malaria consortium

Policy

Briefing Paper

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Tax and Tariff Reduction on Nets, Netting and Insecticides

Lessons from Ghana, Mali, Nigeria, Senegal and Tanzania

THE IMPORTANCE OF TAXES AND TARIFFS

Across the world, malaria presents one of the greatest challenges to the health and economic productivity of millions of people, particularly those living in Africa south of the Sahara. The positive effects of Insecticide Treated Nets (ITNs) in reducing the mortality and morbidity of pregnant women and children under five years of age are well known, yet coverage levels remain low. The potential public health gains remain unachieved. One of the factors preventing individuals and communities from buying and using nets is the cost of both nets and insecticide. National governments – even with donor support – are unable to provide sufficient free or subsidised nets to meet long-term demand.

With the majority of African markets dependent on the import of nets and the insecticides used to re-treat them, the local taxes and import tariffs levied on products contribute significantly to the cost of the product. Even countries which manufacture their own netting depend on imported raw materials. Reducing taxes and tariffs on these items is likely to reduce retail prices significantly, allowing more people to purchase nets, as was seen in Tanzania. It should also stimulate the growth of a more sustainable, competitive commercial alternative to the current patchy subsidised provision. Roll Back Malaria (RBM) advocates a cohesive public-private partnership at country and international level to promote and support the removal or reduction of taxes and tariffs on nets, netting materials and insecticides, so that populations most at risk from malaria will have better access to ITNs and be more able to afford them.

This briefing paper is intended for national and regional health and economic policy makers involved in generating revenue and harmonising taxes, as well as for those directly responsible for malaria control policies. It is also relevant to international partners funding malaria control, especially those who wish to stimulate commercial activity, or those who are supporting proposals for applications to the Global Fund at country level.

The experiences outlined in this policy briefing are based on work in Ghana, Mali, Senegal, Nigeria and Tanzania in June and July 2002. The work was commissioned by World Health Organization and carried out by the Malaria Consortium[1].

The purpose was:

- to gain greater insight into the changes in tax and tariff policy that either had taken place, or were about to take place,
- to assess the likely impact of these changes on prices, on commercial sector players, on market availability and on demand creation, and any changes in national and regional markets.

[1] The analysis of the views of more than 80 respondents was compiled and published by the Malaria Consortium in September 2002: Starling M and Njau R (2002). Review of the processes and nature of effective policy change for tax and tariff rationalisation on nets, netting and insecticides in Ghana, Senegal, Mali, Nigeria and Tanzania. Country synthesis report. The work was presented at the Multilateral Initiative on Malaria conference in Arusha in November 2002.

The experiences described here are specific to the countries described, but we hope they will increase our understanding of how complex tax and tariff rationalisation is, and help to overcome barriers in other countries where the process is less advanced. We present here a synthesis of the key findings from the work.

KEY COUNTRY SYNTHESIS FINDINGS

Products affected and levels of reduction

Countries varied considerably in both the extent and range of changes in taxes and tariffs on nets, netting materials and insecticides. While all countries had made some reductions, there was significant diversity in the extent of these reductions:

Treated and untreated nets

- There were extensive reductions on tariffs – only Nigeria retained a 5% levy.
- Reductions in VAT were less widespread – there was no change in Senegal or Ghana.

Imported yarns

- Many countries reduced tariffs.
- VAT was retained at between 12.5% and 18%, meaning significant cost implications both for local production and repackaging of products after import.

Public Health Insecticides

- The levels of concession were generally greater than for other products.

The situation is not static but is subject to ongoing changes, since changes in rates of taxation are part of normal practice in response to the need for revenue generation. Both Nigeria and Tanzania have recently reversed some of the previous reductions.

Timing and pace of policy formulation

The time taken to achieve the current levels of tax and tariff rationalisation varied considerably. In Mali the process took one year, in Tanzania more than five years – although the pace of change had little bearing on the extent of concessions granted. In some countries the involvement of stakeholders played an important part in the process. For example, in Ghana and Tanzania persistence and a coordinated approach over time were necessary to persuade and convince all the parties of the merits of policy change.

Stakeholder involvement

Actors from outside and inside the country played differing roles in each of the countries studied. To give one example, research that had previously been conducted in Ghana and Tanzania influenced successive decision-making in many of the countries. In Mali and Senegal, influential internal policy champions were perceived to have a significant role in tax and tariff changes, in contrast to a more step-by-step approach in Ghana, Tanzania and Nigeria. Here, external advisors played a key role in supporting the Ministry of Health over a period of time, allowing the Ministry to capitalise on these external inputs to bring about change. Commercial sector actors were heavily involved in Tanzania, but played a facilitation role in Ghana and Nigeria.

Influence of regional economic groupings

Essentially, all groups are working toward the ultimate goal of tax harmonisation, so that in the future there will be a common, systematic classification of tariffs for goods imported between respective member states. In West African countries regional economic groupings such as the Economic Community of West African States (ECOWAS) and, particularly, the sub-regional group of Francophone states (West African Economic and Monetary Union, or WAEMU), exerted greater influence over policy decisions at national level than did the East African Community (EAC). Different countries responded to these regional influences in different ways, and each chose different policy instruments to address recommendations. In the case of Senegal, tax rationalisation is a temporary measure, pending a formal unilateral agreement within WAEMU, (Senegal was chairing WAEMU when it took this step) whereas Mali chose to take a stronger stance by passing a decree, which is binding for five years.

Strategies for implementation

The impact of tax and tariff rationalisation depends to some extent on broader issues, such as how successful the strategy of implementing and scaling up ITN policies is, and how cooperative commercial sector partners are. Each of the countries had chosen to adopt elements of a twin-track approach – subsidising the public sector and stimulating the commercial sector – to work towards increasing bednet coverage. However, awareness of and confidence in the prospective role of the commercial sector varied considerably, and there were tensions within countries about whether subsidised net provision could fill the gap, and whether the commercial sector could be the driving force.

Implementation and follow-up

Since changing tax levies is so complex and detailed it was not surprising that countries differed in how they interpreted the new tax and tariff bands. Broadly, these differences were caused by poorly drafted, unclear legislation, or the unwillingness or inability of customs departments to implement national policy. While all the countries involved appreciated the importance of monitoring and evaluating the recent changes to assess the effectiveness of policy change, no systematic approaches were in place to do this.

CRITICAL LESSONS

- Partial reductions in taxes and tariffs limit the overall positive health impact, compared to a complete waiver. Smaller local businesses with lower capacity for credit are less able to withstand economic shocks such as unstable inflation and currency depreciation, and may lack the manpower or systems to recover tax they have paid. They are therefore likely to be disproportionately affected by smaller tax and tariff concessions, compared with larger international players.
- Reductions may not be permanent and care needs to be taken to prevent reductions being reversed over time, as is the current situation in Nigeria and Tanzania.
- The pace of change is driven by broad-based, persistent partnership support, complemented by influential internal and external policy champions. For example, the former President in Mali, the Ghana Social Marketing Foundation in Ghana, and external advisors in Tanzania, all supported the Ministry of Health in bringing about change. It takes time for the market to be affected – it was up to five years in Tanzania before the full benefits of rationalisation on prices were observed.
- Research and external evidence initiate and support change, but a strong base of internal support is necessary to persuade and overcome resistance. Well-planned workshops and meetings that include all interested parties provide opportunities to inform and lobby for change.

Box 1: Workshops in Ghana to inform and lobby for change

- Discussions took place with the different officials in their respective ministries well before the planned workshop, as well as advance lobbying of MPs.
- A detailed and well-presented briefing pack was made available before the workshop. This pack included information on:
  - A description of the malaria burden in the country,
  - Evidence from clinical trials, including one that took place in Ghana, about the efficacy of ITNs,
  - The extent of tax and tariff levies on nets and insecticides, and the revenue raised.

Workshops need to be action oriented so that stakeholders are given specific tasks to follow-up after the workshop until the desired end result is obtained. In Tanzania, tasks were divided amongst participants; this assisted in following through the proposals.

Multi-disciplinary workshops held in Ghana and Tanzania were used to inform policy makers of the extent of tax and tariff levies on products, and of the benefits of rationalisation for both health and the economy.

- Merely passing amendments to legislation is insufficient. Written amendments must be concise and clear and communicated to all relevant parties. Careful follow-up of statutory instruments and how they are implemented is required to counter any problems with interpretation or resistance to change, especially at the point of import.
- There is scope to make much better use of regional economic fora in working towards a more comprehensive approach to tax harmonisation. This should aim to keep to a minimum the leakage of products into one country from neighbouring countries where tariffs are low, and tax evasion where tariffs are higher.
- Clear strategies for implementing policy changes are needed. These need to be well supported by monitoring and evaluation tools which will offer the best scope for modifying strategies according to need, achieving increases in ITN coverage, and providing evidence of successful changes in policy.

Box 2 Legislation: an example from Mali

Legislation was clear and concise, leaving no room for issues of interpretation:

- All of the exempted products were detailed in five separate legal articles, classified by whether the exemption was of tax or duty or waiving of the handling fee.
- Products were given a broad classification, such as products for import or items for local sale, then the individual commodities (i.e. nets, brands of ITNs, yarns and netting) were explicitly listed.
- Each WHO approved insecticide was listed by name.

IMPLICATIONS FOR POLICY MAKERS AND DONORS

There are a number of implications for stakeholders at different levels. These are some areas in which each stakeholder could be active:

Multilateral and bilateral partner agencies

- Draw up advocacy packages for tax and tariff rationalisation, to be used at regional trade forums.

- Provide or enable technical support at country level, especially where the main drive for change is from the Ministry of Health, or where significant internal resistance is detected. This support should be from tax experts, not public health professionals.
- Develop and promote the use of guidelines, in cooperation with regional bodies, to support countries in pursuit of tax harmonisation.
- Assist in drawing up robust monitoring and evaluation tools that are consistent across regional groupings and encourage the exchange of lessons learned at regional and international level. There needs to be adequate funding for monitoring and evaluation as well as for interventions.

Regional bodies

- There needs to be sub-regional agreement on product waivers within the common external tariff and VAT regulations of WAEMU, to ensure effective tax harmonization.
- An advocacy briefing pack needs to be distributed to key players from Ministries of Finance represented in sub-regional economic groups such as WAEMU, and perhaps other regional bodies such as EAC and ECOWAS. This pack should outline the malaria burden in all member states; the impact of ITNs in preventing malaria, with evidence from research; the loss of revenue via imports versus the benefits to the Exchequer of improved health; and a clear list of the actual products which should be exempt, with harmonised tariff code descriptions.
- Support could be sought from the Secretariat of regional monetary and trade groupings, and from RBM, to circulate this document. Country-level cost-benefit analyses could be used to persuade detractors of the relative benefits.

National policy makers

- All parties involved in drafting new legislation require a common understanding of the nomenclature.
- As tax and tariff rationalisation involves a number of products, all items to be included need to be clearly stated and specifically named, so that the correct tariff interpretations can be made at the point of import and the maximum benefit is derived from policy change. Guidelines provided by the regional economic forums should be used.
- Implementation strategies need to ensure that partners work together to avoid any action which might be damaging or divisive.
- Explicit Memoranda of Understanding (MoU) would prevent misunderstandings following legislative change. They would spell out the expected roles of, for example, the regulatory bodies, Ministry of Health and commercial partners.
- The impact of change following legislation needs to be monitored, evaluated and communicated, allowing for any adjustments in strategic direction. Specifically, robust measurements are needed of changes in the volume of imports, quantity of local production, efficacy of distribution, sales, demand, wholesale and retail prices, and the effect on ITN coverage. This should be funded alongside interventions.
- A high priority is to remove taxes and tariffs on local production. Lessons from experiences in Tanzania should be used, especially the ‘claim-back’ system for reimbursing producers based on their production levels, and monitoring production volumes at the same time as minimising opportunities for tax evasion.

FUTURE CHALLENGES

- Ensuring that the current political momentum for tax and tariff rationalisation is sustained across countries in the longer term; and providing plans of action for rapid response to reversal of rationalisation, for example, the current situations in Nigeria and Tanzania.
- Sustaining cohesive and responsive partnerships over time, when the respective roles will be evolving and changing. This is vital if we wish to promote an effective level playing field within countries, necessary to allow the benefits of market mechanisms to take effect on prices, and to ensure that supply matches demand.
- Finding effective ways to implement new policy change within countries, especially at the point of import.
- Planning for changes in revenue collection as domestic markets become more active: notably zero-rating of VAT, or a claim-back system such as in Tanzania, to prevent tax evasion.

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