PRAKARSA Policy Brief

November 2019

THE RISE OF A TOBACCO EXCISE: FOR THE HEALTH AND FISCAL BALANCE OF INDONESIA

Key Messages:

- The smoking prevalence in Indonesia has increased significantly and is burdening the standard of quality of the national health system. The current instrument for controlling smoking consumption is yet to be effective because the policies for cigarette tax excises are too weak.
- Cigarettes have become the second-largest household expenditure after rice. This creates the inability for households to provide the required nutritional food for child development and protecting children from the risk of stunting.
- Cigarettes are one of the largest causes of places a high burden on the country's health services, accounting for 30 percent of total costs for the national health insurance scheme (JKN).

www.freepik.com/free-photo/close-up-male-hand-breaking-cigarettes-with-his-fist_3836231.htm

Controlling Tobacco Consumption

The smoking prevalence of adults in Indonesia increased from 33 percent in 2000 to 39 percent in 2016. This rise in smoking allows Indonesia to have one of the highest smoking prevalence in the world (WHO, 2018). The role of the government in restricting and controlling cigarette consumption can strongly influence the prevalence of smoking fluctuations. However, until now, Indonesia has not ratified the *Framework Convention on Tobacco Control* (FCTC), agreed by member countries of the World Health Organisation (WHO). The FCTC is a framework as a global commitment, to improving public health standards through controlling tobacco consumption and promotion of the devasting health, economic, and social consequences of tobacco consumption.

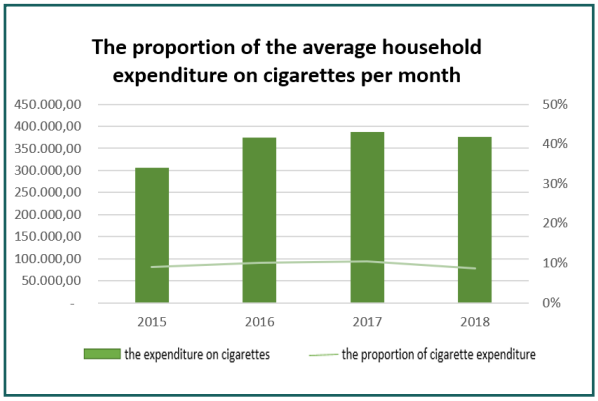
The FCTC aims to protect current and future generations from the harmful effects of tobacco consumption. The FCTC encourages participating countries to take a strong stance and the right steps toward including minimum standards of the convention into policies. Indonesia is one of nine countries that is yet to ratify the FCTC. Moreover, Indonesia is the only country in both the Asia Pacific and the Organization of Islamic Conference (OKI), who is yet to ratify the FCTC.

The Indonesian Government argues that creating policies to restrict tobacco consumption will have a negative impact on the national economy, threatening the survival of tobacco farmers and owners' interests of the cigarette industry, and the workers of the cigarette industry. Meanwhile, the negative impacts of cigarette consumption on the declining purchasing power of the poor for the basic commodities and nutrition, is less considered by the government to develop policies restricting tobacco and cigarette consumption. In fact, the implementation of a policy with weak cigarette restrictions will dramatically decrease the economy of the poor. The WHO (2018) states that the health burden caused by cigarette consumption causes households to fall into poverty.

Cigarettes and Household Consumption

The consumption of household cigarettes in Indonesia can be higher than that of the consumption of other primary goods. *Perkumpulan PRAKARSA* (2019) states that in 2015 cigarettes were the second-largest household expenditure after rice and three to five times more than that spent on education. Meanwhile, according to the Ministry of Health (2018), cigarette consumption is higher than egg and milk consumption. Furthermore, based on the National Socio-Economic Survey (Susenas), it shows that the average

household expenditure on cigarettes per month reaches 10 percent of the total household consumption expenditure. It is almost equivalent to grain consumption at 11 percent.



Source: National Socio-Economic Survey, compiled by PRAKARSA (2019)

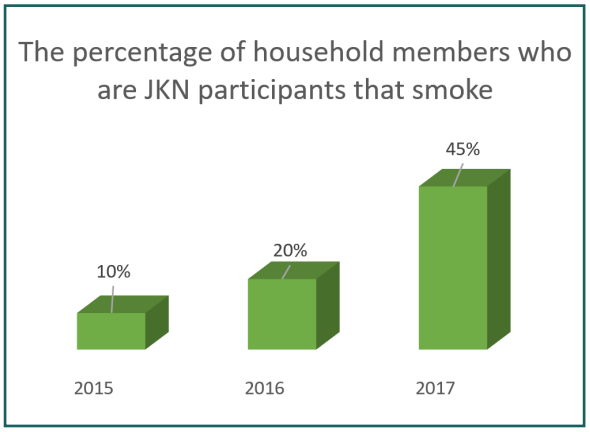
High expenditure on cigarettes by households affects the consumption proportion of other primary needs. This will influence the ability of households to support child growth and development, including required nutritional needs that are not fulfilled. A study conducted by the Social Security Research Center at the University of Indonesia (PKJS-UI), claims that the expenditure on cigarette consumption causes the nutritional needs of children not to be adequately met, so they are at more risk of stunting. The WHO defines stunting as "children are defined as stunted if their height-for-age is more than two standard deviations below the WHO Child Growth Standards median". Stunting is related to poor educational outcomes that will affect productivity in the future.

State Financial Losses due to Cigarette Consumption

Source: unsplash.com/photos/7USMFYqt1NI

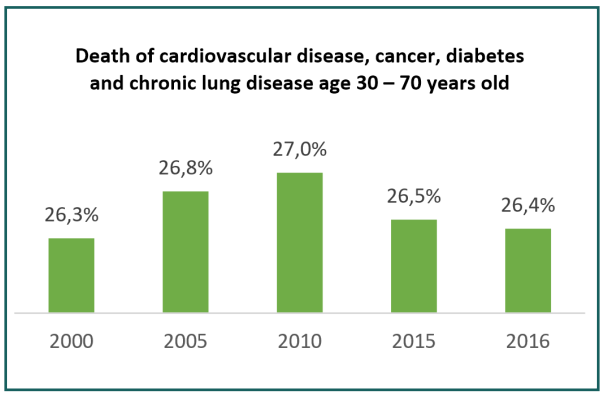
The state losses due to smoking reached 600 trillion rupiah per year or equivalent to a quarter of the State Budget (Kemenkes, 2017). This figure is calculated based on the total loss of productive years (morbidity, disability, and premature death), health spending, and cigarette spending. Furthermore, the direct impact of cigarettes is largely sponsored by the state through the National Health Insurance (JKN) program. Currently, BPJS Health Insurance, as the managing body for the JKN program, has a deficit. According to Idris (2019), one of the causes of the deficit is the increase in service costs from chronic or catastrophic diseases. Cigarette consumption is one of the highest causes for a person suffering from catastrophic diseases, such as cardiovascular disease, cancer, diabetes, and chronic lung disease.

In 2017, the cost of health services for catastrophic diseases reaches 18 trillion rupiah or 30 percent of the total cost of health care (BPJS Health Insurance, 2018). Meanwhile, in countries where tobacco control efforts are already well established, health care costs related to smoking are only six to fifteen percent of overall health care costs. Demonstrated by JKN participation figures, from Susenas data, the number of JKN smoking participants has increased from 10 percent in 2015 to 45 percent in 2017. Although participation levels for JKN are rising every year, the number of smoking participants are also increasing. As a result, there is a strong indication that participants who suffer from catastrophic diseases, and use JKN facilities, are smokers.



Source: National Socio-Economic Survey, compiled by PRAKARSA (2019)

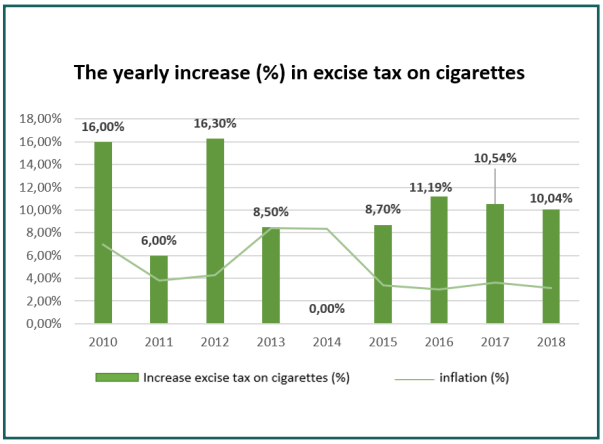
Cigarette consumption is one of the highest causes of death. The WHO (2018) states that cigarette consumption globally, affects 7 million deaths, in which 890 thousand of them are passive smokers. Among ASEAN countries, the death rate due to smoking in Indonesia is the highest at 194 thousand people, compared to the Philippines at 107 thousand people, Thailand at 75 thousand and Myanmar at 61 thousand people (Tan, YL. And Dorotheo, 2018). The burden of catastrophic disease in Indonesia cannot be underestimated. The mortality rate caused by catastrophic diseases will reach 73 percent of the total mortality rate and will continue to increase every year (WHO, 2018). The diseases that cause death that are influenced by smoking, such as cardiovascular disease (heart and stroke), cancer, diabetes, and chronic lung disease are still the number one cause of death in Indonesia.



Source: World Health Organization, 2018

Death from catastrophic disease has declined since 2010, although not significantly. However, that number is still above average of the total number of deaths for catastrophic disease globally. The WHO (2018) states that the smoking prevalence is proportionate to patients that suffer from catastrophic disease.

For health financing, the government is currently trying to overcome the burden of the JKN deficit through the use of the Revenue Sharing Fund of Tobacco Products Excise (DBHCHT), through Ministry of Finance Regulation Number 222 / PMK.07 / 2017. However, this policy reflects a "firefighting" policy, rather than a policy that encompasses good public policy planning, as it has yet to target the core problem of health financing and its relation to cigarette consumption. Based on data from the Ministry of Finance, the increase of excise taxes has decreased from 2016 to 2018, where the fluctuation follows the inflation rate.



Source: Central Bureau of Statistics (BPS) and Ministry of Finance, compiled by PRAKARSA (2019)

One of the most effective ways to control cigarette consumption and reduce the deficit in health financing caused by cigarette consumption behaviour is by fiscal instruments or excise taxes. A high excise tax policy on cigarettes can reduce the prevalence of smoking significantly and maintain state revenue produced from excise taxes. The optimization of excise tax, as an effort to reduce the prevalence of smoking, has not been undertaken optimally. The current excise tax rates have not succeeded in reducing the purchasing power of people to buy a pack of cigarettes because it merely adjusts the inflation or incremental levels. We need a significant increase in cigarette excise taxes, so that we can change behaviours of cigarette consumption and other tobacco products.

Policy Recommendations

- The government must significantly increase cigarettes taxes or excise and other processed tobacco products in 2020. The current incremental increase of cigarette excise taxes will not have a direct effect on decreasing the prevalence of smokers in Indonesia. With a higher cigarette tax, cigarettes will be difficult for the poor and children to purchase. Therefore, it is expected to have a direct impact on decreasing the smoking prevalence and the increasing of household purchasing power on basic commodities and nutrition.
- In the short term, the central government in 2020 must increase the cigarette excise to the optimum rate – from the price at the consumer level - by 57% as mandated by Law No 39/2007. According to PRAKARSA (2018), the current percentage for cigarette excise tax rates is 40% at the new consumer level.
- In the medium term, the government must immediately ratify the FCTC into law and simplify the regulation of excise tax rates on cigarettes and other tobacco-derived products. According to the results of the WHO's recommendations, the simple excise tax rates are between 70% -75% of the price at the consumer level.
- To overcome the financing deficit of JKN, the government must earmark the policy, so that the income from cigarette tax excise finances JKN. The central government must instruct local governments to make regulations and undertake fiscal policy earmarking for JKN financing. As we know, one of the causes of the JKN deficit is the high allocation for the treatment of catastrophic diseases, including those caused by cigarette consumption. Therefore, the government needs to integrate earmarking fiscal policies with control policies of tobacco consumption from the non-fiscal side. Some non-fiscal efforts are:
  i. The establishment of large non-smoking areaa by involving all actors (private sector, community organizations and local governments), so that all parties have the responsibility to control cigarette consumption in their respective regions;
  ii. The central government needs to include "no smoking" as an additional requirement for households receiving the Family Hope Program (PKH), because PKH is a conditional cash transfer program;
  iii. Tegulations on cigarette advertising and other tobacco products need to be more stringent.

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PRAKARSA *Policy Brief* is an independent policy analysis and recommendation about various critial issues related to development and welfare.

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Disclaimer:

This policy brief has been developed to build public awareness about the dangers of cigarette consumption on people's health. It has also been developed to support and encourage policymakers to implement a high cigarette excise policy and fiscal earmarking of cigarette excise tax for health financing. This policy brief is expected to be used as material for discussion on how to control cigarette consumption and how it can be improved through instrument optimization of fiscal and non-fiscal policies. In line with 'World No Tobacco Day' on May 31, 2019, we launched this Policy Brief by PRAKARSA. This policy brief can be implemented with the support of Brot fur die Welt (BfdW) to the Perkumpulan PRAKARSA.