description/ Objective

In 2006, during the World Economic Forum meeting in Switzerland, celebrities Bono and Bobby Shriver, the Global Fund, and six inaugural company partners[28] unveiled the (Product)

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[26] In preparing a rough projection, Brzoska (2001) assumed a US$ 50 billion worth of trade volume transaction in the late 1990s covering major weapons (e.g., aircraft, armored vehicles, artillery, ground radar, missiles, and ships) and other types of weapons (e.g., light weapons and ammunition).

[27] Data in this section was derived mainly from the official website of the (Product) RED: http://www.joinred.com/.

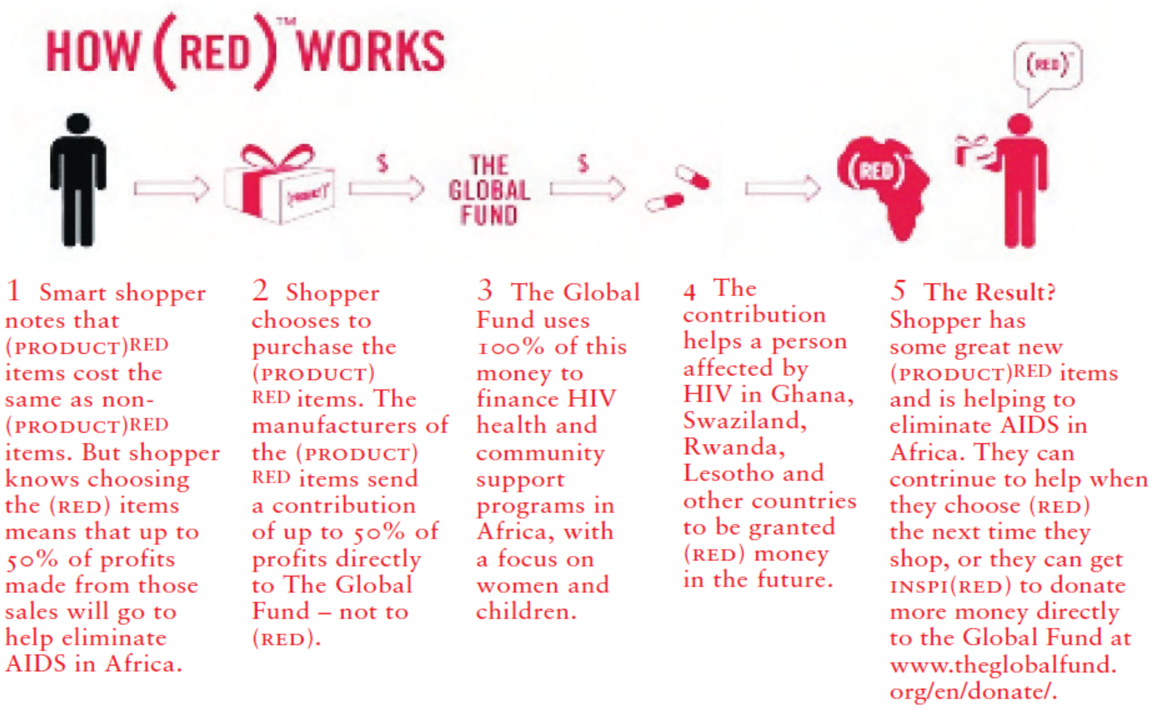
[28] Gap, Emporio Armani, American Express, and Converse.

RED[xcix]—a financing mechanism that seeks to leverage private sector resources in order to help finance the Global Fund's anti-HIV/AIDS programme in Sub-Saharan Africa.[c] Considered a form of voluntary solidarity contribution[ci] and a type of blended value product which mixes consumption with philanthropy,[cii] the (Product) RED enables partner companies that agree to trademark their product as (Product) RED to donate a portion of their profit to the Global Fund.

As Ponte, et al. (2008) put it, the (Product) RED is "built upon the principle that 'hard commerce' can be an appropriate vector for raising funds for good causes," while at the same time, partner companies can utilize it as "a fashionable accessory of brand management" to help improve their profit margins.[ciii]

b. Pertinent Details

Partner companies[29] develop products that carry the (Product) RED logo[civ] and have them labelled as (Product) RED. Then they pledge to donate up to 50 per cent of their profits from (Product) RED sales directly to the Global Fund. They also pay a separate licensing fee for utilizing the (Product) RED trademark, but this does not change the proceeds remitted to the Global Fund nor the price of (Product) RED products.[cv]



Sources: (RED) company documents; The I–8 Group Leading Innovative Financing for Equity (L.I.F.E.).

On average, each partner company annually donates about US$ 1 million to the Global Fund. Since 2006, this funding mechanism has mobilized a total of US$ 195 million for the Fund.[cvi]

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[29] Specifically, the (Product) RED trademark is licensed to famous international companies, like American Express, Apple, Beats Electronics (Beats by Dr. Dre), Bugaboo, Converse, Dell, Gap, Giorgio/Emporio Armani, Hallmark (US), Motorola, Nike, Penguin Classics (UK & International), and SAP. Special edition partners include Bottletop, FEED, Girl Skateboards, Mophie, Nanda Home, Shazam, Solange Azagury-Partridge, Tourneau, and TOUS.

Establishing a monopoly element by permitting only one company to be licensed under each product category, the (Product) RED enables partner companies to create a niche market to earn more profits. It also increases public awareness; serves as a medium to get the support of "conscience consumers"; and, leverages donations from various sectors to fund a noteworthy cause in Africa.[cvii]

Donations from the (Product) RED are allocated to the Global Fund-financed HIV/AIDS grants in certain countries in Africa, based on certain performance targets for grantees.[cviii]

c. General Assessment

A predictable private-sector led funding mechanism, the (Product) RED has lower transaction cost because it relies mainly on the collection system of partner companies. It can also be scaled up by getting the support of more philanthropic companies to donate to the cause.[cix]

Nonetheless, the scalability of (Product) RED is "dependent on demand" and its replicability faces the "risk of competition among alternative brands." Critics also point out that it is less efficient and even lacks accountability and transparency, particularly on the exact amount (or percentage of profits) that companies actually remit to the Global Fund.[cx] Aside from this, critics indicate that companies actually spend more money on marketing and advertising of (Product) RED and, banking on a philanthropic platform, use the (Product) RED as a marketing ploy to earn more profit, thereby raising issues of unreliability and inefficiency.

2. Digital Solidarity Levy

a. General Description/Objective

In 2003, former Senegal President Abdoulaye Wade proposed the idea of creating a Digital Solidarity Fund (DSF) during the World Summit on the Information Society (WSIS) in Geneva.[cxi] The DSF seeks to collect 1 per cent of the contract price of bids on information and communication technology (ICT) products and services in order to address the problem of the "global digital divide."[30] It endeavours to take full advantage of ICTs in pursuing development by building an inclusionary, just and solidarity-based information society.[cxii]

b. Pertinent Details

The DSF operates by enabling public or private entities to voluntarily donate 1 per cent of their digital procurement contracts to the Fund. [cxiii] Such payment, however, may also be viewed as semi-obligatory as participating entities oblige themselves to pay the required 1 per cent to the Fund.[cxiv]

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[30] Defined as a condition of economic disparity between developing and developed countries vis-à-vis access to, utilization of, or knowledge of ICTs. [Source: Chinn, Menzie D. and Robert W. Fairlie (2004). *The Determinants of the Global Digital Divide: A Cross-Country Analysis of Computer and Internet Penetration*. Yale University - Economic Growth Center. Retrieved from http://www.econ.yale.edu/growth_pdf/cdp881.pdf (last visited 03 June 2013)].

DSF is governed by the Digital Solidarity Foundation which is comprised of bodies, such as the Executive Committee, Scientific Committee, Honour Committee, Spokesman, President Wade's Representative, Secretariat, Regional Office for Africa, and the Foundation Board.[cxv]

One major component of the Fund is the one-shot contribution of members amounting to €300,000 each. Members that give the required contribution may participate in the Foundation Board's meetings. As of 31 December 2005, the collected money from the contribution of its founding members[31] was €5,354,444.[cxvi]

The DSF allocates its funds using the following formula: 60 per cent for projects benefiting least developed countries; 30 per cent for projects benefiting developing countries; and, 10 per cent for projects benefiting developed countries or countries in transition.[cxvii] Since 2003, more than €30 million has been disbursed to about 300 grantees.[cxviii]

c. General Assessment

The DSF has implemented several successful programmes in Africa, such as the E-Waste initiative, Connect Africa, and even HIV/AIDS programme interventions. It has in the process leveraged additional donations from other funding agencies. It has also helped propel discussions on the feasibility of redeployment of resources from high-income to low-income countries, and has inspired other countries[32] to pursue analogous schemes.[cxix]

A major criticism against the DSF is its charitable model of financing which has prevented it from taking off. Evaluators are suggesting that a *mandatory* contribution of fees is necessary to sustain the initiative, including the compulsory collection of "email, Internet, or bit tax"[33] and other similar mandatory taxing schemes.

Aside from its problematic funding method (i.e., mainly voluntary), other issues that have affected the DSF are: (a) lack of resources and personnel; (b) inadequate data[34] on its resources/funding and actual programme outcomes and results; (c) dominance of Western governments in the World Summit on Information Society, effectively outnumbering the

[31] Its founding member states are Algeria, Dominican Republic, Ghana, Equatorial Guinea, French Republic, Kenya, Morocco, Nigeria, and Senegal. While its founding member cities and regions are Curitiba (Brazil); Dakar (Senegal); Delemont and Geneva (Switzerland); Lille, Lyon, Paris, Aquitaine, and Rhône-Alpes (France); Santo Domingo (Dominican Republic); Basque Country (Spain); and Piemont (Italy). An international organization (Organisation Internationale de la Francophonie) is also a founding member. [Source: The Digital Solidarity Fund. Retrieved from http://www.unescap.org/pdd/prs/ProjectActivities/Ongoing/FourthUrbanForum/symposiums/symposiumF/symposiumF_DSF.ppt (last visited 04 June 2013)].

[32] For example, Hong Kong successfully carried out its version of a digital solidarity fund in 2004 to address its local issue of digital divide.

[33] An e*mail, Internet, or bit tax* is a levy that is proposed to be collected for the use of the Internet as well as for the volume of data sent out online. Its chief purpose is to raise revenues for development, including addressing the problem of digital divide. For example, an Internet user sending 100 emails/day, each having a 10-kilobyte file, may be charged a minimal fee of one centavo/email. In 1996, the UNDP calculated that a bit tax could yield US$ 70 billion. Because the number of Internet users has dramatically grown since 1996, even a very miniscule tax (below the amount proffered by the UNDP) could potentially yield huge revenues. [Source: Binger, Albert (2003). *Global Public Goods and Potential Mechanisms for Financing Availability*. Background paper prepared for the Fifth Session of the Committee for Development Policy Meeting].

[34] The DSF's official website is no longer accessible as of this writing. It may have been already removed due to its reported dissolution.

participants from low-income countries and civil society organizations; (d) alleged misallocation of resources and apprehensions of African delegates that the resources of the DSF are mainly used up to finance staffing in Geneva rather than on meaningful projects in Africa.[cxx]

In 2009, the DSF faced serious organizational issues when its Foundation Board during its Extraordinary Meeting deliberated on the "dissolution of the Digital Solidarity Fund Foundation and the creation of a new foundation under Senegalese law," owing to "the strategic deadlock regarding implementation of the 1 per cent digital solidarity principle and the financial deadlock that the Fund is currently facing."[cxxi]

On 27 January 2009, the body finally agreed to terminate the Swiss DSF and to commence a new self-governing organization in Africa to be administered by African stakeholders themselves.[cxxii]

3. Proposed Mobile Phone Voluntary Solidarity Contribution (VSC)

a. General Description/Objective

The proposed mobile phone voluntary solidarity contribution (VSC) is an innovative financing mechanism that enables private individuals or corporations to donate, through their mobile phone bills, a one-time or recurring contribution for development.[cxxiii]

b. Pertinent Details

In the proposed VSC scheme, collection is to be done through the phone bills of mobile phone subscribers. This may be undertaken by countries or organizations supporting it.

Based on a projection made by the Taskforce, this financing mechanism could potentially raise from €200 million to €1.3 billion every year.[cxxiv]

Collecting mobile phone VSC would be simple because it would only be included in the phone bills of mobile phone subscribers[cxxv] who agree to donate a certain amount. The cost of establishing and operating it would be only about 1 per cent to 3 per cent of generated revenues.[cxxvi]

Since mobile phone VSC is voluntary in nature, implementing governments and organizations may also consider collecting mandatory taxes to augment VSC collection. This can be done by taxing mobile phone users for every SMS (short messaging system) message sent or phone calls made, and by taxing mobile phone companies providing such services.[cxxvii] A projection made for CY 2009 estimated the amount that could be raised by a 10 per cent tax on mobile phone companies at about US$ 30 million.[cxxviii]

c. General Assessment

In view of the robust mobile phone industry worldwide (i.e., about 3.5 billion mobile phone users and at least US$ 750 billion industry revenues globally), this financing mechanism is sustainable and predictable because resources to be generated are directly tied up with the mobile phone bills of subscribers, and also because the customer base of mobile phones is steadily expanding through the years.[cxxix] Its sustainability, however, will greatly hinge on effective promotional campaign to attract mobile phone users to donate.

Compared to a mandatory mobile phone levy, voluntary donations are much preferred as the former is vulnerable to political pressures and criticisms by interest groups and affected sectors.

IV. Potential Sources of Funds for Treaty Implementation at Country Level

One or more of the following sources of funds are currently being collected from the tobacco industry by parties to the FCTC to form part of the general budget of the national treasury or earmarked for tobacco control or health promotion programmes of the government. In other words, these are used for country level activities to implement the FCTC. However, it bears stressing that a part of this may also be contributed to a voluntary global fund, trust fund, or other mechanism in order to supplant funding for new activities undertaken to promote international cooperation or multi-sectoral collaboration at the global or regional level or merely to augment the traditional sources of the treaty budget, the voluntary assessed contributions, and extra-budgetary contributions.

A. Tobacco Sources

1. Excise Tax on Tobacco Products

a. General Description/ Objective

An excise tax is levied on the price of tobacco products/cigarettes and paid by their manufacturers. Customarily, excise taxes are passed on by manufacturers to their buyers by adding them to the final selling price of tobacco products/cigarettes.

Decisions on whether to specifically allocate a certain amount or share for health is dependent on policy deliberations by lawmakers at the country level. Some countries allow earmarking of the tax collected to fund health promotion (such as Thailand, and Mongolia)[35] Considering that 82 per cent of smokers live in low-income countries, "dedicating part of the revenues from tobacco excise taxes for health purposes makes sense and can be easily justified for correcting market failures, reducing negative externalities, and protecting public health."[cxxx]

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[35] A few countries, such as Djibouti and Guatemala, devote their collected revenues, in whole or in part, to health programmes. Some specifically earmark a certain fraction for tobacco control (e.g., 2 per cent in Mongolia, Thailand, and Qatar; 1 per cent in Bulgaria) or a certain amount (e.g., 2 cents/cigarette in Tuvalu) for the health sector in general, or for tobacco control programmes in particular. [Source: Stenberg, K., Elovainio R., Chisholm, D., Fuhr D., Perucic, A.M., Rekve, D. and Yurekli, A. (2010). *Responding to the challenge of resource mobilization - mechanisms for raising additional domestic resources for health*. World Health Report. Background Paper No. 13].

b. *Pertinent Details*

Excise taxes are collected by government revenue departments and their utilization is typically decided upon by finance/budget ministries unless specifically earmarked based on legislation. The WHO has proposed the imposition of excise taxes of at least 70 per cent of the price of each cigarette pack.[cxxxi] As of 2008, the average excise tax rate for low-income countries was only 25.4 per cent, while the excise tax rate for high-income countries was 53.3 per cent; on average, the global excise rate was only 37.4 per cent.[cxxxii]

A number of literatures have estimated the revenues that could be derived from excise tobacco collection, as follows:

Sources	Projections
Stenberg, et al. (2010)	Using data available for 22 of the 49 countries classified by the World Bank as "low-income" in 2009, the projection estimated that "the aggregate revenues from their taxes was 2.85 billion USD, and that increasing their excise taxes by 50 per cent could generate a total of 1.42 billion USD. The excise tax of the twenty-two (22) sampled countries as of 2010 ranged from 11 per cent to 52 per cent of the retail price of the most sold cigarette brand. In nominal terms, their excise tax amount varied from US$ 0.03 to 0.51 per pack."[cxxxiii]
Ross, et al. (2006)	"In South-East Asia, a study indicated that a 5 per cent increase in real cigarette price would generate substantial additional revenue for the region. Such a tax could generate an extra US$ 8,300 million for Indonesia, US$ 4,750 million in Thailand, US$ 994 million in Bangladesh, US$ 725 million for Sri Lanka, and US$ 440 million for Nepal by 2010..."[cxxxiv]
	"In Thailand, the excise tax on cigarettes was increased on ten occasions, from 55 per cent in 1992 to 85 per cent in 2009. This created a large amount of government income, from 15,438 million baht in 1992 up to 41,823 million baht in 2007."[cxxxv]

c. *General Assessment*

Because demand for cigarettes is relatively inelastic vis-à-vis price, numerous low-income countries could potentially raise additional revenue by increasing their excise tax rate up to 70 per cent as recommended by the WHO. Collecting additional excise tax on tobacco is a potential innovative way to fund health programmes as it can mobilize extra resources particularly for low-income countries where most of the world's smokers are located.[cxxxvi] In general, a tobacco tax is a highly reliable and predictable source of government revenue.[cxxxvii]

A major hurdle in enacting a law for higher excise tax is the tough opposition and lobbying by the moneyed and influential tobacco industry. Assuming that a law is successfully enacted, other challenges to be dealt with by revenue departments would be how to sustain the revenue base and flow because of various factors, such as tax evasion, consumption trends, and the tobacco industry's policy responses.[cxxxviii]

On the whole, over 100 studies validate the fact that tobacco excise tax does not only lessen tobacco consumption but also generates needed government revenues. Chaloupka et al.

(2012) pointed out that aside from its positive effects on public health, excise tax collection can have greater impact if it is utilized for health programmes (e.g., tobacco control). The authors also observed that arguments against higher tobacco excise tax (e.g., effects on employment and inflation; regressivity and impact on the poor) are either false or overstated.[cxxxix]

2. License Fee on the Sale of Tobacco

a. General Description Objective

A license fee is a payment collected from wholesalers, indirect sellers, and retailers of tobacco products.[cxl] Retailers are required to apply for a license to sell, pay the required application fee, and renew their license periodically. Its main purpose is to regulate tobacco business and to safeguard public health by requiring tobacco sellers to follow specific retailing practices, such as limiting youth access to tobacco products.[cxli]

b. Pertinent Details

Implementation of license fees varies by country/area. Depending on the national/local context, several agencies might be involved, such as business licensing offices, revenue departments, and health departments (for issuance of licenses); and, police departments (for enforcement).[36]

In general, implementing governments have some leeway on how they would enforce a retailer licensing law. To ensure effective enforcement, however, a single government body is necessary to strictly monitor it, engage all stakeholders, and collect ample fees adequate for policy implementation.[cxlii]

Important steps in implementing license fees are: (a) setting the licensing fee; (b) choosing and working with the license administrator; (c) identifying retailers; (d) monitoring tobacco retailers; (e) choosing the monitoring agency; and, (f) determining which stores to visit and how often to visit them.[cxliii] An effective licensing law should also be able to impose a yearly licensing fee that is sufficient to cover enforcement cost and at the same time discourage sellers from violating the policy due to its stringent penalties, for example, license cancellation.[cxliv]

c. General Assessment

Implementation of tobacco retail licenses, which has been legally upheld by courts, is an effective way to regulate and lessen access of minors to tobacco products.[cxlv] Aside from reinforcing point-of-sale law and other related tobacco control policies and programmes, it

[36] Based on rapid online search, the following relevant agencies issue licensing permits in their respective countries/areas: Department of Health (Australia); Health Products Regulation Group - Tobacco Regulation Branch (Singapore); Ministry of Finance - Client Services Branch (Ontario, Canada); Board of Equalization (California); Business Affairs and Consumer Protection (Chicago); Department of Revenue (Arizona, Iowa, Minnesota, Nebraska, Tennessee); Department of Health and Human Services (Maine); Office of the City Clerk License Division (Milwaukee); City Auditor (North Dakota); Tax Commission (Oklahoma); Business Licensing Services (Washington). A report submitted to Australia's Commonwealth Department of Health and Ageing in 2002 indicated the need to consider tobacco sales licensing as a health issue; hence, it recommended that licensing be controlled by health officials.

can also help regulate the sites and concentrations of retailers and raise additional government revenues.[cxlvi] For example, New York City was able to collect US$ 170 million from its license fees in FY 2002-2003.[cxlvii]

Tobacco companies are expected to oppose any form of licensing particularly when enforcement is not uniform across jurisdictions in a given country. Retailers will be less inclined to oppose it if the following conditions are present: (a) presence of a national standard of enforcement as opposed to a "jurisdiction by jurisdiction approach"; and (b) licensing that would force out illegal sellers or smaller operators (i.e., their competitors) from the market.[cxlviii]

3. Tobacco Surcharge

a. General Description/Objective

Tobacco surcharge can be any additional charge on tobacco beyond the regular taxes for any specific purpose. For instance, Thailand collects the earmarked funds for health promotion through a 2 per cent "surcharge."

For purposes of this discussion, a tobacco surcharge will be limited to an add-on payment collected by employers and/or health insurance companies from employees who use tobacco products (e.g., cigarettes, cigars, pipes, smokeless tobacco, and electronic cigarettes). On the part of employers, its main purpose is to deter their employees from smoking; while on the part of insurance firms, to cover the extra health/medical care costs due to smoking-related illnesses.[cxlix] This is justified by the higher annual health care cost for tobacco users compared to non-tobacco users illustrated in the table below:

Comparative Average Annual Health Care Costs between Tobacco & Non-Tobacco Users[cl]

	Tobacco-Free	Tobacco User
Male	$3,600	$4,800
Female	$5,000	$7,000 $9,000 (expectant mother)

Source: The Business Case for Coverage of Tobacco Cessation – 2012

b. Pertinent Details

Tobacco surcharge is typically collected by employers and/or health insurance companies.[37] In the United States, an existing federal law permits employers and/or health insurance firms

[37] For instance, since the start of 2013, Duke University has started to add a US$ 10/month tobacco surcharge to the insurance of its employees who consume tobacco products. The add-on fee can only be removed if the affected employee agrees to finish a tobacco cessation programme. Another employer, the General Electric (GE) Company, collects tobacco surcharge from its company personnel who smoke, thus enabling non-smoker GE personnel to save roughly US$ 625 on their insurance premiums. [Sources: Green, Marsha A. (2012). "Duke To Add Tobacco Surcharge to Insurance." *Duke Today*. Posted 5 June 2012. Retrieved from http://today.duke.edu/2012/06/tobaccosurcharge (last visited 11 June 2013); General Electric Company. *Benefit Highlights*. Retrieved from http://www.gecapvetjobs.com/benefits%20highlights%20-%20core.pdf (last visited 11 June 2013)].

to increase by 20 per cent the health insurance premiums of employees who use tobacco products.[cli] Under its Affordable Care Act, starting 1 January 2014, many employers and health insurance firms would already be able to charge tobacco users additional premium by up to 50 per cent of their current premium cost. The pertinent implementing rules of the policy states that the add-on payment may be removed if a tobacco user agrees to go through a smoking cessation programme.

c. General Assessment

Aside from benefitting employers and health insurance firms, additional revenues to be generated from the surcharge will mean less government revenues spent on smoking-related diseases, particularly in countries with large public sector fund spending for smoking-related diseases.

In addition, collecting a tobacco surcharge will redound to savings on the part of tobacco users who decide to kick the habit. Aside from encouraging smokers to quit through a cessation programme, it could also indirectly promote a culture of health and wellness in general.

Conversely, critics of tobacco surcharge point out that: (a) a tobacco surcharge has not been proven to be successful in urging smokers to quit or lessen their tobacco use; (b) there are other tobacco control policies that are more effective in curbing tobacco use, e.g., tobacco tax and smoke-free laws; (c) collecting a tobacco surcharge could increase a tobacco user’s health premium payment by an average of 18.7 per cent of his/her yearly income; and, (d) the policy could cause many tobacco users to remain uninsured.[clii]

4. Settlement Funds

a. General Description/Objective

A settlement fund is derived from compensation made by one party in satisfaction of another party’s claims – typically a product of both parties putting an end to their differences through amicable out-of-court conciliations.

An example of this is the 1998 Tobacco Master Settlement Agreement (MSA) in the United States between 46 states and 4 tobacco manufacturers (a.k.a. Original Participating Manufacturers or OPMs).[38] The former dropped their case against the latter in exchange for money for the health/medical care of people affected by smoking-related diseases,[cliii] thereby effectively relieving the latter from tort liability on damages caused by tobacco use.

b. Pertinent Details

Under the MSA, the OPMs were required to compensate the US states a total US$ 206 billion during a 25-year period from 2000 to 2025, with payments continuing in perpetuity.[cliv] Revenues collected would be used by the settling states to finance some of the medical expenses of people afflicted with smoking-related ailments, to assist and sustain an anti-smoking advocacy organization (the American Legacy Foundation), among others. Aside

[38] Philip Morris Inc., R.J. Reynolds, Brown & Williamson, and Lorillard.

from monetary settlement, the sued tobacco manufacturers were also obliged to terminate or limit certain marketing practices, such as prohibition of marketing tobacco products to youth.[39]

The MSA obliges the OPMs to pay the settling states a certain amount every year based on a formula that is contingent on their 1997 "relative market share"[40] and the volume of their cigarette sales. Their payments are increased to account for inflation (i.e., at least 3 per cent annual hike) and are reduced whenever their combined sales or percentage market share fall below 1997 levels.[clv]

On the other hand, the yearly payment of the Subsequent Participating Manufacturers (SPMs) is computed based solely on total market share of the OPMs and not on the total market shares of both SPMs and OPMs. Hence, the amount paid per cigarette by SPMs is more or less similar to the amount paid by the OPMs.

The revenues collected from the Participating Manufacturers are then placed in an escrow account until they are dispensed to the settling states.

As to Non-Participating Manufacturers (NPMs), they are obliged by a model escrow statute to either join the MSA or to annually pay a comparable amount to a settling state's escrow account.[41]

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[39] Chapter III (a) of the MSA stipulates: "*Prohibition on Youth Targeting* – No Participating Manufacturer may take any action, directly or indirectly, to target Youth within any Settling State in the advertising, promotion or marketing of Tobacco Products, or take any action the primary purpose of which is to initiate, maintain or increase the incidence of Youth smoking within any Settling State."

[40] As defined by the MSA, "'Relative Market Share' means an Original Participating Manufacturer's respective share (expressed as a percentage) of the total number of individual Cigarettes shipped in or to the fifty United States, the District of Columbia and Puerto Rico by all the Original Participating Manufacturers during the calendar year immediately preceding the year in which the payment at issue is due (regardless of when such payment is made), as measured by the Original Participating Manufacturer's reports of shipments of Cigarettes to Management Science Associates, Inc. (or a successor entity acceptable to both the Original Participating Manufacturers and a majority of those Attorneys General who are both the Attorney General of a Settling State and a member of the NAAG [National Association of Attorneys General] executive committee at the time in question). A Cigarette shipped by more than one Participating Manufacturer shall be deemed to have been shipped solely by the first Participating Manufacturer to do so. For purposes of the [**7] definition and determination of 'Relative Market Share,' 0.09 ounces of 'roll your own' tobacco constitutes one individual Cigarette."

[41] "Each state can eliminate the risk of any such payment reductions if it passes a 'Qualifying Statute' that neutralizes the cost disadvantage of the participating manufacturers vis-à-vis nonparticipating manufacturers. Passing a Qualifying Statute does not automatically increase or decrease the amounts paid to a state, it just protects against a reduction in payments in the event a nonparticipating manufacturer gains market share. Exhibit F to the agreement sets forth a model statute that automatically qualifies as a Qualifying Statute upon passage if it is neither changed nor added to prior to its implementation. The model statute requires nonparticipating manufacturers to make payments into a special escrow account in amounts equal to what they would pay the states if they signed onto the settlement agreement. The escrow amounts can be used only to satisfy any judgments or settlements the states happen to obtain against the nonparticipating manufacturers, and are otherwise returned to the nonparticipating manufacturers 25 years after going into escrow. All of the states have passed a model statute and many are taking additional legislative action to force non-complying nonparticipating manufacturers to make all required payments." [Source: Campaign for Tobacco-Free Kids (2003). *Summary of the Master Settlement Agreement (MSA)*].

c. General Assessment

The MSA has generated a whopping US$ 206 billion for the settling states. In terms of financial sustainability, it has a provision for the tobacco industry to pay in perpetuity, assuring the settling states of long-term funding.

Nonetheless, evaluators of the MSA have criticized it for protecting the tobacco industry (particularly the OPMs) from tort liability and also from competition from other industry players, effectively creating a cartel agreement that is favourable both to the OPMs and the government. So while the MSA generates resources, it has enabled the tobacco manufacturers to dodge state lawsuits and to sustain their business.[42]

Aside from making the states dependent on the tobacco industry for revenues, another serious issue raised by critics is the misallocation of resources away from tobacco control programmes. The table below encapsulates the major criticisms against the MSA:

Sources	**Criticisms**
Martinez & Kramer (2012)	"Many states have diverted their MSA funding allocations to address budget shortfalls and pay debt service on securitized funds."[clvi]
Viscusi & Hersch (2010)	"Much less has gone to healthcare and anti-tobacco efforts than was anticipated… the allocation that best advances the interests of the citizenry may not be closely tied to anti-tobacco initiatives.[clvii]
Sloan, et al. (2005)	"Health spending from settlement proceeds declined more in the case-study states compared with national trends."[clviii]
Clegg Smith, et al. (2003)	"Press coverage of MSA non-tobacco control spending suggests that the funds have been quickly formulated as fodder for state spending, rather than to support tobacco control efforts. Thus, caution is required in pursuing settlements with the industry where the objective is better funding for tobacco control efforts, particularly in light of the possibility that press coverage of MSA allocation may actually serve as positive publicity for the tobacco industry."[clix]
Campaign for Tobacco-Free Kids (2003)	The MSA is silent about how money should be allocated.[clx]
Gross, et al. (2002)	"State health needs appear to have little effect on the funding of state tobacco-control programmes. Because only a very small proportion of the tobacco settlement is being used for tobacco-control programmes, the settlement represents an unrealized opportunity to reduce morbidity and mortality from smoking."[clxi]

[42] The Campaign for Tobacco-Free Kids, however, argues that "the agreement does not block any potential claims against the tobacco companies based on future actions not related to the use of or exposure to their tobacco products, nor does it block lawsuits by Indian tribes or private citizens, including class actions," adding that "it also does not affect any possible lawsuits that might bring criminal charges against the tobacco companies." [Source: Campaign for Tobacco-Free Kids (2003). *Summary of the Master Settlement Agreement (MSA)*].

5. Tax on Corporate Profits

a. General Description/Objective

A tax on corporate profit is imposed on the earnings of corporations during a given taxable period, with varying corporate tax rates applied for different income brackets. In general, it is applied to a company's operating income after subtracting expenditures and depreciation cost from revenues.[clxii] The basis for its collection is mainly "to regulate managerial power" of companies.[clxiii]

b. Pertinent Details

Revenue departments of governments are in charge of collecting corporate taxes from companies. Typically, corporate tax rates differ by country, types of companies, and income brackets. As of CY 2013, the average corporate tax rate globally is 24.05 per cent. By region, average rates for CY 2013 are: North America 33 per cent, Africa 28.63 per cent, Latin America 27.61 per cent, Oceania 27 per cent, Asia 22.36 per cent, and Europe 20.6 per cent.[clxiv]

On a global scale, Callard (2010) indicated that in 2008, about US$ 160 billion was paid by five major tobacco companies to governments in the form of income taxes, and that about US$ 11 billion was paid by four publicly traded tobacco companies in the form of corporate income taxes.[clxv]

c. General Assessment

With taxation as an important tool for countries to entice foreign direct investment, there has been a general trend the past decade or so for them to reduce their corporate tax rates. Notably, average corporate tax rates worldwide have steadily declined from 27.5 per cent in CY 2006 to only 24.04 per cent in CY 2013,[clxvi] indicating a "race to the bottom" tax rate competition among countries. Companies have also learned how to dodge corporate taxes through offshore tax havens, arbitrage, and transfer pricing. These phenomena may suggest a general reduction of corporate tax contribution to government revenues.[clxvii]

In Canada, a 50 per cent additional income tax (i.e., surtax) is being collected from tobacco manufacturers.[clxviii] This led a giant tobacco company (BAT) to eventually relocate to Mexico (presumably in order to avoid it), thereby impacting on the country's revenue collection.[clxix]

B. Non-Tobacco Sources

1. Alcohol Tax

a. General Description/Objective

An alcohol tax is a type of "sin tax" imposed on alcohol consumption in order to: (1) regulate drinking of alcohol;[clxx] (2) make alcohol drinkers compensate for its social costs, [clxxi] including its tangible and intangible costs;[43] (3) address the externalities caused by alcohol abuse, and (4) generate needed government resources.[clxxii] In many countries, both alcohol and tobacco are subjected to sin taxes or excise taxes. In several countries, the taxes for health promotion are derived from taxes coming from both tobacco and alcohol.

b. Pertinent Details

A "sin tax" law is customarily enacted to oblige manufacturers and sellers to pay alcohol tax to the government. This tax is then passed on by the manufacturers and sellers to their buyers. Tax collection is done by government revenue departments.

Revenues generated are usually incorporated into a government's budgetary allocation, or at times, used to finance special welfare programmes and projects. Slama (2005) suggested the need to earmark taxes collected for the establishment and financing of a health promotion foundation in order to support health programmes for the public good.[clxxiii]

Increasing alcohol tax and periodically adjusting it to inflation is needed to curb alcohol consumption.[clxxiv] Revenues collected should be equivalent to the total costs of externalities.[clxxv]

c. General Assessment

An alcohol tax, like any other type of sin tax, can generate considerable revenues for governments. For example, a tax revenue projection made for 42 countries with different income and consumption levels indicates that an alcohol excise tax increase of at least 40 per cent of the retail price could build up revenue collection by 80 per cent from US$ 43 billion to US$ 77 billion, even after assuming a decline in consumption due to tax.[clxxvi]

Collecting an alcohol tax is advantageous not only in raising additional revenues for governments, but also in reducing alcohol consumption and abuse. Spending collected revenues for public health programmes is a strong justification for its implementation.

Similar to tobacco tax, critics argue that an alcohol tax is regressive in nature as it burdens the low-income people the most, adding that it could induce smuggling and black markets especially if institutional mechanisms to prevent them are weak or lacking.

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[43] Alcohol abuse imposes costs on the economy as well as on public health (e.g., mortality, morbidity, and the violence it produces). In 1998, the estimated economic cost of alcohol abuse in the United States was about US$ 200 billion. [Source: Chaloupka, Frank J. (2009). *Alcoholic Beverage Taxes, Prices and Drinking [Commentary]*. Addiction. DOI: 10.1111/j.1360-0443.2008.02486.x].
In the European Union, "based on a review of existing studies, the total tangible cost of alcohol… in 2003 was estimated to be €125bn (€79bn-€220bn), equivalent to 1.3 per cent GDP, which is roughly the same value as that found recently for tobacco. The intangible costs show the value people place on pain, suffering and lost life that occurs due to the criminal, social and health harms caused by alcohol. In 2003 these were estimated to be €270bn, with other ways of valuing the same harms producing estimates between €150bn and €760bn." [Source: Anderson, Peter & Baumberg, Ben (2006). *Alcohol in Europe: A Public Health Perspective*. A report for the European Commission. United Kingdom: Institute of Alcohol Studies].

2. Global Lottery & Global Premium Bond Proposal

a. General Description/Objective

A global lottery, proposed by the Crisis Management Initiative to raise additional revenues for development, is a financing mechanism that could be implemented "through national state-operated and state-licensed lotteries, with proceeds shared between national participants and an independent foundation established in conjunction with UN." On the other hand, a global premium bond is "parallel to national bonds with lottery prizes," and with its capital value preserved.[clxxvii]

b. Pertinent Details

There are two possibilities in carrying out a global lottery system. The first one is to have it run nationally[44] through existing lottery systems of participating countries; while the second one is to sell lotteries worldwide (e.g., through an online system using the Internet) with an international organization running it.[45] Both of these schemes would necessitate an international framework agreement among participating countries. Relevant provisions that should be included in the agreement are the regulations of lottery operations (nationally or internationally, depending on the chosen scheme), remittance of lottery funds to an international body (e.g., United Nations), and utilization of funds to finance GPGs.[clxxviii]

Since Internet use has become commonplace globally, the approach of raising revenues through online sale of lotteries worldwide could easily be implemented because it entails only minimal regulation. Aside from its potential extensive global reach and low regulatory requirements,[clxxix] the cost of administering it is also low since it would be run online.[clxxx]

In 2001, a revenue projection estimated the annual revenue to be collected from a global lottery at US$ 6.2 billion. The computation was based on a 10 per cent levy on the US$ 62 billion lottery value that year.[clxxxi]

At present, there are two (2) current proposals with regard to the implementation of a global premium savings bond:

> "(i) A single global bond or coordinated national bonds would direct a share of the proceeds of the lottery toward development. The bond would not lend to developing countries.
>
> (ii) A single global bond or coordinated national bonds would lend directly to developing countries. These would receive financing for more favourable term

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[44] Comparable initiatives have already been implemented at the country level. For example, Belgium has collected a total of €330 million from its national lottery since 1987 to finance food security projects in sub-Saharan Africa. In the United Kingdom, about US$ 310 million has been raised from its national lottery since 1995 to fund development projects in low-income countries. [Source: UNDP (2012). *Innovative Financing for Development: A New Model for Development Finance?*].

[45] The World Food Programme (WFP) also came up with an idea to run a "humanitarian lottery," which would facilitate selling of scratch tickets worldwide for only €1. It projected that the scheme could raise about €400 million every year. Under the proposal, a lottery winner would be given a monetary prize of €20 to €100, or a free trip to a development project site. [Source: Leading Group on Innovative Financing for Development. *Global lottery*. Retrieved from http://leadinggroup.org/article200.html (last visited 10 October 2012)].

> because premium bonds usually pay lower interest to investors than comparable conventional bonds. Investors would have to bear the developing country credit risk."[clxxxii]

In the case of United Kingdom, bond buyers are assigned a unique identification number which they can use to join a lottery.[46] Technically, a buyer is considered an investor since they invest in a savings instrument and never lose their initial investment. Their earnings, however, have an element of luck since they are contingent on a random prize draw.[clxxxiii] In other words, global premium bonds would be bonds with lottery prizes in place of interest.

There has been no projection made on the revenue potential of a global premium bond. Nonetheless, the United Kingdom experience of selling premium bonds amounting to about US$ 34 billion a year could serve as a good reference point.[clxxxiv]

c. General Assessment

A global lottery could raise "stable, additional, and predictable resources" for financing GPGs.[clxxxv] However; it lacks political attractiveness from the perspective of governments because it is generally perceived to compete with national lotteries.[clxxxvi] It is also seen as a regressive method of funding development because there are more poor people spending their money on lotteries. In addition, ethical issues are also being brought up by critics as gambling is considered taboo by some cultures and religions.[clxxxvii]

Global premium bonds have the following advantages: (1) they are more ethically acceptable because they are considered savings instrument for ethical investors; (2) purchase of these bonds is purely voluntary; and (3) governments are not bound to place these bonds in the market.[clxxxviii]

On the other hand, critics identified the following disadvantages of global premium bonds: (1) crowding out of other government debt; (2) administrative cost; and (3) competition with other borrowing.[clxxxix] Reisen (2004) also pointed out that "bond proceeds are best matched by loans rather than grants," and "it remains fairly unclear how bond investors would be protected against the possibility of widespread default by those countries that are recipients of the proceeds of the bond issue."[cxc]

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[46] "In the UK premium bond scheme, people buy savings bonds, each with a unique number that is entered every month in a prize draw, with prizes ranging from £50 to £1 million (a random number generator, nicknamed ERNIE, picks the winners). The size of the total prize allocation is set so that the expected return is equivalent to the yield on UK government stock. Individual bond holders may receive a return substantially above or below the average expected return, but in aggregate bond holders get the average if they hold the maximum permitted amount of bonds (which is £30,000 per person). Winners can opt to reinvest their winnings and many people accumulate sizeable holdings in this way (and since the maximum is per person, not per household, families can potentially hold significant wealth in premium bonds). With average luck, a holder of £30,000 of bonds will win 12 prizes per year; given the minimum prize of £50, such an average winner will take home a minimum of £600 per year in prizes." [Source: Addison, Tony & Chowdhury, Abdur R. (2003). *A Global Lottery and a Global Premium Bond*. UNU-WIDER Discussion Paper No. 2003/80. Retrieved from http://www.wider.unu.edu/publications/working-papers/discussion-papers/2003/en_GB/dp2003-080/_files/78091735623926785/default/dp2003-080.pdf (last visited 07 June 2013)].

3. Luxury Tax

a. General Description/ Objective

A form of indirect tax affecting mostly the rich, a luxury tax is imposed on the prices of products[47] or services[48] that are considered lavish and unnecessary. High-cost transactions[49] may also be charged this type of tax. It may also be imposed on the consumption of cigarette/tobacco products[cxci] and beverages.[cxcii] Governments collect luxury tax to alter consumption patterns and to raise revenues.

b. Pertinent Details

A luxury tax may come in the form of a sales tax, VAT, vehicle tax, property tax, etc. It may also be charged as a percentage of the cost of a luxurious product or service, collected usually through existing taxation mechanisms of governments.[cxciii]

Its implementation is expected to generate substantial public revenues. For example, China was able to generate US$ 187.9 billion from its luxury tax in 2010.[cxciv] Australia was also able to collect almost $3.2 billion from its Luxury Car Tax (LCT) since its implementation in 2010.[cxcv]

c. General Assessment

Luxury products are considered Veblen goods[cxcvi] since demand for them intensify as their prices go up. Implementation of a luxury tax is therefore considered an "important instrument that can address market distortions and ensure greater equity in the economy."[cxcvii] Intrinsically, a luxury tax is progressive as it affects only the rich who patronize luxury products and services.[50] Aside from curtailing extravagant consumption, it can likewise raise needed government revenues for development.[cxcviii]

However, its implementation may shrink the revenue base in the long run because as tax goes up, both income and substitution effects[cxcix] would reduce demand for luxury items. Consequently, a very high luxury tax could cause demand for luxury products to drop sharply, affecting manufacturers and sellers in the process. It could also engender black market trading and impact on revenue collection.[cc]

Apart from being a concept that is a "throwback to the old socialist era," critics claim that a luxury tax causes market inefficiencies, adding that what were considered luxury products and services in the past may already be considered necessities at present.[cci]

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[47] Like yachts, airplanes, high-end cars, expensive jewelry, etc.

[48] Like five-star accommodation in hotels, spas, wellness and fitness centers, etc.

[49] Such as purchase of an expensive real estate property in a high-end village exceeding a certain limit set by a government.

[50] McPherson, et al. (2011) pointed out that the Luxury Car Tax (LCT) in Australia "is primarily a redistributionary tax that takes from the supposed wealthy few and gives to the not-so-wealthy many, albeit in a very inefficient manner." [Source: McPherson A, Guffogg S, Takemoto S & Williams S (2011). "An Economic Analysis of the Luxury Car Tax in Australia." *Deakin Papers in International Business Economics*. Vol. 4, Issue 1].

4. Diaspora Bond

a. General Description/Objective

A diaspora bond refers to a form of debt instrument issued by a country, a sub-sovereign body, or a private company for the purpose of generating financing from diaspora communities abroad. Funds raised are usually incorporated into a government's budget and utilized for development work.[ccii] *India and several developing countries in Africa have started issuing diaspora bonds.*

b. Pertinent Details

A country tapping this form of financing sells bonds to its diaspora communities overseas at a "patriotic rate," i.e., low interest rate. Consequently, diaspora bonds are public debt obligations that need to be repaid in the future.[cciii] Investors do not necessarily look for high returns in buying bonds as they are motivated primarily by a nationalistic aspiration to do "good" for their country. For this reason, philanthropy is an important element of diaspora bonds. Stenberg, et al. (2010), however, indicated that these bonds go beyond "simple charity" as they also leverage goodwill into a long-term financing instrument that has the capacity to generate huge funds for needed investments.[cciv]

In 2012, the UNDP reported that both Israel and India have generated more than US$ 35 billion from their diaspora bond issuances.[ccv]

With national banks and multilateral development institutions as possible facilitators for bond issuances,[ccvi] developing countries with large diaspora communities overseas (i.e., living in developed/industrialized countries) could consider offering diaspora bonds as a strategy to raise needed resources for development.[ccvii]

Various factors contribute to the success of diaspora bond issuances, such as: kinship ties; large diaspora communities (particularly first-generation migrants) in developed/highly-industrialized countries; high level of trust and confidence of migrants in their home-country governments; high-income of migrants and favourable economic condition of their country of residence.[ccviii]

Ketkar and Ratha (2007) also identified the following minimum conditions for diaspora bond issuances: nonexistence of civil strife in the home country; minimum governability; firm and clear legal systems for enforcement of contracts; and, government's ability to meet the registration requirements in countries where the diaspora communities are located.[ccix]

c. General Assessment

Diaspora bonds can be considered additional to ODA because they produce new sources of revenue. However, debt sustainability should be thoroughly examined considering that these bonds entail public debt responsibilities that need to be settled in the future.

In general, issuance of diaspora bonds is less feasible for small and poor countries as well as for countries with shaky or repressive political rule.[ccx]

5. Proposed De-Tax

a. General Description/Objective

De-tax is a proposed innovative financing mechanism that seeks to generate resources through participating governments' waiver of a certain fraction of VAT on goods and services sold by participating business establishments, and through the latter's charitable donation to a global public health programme.[ccxi]

b. Pertinent Details

Under the proposed scheme, participating governments would give up at least 1 per cent of VAT on any good or service sold by participating business establishments. The latter may also voluntarily contribute a part of their income to the initiative. Collected de-tax and donations would be placed in a "national dedicated fund and used to strengthen health systems in poor countries through existing channels to support the health systems financing platform."[ccxii]

Based on an initial projection made in 2008 for twenty-six (26) countries, the estimated revenue that could be raised from tax cut is about US$ 2 billion every year. The projection presumed that only 5 per cent of business establishments in the participating countries would take part in the programme. Possible top contributors for the proposed 1 per cent VAT waiver would be: Japan (US$ 628 million), Germany (US$ 344 million), France (US$ 233 million), and Italy (US$ 138 million). On the other hand, voluntary contributions by business establishments would amount to about US$ 200 million, or approximately 10 per cent of projected revenues.[ccxiii]

The estimated cost of administering the tax cut is about 1 per cent to 2 per cent of the projected revenues.

c. General Assessment

The proposed de-tax scheme has the potential to yield huge proceeds to finance health programmes in low-income countries. Assuming that participating countries would support it, the proposed scheme is expected to be both predictable and sustainable given the nature of VAT income, which is its vital source of revenue. Nonetheless, implementation in some countries may be convoluted as it would require rolling out the scheme at the state or provincial level. In addition, the cost of marketing the initiative to convince businesses to give up a portion of their profit may also be substantial.[ccxiv]

6. Sector-Specific Tax for Big Corporations

a. General Description/Objective

Collected on top of existing corporate tax, a sector-specific tax is an additional tax levied on large companies making windfall profits in certain industry sectors in order to augment government revenues.[ccxv]

b. Pertinent Details

Implementation of this type of innovative financing is highly context-specific. The following are some examples:

- *Australia* – Since July 2012, the Australian government has started to collect 22.5 per cent Minerals Resource Rent Tax (MRRT) from its large mining companies involved in iron ore and coal projects and earning huge profits more than $75 million. The government has also imposed a 40 per cent Petroleum Resource Rent Tax (PRRT) on large corporations engaged in oil and gas projects.[ccxvi] Estimated proceeds to be collected for the first two years of MRRT implementation is roughly AU$ 10 billion.[ccxvii]

- *Lao People's Democratic Republic* – A hydropower project, The Nam Theun 2 (NT2), seeks to raise revenues to fund development. Projected revenues to be raised over a 25-year period is about US$ 2 billion, which could be used to finance programmes on health and environmental conservation, infrastructure, and education.[ccxviii]

- *United Kingdom* – In 2010, after financial institutions had recovered from the global financial crisis and restarted to earn healthy profits, the government proposed to levy 0.05 per cent to 0.1 per cent tax on their balance sheets. The plan was purportedly made in response to the clamour of British nationals for financial reforms considering that their government bailed out these institutions during the crisis using money from government coffers.[ccxix] The levy was eventually implemented, with the rate increasing by 0.13 per cent in 2013 and expected to climb further to 0.142 per cent in 2014.[ccxx] Projected revenue to be collected every year is about £2.5 billion (or about US$ 4 billion).[ccxxi]

c. General Assessment

If highly-profitable businesses amassing windfall earnings are imposed this type of tax, governments can generate substantial revenues, which could consequently ensure them of a sound tax base to fund vital development programmes.

Nevertheless, governments mulling over its implementation need to seriously examine the tricky equilibrium between raising additional revenues and the need to create a favourable economic environment for businesses to thrive. This is because the additional tax to be collected would be on top of the current corporate taxes already being paid by companies. Consequently, governments may consider imposing the levy only on highly profitable companies[51] in order not to jeopardize the small players within a given industry sector.[ccxxii]

Lucrative money-making businesses involved in the exploitation of natural resources (e.g., mining, oil, gas, and the like) are the best candidates for a sector-specific tax. However, according to Stenberg, et al. (2010), collecting new taxes from these industries “might not be the most appropriate solution if the more basic questions on managing and distributing the

[51] Like in the case of Australia which imposes the tax only on corporations earning more than $75 million.

richness from natural resources have not been answered." Issues of "resource curse" and "Dutch disease"[52] should first be addressed before considering this type of tax.[ccxxiii]

V. POTENTIAL OF INNOVATIVE FINANCING FOR TOBACCO CONTROL

The first part of this paper discusses some of the actual practice and proposed ideas in innovative financing for purposes of financing global activities. These ideas may be useful for Parties to the FCTC in deliberations on mobilizing resources for tobacco control since these ideas have already become a core part of discussions relating to financing for development. Some of these ideas have been deliberated in raising funds for other developmental issues, such as environment and communicable diseases. Given the cross-border nature of tobacco control issues like advertising and illicit trade, there is an opportunity for global tobacco control to benefit from these innovative financing ideas.

The second part of this paper examines funds that originate from either tobacco and non-tobacco sources in order to provide some idea on:

a. how tobacco and the processes involved in propagating the product may be further taxed or charged or
b. how new sources can be tapped to fund tobacco control measures.

And more importantly, this paper may contribute to further exploring how these new funding sources may be tapped to incrementally fund two critical areas that may sustain tobacco control advocacy in the long run:

a. country level activities that are aimed at ensuring sustainable funding for tobacco control
b. critical global activities that cannot materialize because they are currently unfunded

Overall, the General Assessment section for each innovative financing idea in the paper reflects lessons learned and best practices that provide the reader with some framework when evaluating an innovative financing mechanism. Some are more administratively feasible than others but in all cases, political feasibility is a critical element. A deeper understanding of the political concerns would surface and can possibly be addressed only if the ideas are allowed to be debated on, and sufficient space to explore is provided in the appropriate forum.

[52] **Resource curse** (a.k.a. Paradox of Plenty) "falls upon countries who have vast natural resources but whose populations do not seem to reap the economical benefits from them"; while **Dutch disease** is an economic condition that occurs "when an increase in revenues from natural resources (or inflows of foreign aid) raises the value of that nation's currency which results in exports becoming more expensive, making the manufacturing sector less competitive, governance, conflict, excessive borrowing, inequality and volatility." [Source: Stenberg, K., Elovainio R., Chisholm, D., Fuhr D., Perucic, A.M., RekveD. and Yurekli, A. (2010). *Responding to the challenge of resource mobilization - mechanisms for raising additional domestic resources for health.* World Health Report. Background Paper No. 13].

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