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Health Taxes for School Meals

A Global Toolkit for
Financing a Healthy Future



Developed for the Sustainable Finance Initiative for School Health and Nutrition of the School Meals Coalition

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Foreword



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Our global food system is in crisis. Progress towards the eradication of hunger has stalled. With the 2030 deadline for the Sustainable Development Goal (SDG) ambition of ‘zero hunger’ fast approaching, some 673 million people are living with the grinding reality of undernutrition. Many millions more are coping with food insecurity or are unable to afford healthy diets. Meanwhile, unhealthy diets are fueling an epidemic of obesity. Excessive consumption of fats, salt, sugar, and processed foods is contributing to a public health emergency. To the double burden of malnutrition associated with hunger and obesity can be added environmental unsustainability and inequity. While the global food system generates extraordinary wealth, it is also a major contributor to greenhouse gas emissions, biodiversity loss, and environmental damage, while leaving large swaths of the rural poor in poverty.

Children are on the front line of our failing food systems. Some 143 million children are undernourished – and the childhood share of global hunger is rising. Obesity rates among children and adolescents are rising at alarming rates, creating health risks today and locking children into consumption patterns that will stay with them into adulthood.

The consequences of childhood hunger can be seen in the education systems around the world. According to one estimate, about half of the 745 million children enrolled in primary schools globally do not receive a school meal, and, as every parent understands, hungry children do not make good learners. Some 70 percent of the gap is concentrated in low-income and lower-middle-income countries, where the benefits would be greatest.

School meals can play a critical role in combating the crisis in food systems. There is abundant evidence that properly financed and effectively managed school feeding programmes get more children into school, reduce dropout rates, and improve learning outcomes. More than that, high-quality school meals, aligned with wider measures to encourage healthy diets, can inculcate the healthy eating habits needed to break the transmission of obesity across generations. Procurement systems for school meals can be designed to encourage sustainable and regenerative farming methods and benefit smallholder farmers: in Brazil, 30% of procurement is reserved for small producers, and there is a price premium for agroecological or organic foods, for example.

Finance is one of the greatest barriers to expanding school meal programmes. Across the world, governments are grappling with fiscal stress, public debt, and food price inflation, making it difficult to expand school meal provision at the pace and scale required. While more could – and should – be done to finance school feeding out of general taxation and equitable public spending, new sources of finance are needed.

The report explores one of the most promising options.

The products most responsible for the rise of non-communicable disease in the next generation – tobacco, alcohol and sugar-sweetened beverages – are taxed at levels far below the harm they cause. In short, we are under-taxing products responsible for producing ‘public bads’ in the form of unhealthy diets, and spending too little on the health, nutrition, and education programmes with a potential to generate the ‘public goods’ that would come with healthier diets.

Two powerful movements are now gaining momentum. The World Health Organization’s 3 by 35 Initiative is calling on countries to raise real prices on tobacco, alcohol and sugar-sweetened beverages by 50 percent by 2035 – a reform that could mobilise US\$ 1 trillion in revenue over a decade. In parallel, more than 100 governments in the School Meals Coalition have pledged to reach every child with a healthy, nutritious meal in school by 2030. Each movement is transformative on its own. Fusing these two initiatives would have catalytic effects.

São Tomé and Príncipe has shown the way. In 2023, its parliament passed a school feeding law that earmarks alcohol and tobacco excise revenues for the national school meals programme, creating a permanent domestic source of funding to sustain it. Other countries are now exploring the scope for following that example. The potential is clearly visible in countries like the Philippines, which has used ‘sin taxes’ to finance a major expansion of health provision.

The case for using health taxes to fund school meals is straightforward and compelling. They can raise reliable revenue streams while reducing consumption of products that harm public health. Channeling part of the revenue to school meal programmes that benefit the poorest and most vulnerable children first could enhance nutrition, unlock opportunities in education, support smallholders’ access to markets and livelihoods, and, over the longer term, reduce pressure on health systems.

Research from the Sustainable Financing Initiative (SFI) for School Health and Nutrition estimates that scaling up coverage to reach an additional 236 million children in pre-primary, primary and lower-secondary schools would require an annual average investment of US\$ 10.8 billion – around US\$ 54 billion over the next five years. For context, that is roughly one-twentieth of what the 3 by 35 Initiative estimates higher excise taxes could mobilise over a decade. Yet health tax revenue rarely reaches school meal programmes.

This toolkit, commissioned by The Rockefeller Foundation and developed by SFI and ODI Global, provides an agenda for changing this picture. It provides governments with a tool to guide policy design, understand challenges, and learn from success stories around the world. Some of the issues facing policymakers are technical, including the role of specific and *ad valorem* taxation, tiered thresholds, and the taxation of substitute products. Other issues, notably the case for and against earmarking tax revenues for specific purposes, have long figured in public finance debates.

The toolkit does not offer easy answers, but it does provide hard evidence and insights backed by a call to action for the millions of children now at the sharp end of a food system crisis they played no part in creating.

Roy Steiner

Senior Vice President, Food Initiative at The Rockefeller Foundation

About the Toolkit

Who Is it for?

This toolkit is aimed at government ministries (especially spending ministries), departments and agencies interested in financing social programmes, such as school meals, and for understanding and strengthening the design and implementation of health taxes. It may also be a helpful resource for civil society organisations, development partners, and other interested stakeholders.

What Value Does it Add?

This toolkit brings tax and spending together. Exploring the connections, considerations and pros and cons of using revenue to finance social programmes helps to facilitate joined-up policymaking, which is increasingly important for governments to solve the complex problems of today. Secondly, balanced options and considerations support and inform decisions that are tailored to specific contexts. Thirdly, insights are grounded in real-world examples and empirical evidence, including politically sensitive, practical implications.

How to Use it

The toolkit does not prescribe or recommend specific policy choices; those decisions are taken by governments based on evidence relevant to each context. It provides insights and options to help ministries, departments, and agencies inform their choices. For example, the insights can be drawn upon to:

- **Build the evidence base for reform:** Quantify the coverage gap and work with partners to estimate the health tax reform revenue and health impact, giving a stronger joint voice on health tax reform.
- **Engage proactively with Ministries of Finance:** Advocate for health taxes to finance school meals, highlighting the untapped potential of health taxes for revenue mobilisation.
- **Champion the triple benefit narrative:** Position health taxes as improving public health, raising revenue, and delivering progressive social outcomes through school meals and other complementary programmes.
- **Advocate for earmarking or revenue commitment mechanisms:** Navigate the range of funding mechanisms, from formal legal earmarks to strategic budget alignments, to find what is best for a country's context.
- **Build cross-sectoral coalitions:** Align with education, health, agriculture, finance ministries, and civil society to build political support and counter industry opposition.

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Key Messages

- **School meal programmes (SMPs) are a high return investment:** they offer a powerful lever for advancing Sustainable Development Goals (SDGs), as they can be designed to enable access to quality education, improve nutrition, expand social protection, and catalyse food systems transformation.
- **There is a significant funding gap:** progress has been made in expanding SMPs in lower-income countries, but large coverage gaps remain. Funding is also insufficient or at risk, especially against the backdrop of recent shocks, aid cuts, and rising public debts.
- **Health taxes have a triple benefit:** they are a viable and underused solution that simultaneously close funding gaps, discourage harmful consumption, and improve livelihoods.
- **Designing to match reality:** effective health tax design navigates economic, administrative, legal, and political realities. Evidence-based, consultative design protects the intended objectives and reduces unintended consequences.
- **'Earmarking' as a social contract:** linking revenues to school meals or other programmes can fill funding gaps and build public support for taxation, but the feasibility of allocating funds rigidly or flexibly is situation-specific and not without risk.
- **Achieving policy reform:** political strategy, building coalitions of support, and effective communication are as important to successful policy delivery as technical design.

Abbreviations and Acronyms

Acronym	Full Term	Definition
AV	Ad Valorem	A tax charged as a percentage of a product's price.
CPI	Consumer Price Index	A measure of changes in prices of goods and services over time, used to track inflation.
DRM	Domestic Resource Mobilisation	How governments raise revenue through taxes and other domestic sources.
GDP	Gross Domestic Product	The total value of all goods and services produced in an economy.
HS Code	Harmonised System Code	An international system for classifying traded goods for taxation and customs purposes.
IFS	Institute for Fiscal Studies	A research institute focusing on economics and public policy.
LIC	Low-Income Country	A World Bank classification for countries with low national income.
LMIC	Lower-Middle-Income Country	A World Bank classification between low- and middle-income countries.
MTEF	Medium-Term Expenditure Framework	A government's multi-year (typically 3-year) public spending plan.
NCD	Non-Communicable Disease	Diseases not transmitted person-to-person (e.g. diabetes, cancer).
NPM	Nutrient Profile Model	A system for classifying foods based on nutritional composition.
ODA	Official Development Assistance	Government aid aimed at promoting development and welfare in developing countries.
ODI	ODI Global	A global affairs think tank focused on international development.
PFM	Public Financial Management	Systems and processes for managing public finances, including revenue and expenditure.
SB	Sweetened Beverage	A drink containing any added sweetener, whether caloric or non-caloric.
SDG	Sustainable Development Goal	One of 17 global goals set by the United Nations for achievement by 2030.
SFI	Sustainable Financing Initiative for School Health and Nutrition	Initiative supporting financing for school health and nutrition programmes.
SMP	School Meal Programme	A programme providing free or subsidised meals to schoolchildren.
SSB	Sugar-Sweetened Beverage	Drinks containing added caloric sweeteners such as sugar or syrup.
UPF	Ultra-Processed Food	Industrially processed foods high in salt, sugar, or unhealthy fats.

Glossary

Content based tax:	a tax charged according to the amount of harmful content a product has (like sugar or alcohol).
Elasticity:	how much people change their behaviour, such as buying or selling, when another variable changes, like price or income.
Excise tax:	a tax applied on selected goods and services, often to discourage their consumption.
Lower income countries:	LICs and LMICs combined.
Malnutrition:	poor nutrition resulting from deficiencies, excesses, or imbalances in nutrition.
Pigouvian tax:	a tax intended to correct for negative externalities by making consumers and/ or producers bear the true social cost of harmful goods (like tobacco or carbon emissions).
Polycrisis:	the situation in which multiple crises (e.g. economic, climate, health and geopolitical) combine and interact in ways that amplify the overall risks and challenges (Whiting and Park, 2023).
Sin tax:	a common alternative phrase for taxes on goods considered harmful to health or society, such as tobacco, alcohol, and sugar. It is relatively interchangeable with the term 'health tax'.
Tax base:	the goods and services that a tax is applied on, and the characteristic of that product that the tax is calculated from (such as its price or size).
Time inconsistency:	in this context, it refers to when people make long-term wellbeing commitments but face difficulties in persisting under short-term pressures or influences.
Undernourished:	when a person's caloric intake is consistently not enough for daily requirements.
Veto holders:	"individual or collective actors whose agreement is required for a change in policy" (Mazumdar and Moreno-Serra, 2023).
Veto points:	"the junctures in the legislative and policy-design process where reform can be blocked, with their location and number determined by the institutional and political arrangements in a given context." (Mazumdar and Moreno-Serra, 2023).



Executive Summary



Introduction

A malnutrition problem persists at a global level, with 143 million undernourished children worldwide, and lower-income countries (LICs) constitute 41% of that. However, countries' public finances are under more pressure from polycrisis, reduced dependability of aid, and high debt servicing costs, slowing progress against SDGs.

High-quality SMPs offer a cost-effective and multi-pronged intervention. They create positive outcomes in child nutrition, health, education, poverty alleviation, social protection, long-term productivity, and sustainable food systems.

Many governments have ambitions to scale up their SMPs, along with growing international impetus for health tax reform and financing school meals. However, sustainable financing remains a major barrier. Across lower-income countries, scaling up school meal programmes would require an estimated annual investment of \$7.5 – \$10.8bn by 2030.

Linking health taxes to SMPs presents a compelling opportunity to align public health objectives with education and social spending priorities. Health taxes are an increasingly important policy tool to address rising rates of non-communicable diseases (NCDs) and malnutrition. They offer a triple benefit: directly discouraging unhealthy consumption, raising much-needed revenue, and making fiscal policy more progressive.

This toolkit explores the potential of introducing or reforming health taxes to fund SMPs. It is primarily targeted at technical staff in government with an interest in taxation, public finance, health, nutrition, education, social protection, and food systems outcomes, as well as researchers and civil society organisations with similar interests.

Tax Policy Principles

Over-consumption of harmful products happens because of negative externalities (healthcare costs borne by society), imperfect information (limited awareness of long-term harms), and behavioural biases (addiction).

Taxes can play two roles in addressing this problem: directly discouraging their consumption and generating revenue to finance appropriate spending initiatives. The balance between these two objectives, as well as practical design considerations, guide what an optimal health tax looks like.

In principle, the best tax structure for directly discouraging over-consumption is content-based, such as on sugar or alcohol content. However, ad valorem and volumetric tax structures are more common because they are easier to administer and define, making them less risky in many contexts.

Practical Design Considerations

Five core choices are central for designing an effective health tax: which products to tax, what the tax applies to (price, quantity, or harmful content), what tax rate to use, where in the supply chain the tax is collected, and whether and how revenues are earmarked. These choices should be grounded in a clear problem definition, a strong understanding of the market, and an assessment of risks to the policy's impact.

From an enforcement perspective, volumetric taxes are simplest. Content-based taxes risk inaccurate product labelling within a country and on its imports. Ad valorem taxes can be susceptible to price under-reporting.

Limiting the number of domestic tax collection points simplifies tax administration, and this is usually done by targeting manufacturers or wholesalers. Regional policy harmonisation initiatives and credible deterrents play a role in mitigating risks of switching to smuggling and illicitly produced goods. Specific rates need regular inflation adjustment through indexation or legislative amendments, while ad valorem rates have the benefit of automatically adjusting for inflation.

Defining taxable products is a balance between covering all the relevant unhealthy goods and ensuring it is enforceable. Aligning the definition with Harmonised System codes prevents ambiguity. Nutrient Profile Models, which classify products based on their nutritional composition, help define complex and unhealthy processed foods.

Consumer behaviour, especially sensitivity to price changes, drives the health objective. Understanding the market sheds light on what influences consumption, which substitution patterns to expect, and how consumers respond over time.

Health taxes are sometimes considered regressive based on analysis of short-term financial incidence. Assessing health tax progressivity should take a longer-term view covering productivity gains, avoided healthcare costs, and gender and environmental equity. Linking this revenue to school meals would further increase progressivity.

Domestic industry protection arguments can obscure a health tax objective, complicate its administration, and breach trade rules. The choice of tax rate also depends on how much of the tax suppliers are expected to pass through to consumers. A content-based tax has the added advantage of giving suppliers an incentive to reformulate their products to reduce harmful content.

Evidence plays a central role in both policy design and political sustainability. With limited data, simple analysis can approximate revenue and health impacts while data systems are strengthened over time. With better data comes greater confidence to formulate and compare different policy options based on (expected) health, revenue, and price outcomes in the medium-term.

Earmarking

Linking revenues to SMPs aligns the taxation of unhealthy consumption with investments in child nutrition. This can improve public support, transparency, and accountability, especially where the benefits are visible and well communicated.

There are different approaches to do this. Hard earmarking legally assigns a defined share of revenues from a specific source to SMPs, strengthening credibility and certainty of financing. Soft earmarking allocates funds to a priority sector without strict legal hypothecation. It relies on political and policy commitment, preserving some budgetary flexibility while still signalling intent and building trust.

However, earmarking involves trade-offs. Assigned revenue streams may be volatile or insufficient for programme needs, and rigid rules can limit a government's ability to respond to changing priorities. Without strong enough national and decentralised administrative systems in place, earmarking may lead to delays or fund underutilisation, undermining the reliability it was designed to achieve.

Even without earmarks, governments can make direct commitments of resources to school meals through budget lines, programme classifications, or performance targets. Alternatively, governments could commit to complementary policies that achieve a child wellbeing goal, including, but not limited to, health taxes and SMPs.

Deciding which approach is best is situation-specific, guided by the broader fiscal and political context, institutional readiness, and the policy goals that SMPs are expected to support. A balanced approach that links health taxes to SMPs while maintaining flexibility and strong budget integration is often the most effective way to support both political sustainability and reliable programme financing.

Political Economy

Navigating a political economy is a fundamental but complex part of the reform process. It is shaped by the incentives and priorities of multiple actors, from government ministries and civil society to the affected industries. Success depends on aligning multiple interests, securing political champions, and identifying windows of opportunity.

Building broad coalitions is therefore essential. Government institutions, civil society, and academia, among others, all play a role throughout a reform. Sustained impact requires different contributions: technical expertise, institutional capacity building, campaigning, accountability mechanisms, and political influence.

A coalition has many technical solutions at its disposal for addressing political barriers. They include phased reform implementation, aligning reform to a government's vision, leveraging existing policy rationales, and securing key

supporters by reflecting their priorities in reform design. Industry arguments can steer reform narratives, with a real risk of negative reframing. A coalition must therefore carefully name a reform or new tax and carry out analysis in anticipation of common industry pushback.

Public support is critical and needs government investment. A clear and intensive communication campaign backed by scientific evidence can explain health tax reforms, while linking them to the benefits of SMPs solidifies public buy-in.



Introduction: The Case for School Meals and the Use of Health Taxes for Addressing Development Outcomes

Key takeaways

The strategic value of school meals in the current context

Worldwide, 143 million children are undernourished, with 41% living in lower-income countries.

However, the recent series of global shocks – the polycrisis, reduced dependability of aid, and high debt servicing costs – has put countries' public finances under increased pressure, slowing progress towards SDGs.

Having limited resources puts more impetus on investing in cost-effective and multi-pronged interventions. With high costs of living and low tax morale, financing using taxes must be sensitive to who is affected by taxes and who benefits from how resources are spent.

SMPs offer positive outcomes in child nutrition, health, education, poverty alleviation, social protection, long-term productivity, and sustainable food systems. Large-scale SMPs offer a unique opportunity to boost local economies and transform food systems to be more equitable, resilient, and sustainable.

Many governments have ambitions to scale up their SMPs. However, sustainable financing remains a major barrier. Food inflation has led to significantly higher school meal costs. Across lower-income countries, scaling up SMPs would need an estimated average annual investment of \$7.5 – \$10.8bn by 2030.

Health impacts, especially on children, require sustained implementation over many years to materialise. School meal financing, therefore, has to be reliable to support this.

This toolkit explores the potential of introducing or reforming health taxes to fund SMPs. If successful, this can directly discourage unhealthy consumption, raise much-needed revenue, and make fiscal policy more progressive.

Many countries' public finances are under increased pressure due to the "polycrisis" of recent global shocks, which have increased demands on public spending, while rising prices, borrowing costs, slow growth and aid cuts have limited the fiscal space for spending on public services. The effects of the polycrisis are also slowing down progress towards the SDGs, which can be self-reinforcing: poverty, hunger, education, health, and inequality are closely interlinked.

Thus, limited resources spent tackling development challenges must target highly cost-effective and multifaceted to achieve maximum impact for the amount invested. Evidence from SMPs indicates a potential to achieve multiple benefits.

Similarly, health taxes implemented around the world can have a direct impact on health outcomes while mobilising domestic revenue to fund additional targeted assistance. Earmarking revenues from health taxes for SMPs could therefore offer a powerful intervention to unlock bottlenecks across a broader set of outcomes: improved child nutrition and health, better school attendance and performance, poverty alleviation, reduced inequality through social protection and the inclusion of vulnerable groups, long-term productivity, and sustainable food systems.

School Meals and Development Outcomes

Among its multi-sectoral aims, SMPs seek to address child malnutrition. This encompasses children who do not get enough calories (undernourished) as well as those with poor quality or imbalanced diets, which can lead to being overweight or obese. It is estimated that 143 million children globally are undernourished, representing 28% of children living in low-income countries (LICs), and 13% of those in low-middle-income countries (LMICs). In 2021, in the immediate aftermath of the COVID-19 pandemic, only 18% of children in primary schools in LICs and 39% in LMICs – 157 million in total – received some form of school meals.^[1] By 2024, this had risen to 27% of children in primary schools in LICs and 42% in LMICs.^[2]

Providing a nutritious meal at school can help address malnutrition, but can also have wide range of co-benefits, including improving learning outcomes and increasing school enrolment, enhancing food and nutrition security, boosting local economic development, and catalysing the transition toward more sustainable and inclusive food systems. Poverty and market failures are key drivers of childhood malnutrition, leading to problems with food quality across food systems and under-consumption of healthy foods, partly due to the lack of consideration of 'externalities' (or wider costs and benefits to society) in individual consumer choices and the industry's response to that demand.

Expanding school meals on a national scale has the potential to create cumulative benefits over children's lifetimes that can generate powerful multiplier effects.^[3] Some studies suggest school meals can break the transmission line from childhood incidence of being overweight to adult obesity.^[4] Given that obesity is a major driver

of NCDs around the world, cutting levels of obesity can also have a significant impact on future healthcare costs for individuals and public finances. NCDs include long-term diseases such as cardiovascular diseases, cancers, chronic respiratory diseases, and diabetes, which together account for more deaths in people aged under 70 than any other cause of death combined. ^[5]

Lower-income countries are also more affected by NCDs, ^[5] representing an estimated 82% of premature deaths. In 2010, World Health Organisation (WHO) analysis suggested that each 10% rise in NCDs was associated with 0.5% lower rates of annual economic growth. ^[6]

Obesity has an estimated annual economic cost of \$2 trillion (about 2% of global GDP). The healthcare cost alone for diabetes was \$760 billion in 2019. ^[7] Better education and health outcomes can improve the productivity of the workforce and therefore strengthen economic growth prospects.

Box 1 – SMPs – Example evidence of impact

Providing school meals can increase enrolment by 10% or more in a low-enrolment setting. ^[4]

Ghana's SMP improved enrolment rates, grade attainment, and poor students devoting more time to their schooling. ^[8]

Evidence from India's Midday Meal Programme shows that children of mothers who had participated were less likely to be stunted. School meals contributed to 13% – 32% of national height gains for age, a measure of stunting. ^[9]

Exposure to high-quality universal free lunches in England increased healthy weight prevalence and reduced obesity prevalence in children by the end of the first school year. ^[10]

School meal procurement provides opportunities to grow local economies and support smallholder farmers, such as in Ghana. ^[11]

A more sustainable food system also encourages a planet-friendly, lower-carbon food supply through regenerative agriculture. Modest changes to standard school menus can reduce environmental impacts by 26% and by 43% with a vegetarian diet. ^[3]

Furthermore, large-scale SMPs offer a unique opportunity to boost local economies and transform food systems. By shaping both supply and demand, these programmes can reinforce a more equitable, resilient, and sustainable food system.

On the supply side, SMPs can provide predictable demand for planet-friendly foods from smallholder farmers, particularly those practising agroecology, organic, or regenerative approaches.^{a [12]} On the demand side, school meals can influence dietary preferences towards healthier foods through improved menus alongside food, nutrition, and sustainability literacy.

Governments in many lower-income countries are therefore implementing ambitious plans to scale up school meals. The additional 48 million children globally receiving school meals between 2022 and 2024 is driven by LICs.^[2] More than 100 countries and regional bodies are members of the School Meals Coalition,^[13] which is committed to ensuring every child has an opportunity to enjoy a healthy and nutritious meal in school by 2030. As of April 2026, more than 60 countries have submitted national commitments to the School Meals Coalition to expand and improve their national SMPs.

Costs and Financing Options for Scaling Up SMPs

Sustainable financing remains one of the major barriers to scaling SMPs. While some governments have increased domestic investments, fiscal space is increasingly constrained by limited economic growth, rising debt service, food inflation and losses, and damages caused by climate change-induced natural disasters.

Despite these pressures, there is growing momentum. Countries such as Benin, Kenya, Nepal, Rwanda, Sierra Leone, and Indonesia are working towards universal coverage, with Rwanda nearing this goal at the primary level. Although this growing political commitment is encouraging, progress may stall without predictable and adequate financing.

Meeting this ambition will require significant investments. The average benchmark cost for school meal provision is estimated at \$64 per pupil annually for LICs and LMICs.^[8] Based on this estimate, the cost of scaling up school meals to 60% coverage of school children in LICs and LMICs by 2030 would incur an estimated average annual cost of \$10.8 billion over five years. A more modest but significant accelerated expansion puts this average annual cost at \$7.5 billion.

However, delivering this level of expansion will require increased public spending, which risks exacerbating existing fiscal imbalances (i.e., the gap between government revenue and expenditure) in some contexts. Bridging this gap will require greater domestic resource mobilisation, supplemented where needed by external financing.

a These approaches typically aim to do one or more of the following: reduce synthetic inputs (e.g., synthetic fertilisers, pesticides, herbicides, etc.), enhance soil health, increase biodiversity, reduce greenhouse gas emissions and sequester carbon, conserve water, improve climate resilience, and strengthen yields and farmer livelihoods.

In 2022, official development assistance (ODA) reported for school meals was approximately \$287 million, representing 0.1% of international aid.^[14] This is only a fraction of the cost required for a scaling up of SMPs, meaning that domestic budgets assuming responsibility for a growing share of overall spending will be key. This will also reduce the risk of dependence on aid, particularly when aid budgets are being cut.

However, in many contexts, rising debt service payments are squeezing the discretionary component of national budgets, where programmes like school meals are often situated. As a result, debt service has eroded public spending in vital social sectors in LICs and LMICs. For example, in 2023, LICs and LMICs were scheduled to pay \$87 billion in debt service – an amount that exceeded spending on health and nutrition.^[4]

At the same time, food inflation has significantly eroded the real purchasing power of school meal budgets.^[15] The inflation-adjusted budget per child fell from approximately \$33 per child in 2017 to just \$16 in 2022 in LICs, and in the same period, declined from about \$33 to \$18.2 in LMICs.

Governments have several options for freeing up fiscal space, not only to sustain and expand programmes, but also to protect their real value against inflation. These include streamlining spending in other areas, improving expenditure efficiencies, redirecting general subsidies (which are often inefficient and inequitable), or increasing tax revenues. Additionally, innovative external financing mechanisms, including debt swaps^[16] and climate finance^[17] are also being explored as complementary approaches. However, while debt swaps have been proposed as a partial solution, their scale and speed remain limited. In many cases, more ambitious and systemic debt relief will be necessary to create the fiscal space needed for sustained investment in school meals.

In parallel, while some studies^[18] have estimated that there is substantial unmet domestic revenue generation potential in lower-income countries, in practice, expansion of the tax base (as a share of GDP) has been difficult to achieve. At best, countries have managed to expand by an average 0.5 percentage points of GDP annually.^[19] Moreover, with many populations grappling with rising costs of living and low tax morale, there is often widespread opposition to increased taxation, at times leading to violent protests.^[20]

The choice of tax instrument and who bears the tax burden is therefore an important consideration. One way to build public support for increased taxes could be through earmarking new revenues to SMPs. Several countries are financing large-scale SMPs either fully (Bolivia and Guatemala) or partly (India) out of taxes assigned for spending on school meals.^[21]

What Is a Health Tax?

A health tax is applied to a product with a negative public health impact. Traditionally, the focus has been on alcohol, tobacco, and sugar-sweetened beverages (SSBs).^[22] This toolkit focuses on these because of the greater evidence base. In recent years, health taxes have expanded to other sweetened beverages, sugary foods, and ultra-processed foods (UPFs) high in salt, trans fats, and saturated fats. All of these are linked to poor health outcomes and other social costs.^[24] Over-consumption of sugar and UPFs connects most closely to child malnutrition, which then aligns more closely with funding school meals.

Health can encompass physical and mental well-being, shaped by behavioural risk factors and environmental conditions, including air and water quality. For example, SSBs are primarily associated with adverse physical health outcomes, but broader definitions of health may also consider environmental externalities, such as their high water footprint.^[25] What constitutes a health tax does not always have a clear boundary and could extend beyond impacts on human health.

Whether a tax is considered a health tax therefore depends on its intention, but aligns with the typical rationale for a modern excise tax system. An excise tax is meant to be paid ultimately by consumers, even though it is often collected from producers. It is applied to selected goods, whether imported or locally produced, as long as they are consumed domestically.

Why Use Health Taxes?

The focus on health taxes has gained traction because it can potentially offer a “triple benefit”. They can directly improve **health** outcomes by targeting harmful foods and food systems to reduce consumption of products harmful to public health; they generate **revenue** to fund further initiatives to support healthier lifestyles and regenerative agricultural practices (e.g. through spending on “regenerative” SMPs); and they can be designed to produce progressive outcomes,^[21] with poorer households securing more of the benefits and wealthier households carrying a greater share of costs, particularly when combined equitable spending of revenues and supporting local farmers.^[21]

Global surveys conducted across Colombia, India, Jordan, Tanzania, and the United States (US), find strong public support for higher taxes to help tackle NCDs, which is stronger when revenues are earmarked for public services.

Health taxes have the potential to raise significant revenues and international impetus has grown accordingly. Many countries already have taxes on tobacco and alcohol, raising around 0.3-0.6% of GDP annually.^[26] But there is potential to go further. The WHO’s 3 by 35 initiative, launched in 2025, advocates for country-led policies to increase the real prices of tobacco, alcohol, and sugary drinks

by at least 50% by 2035. Globally, it estimates \$1 trillion could be raised over a decade. Another study finds that a one-off rise in real prices by 50% could save an estimated 50 million lives over 50 years. ^[27]

What's in the Toolkit?

The toolkit covers four main areas:

1. Tax policy principles and effective health tax design options
2. Practical design considerations: wider issues to consider for a health tax
3. Earmarking trends, options and considerations
4. Political economy, policymaking processes and the role of consultation

The evidence used to build this toolkit focuses on three of the most common health taxes: tobacco, alcohol, and sugar, with a particular focus on SSBs and their tax treatment for health tax purposes only. However, the toolkit can be used to think about health taxes on other harmful goods, for which many of the same considerations are relevant.

There are five accompanying case studies in different contexts that illustrate lessons learned as well as potential applications of this toolkit. The countries covered are: Burundi, Indonesia, Kenya, the Philippines, and Uganda. Key insights are referenced throughout the toolkit, with further details available in the case studies themselves.



Tax Policy Principles, Options, and Design

Key Takeaways

Aligning health and finance objectives

Some products can be considered over-consumed because of additional costs to society (negative externalities), imperfect information, and difficulty in making optimal choices for oneself (negative internalities).

Taxes provide two ways of addressing this problem: discouraging their consumption and generating revenue to finance appropriate spending initiatives.

A modern excise tax system corresponds to the purpose of a health tax. The appropriate design depends on the balance between the discouraging and revenue-generating objectives, as well as practical design considerations.

The most common health tax structures apply a tax on the price (ad valorem), quantity (volumetric), harmful content (content-based) or a combination (ad valorem and volumetric).

In principle, the best tax structure for directly discouraging over-consumption is content-based, such as on sugar or alcohol content. But volumetric and ad valorem taxes are popular because they are easier to administer and define, making them less risky in many contexts.

Rationale for Government Intervention

Negative externalities happen when the price of a product doesn't reflect the costs it imposes on people not directly involved in the transaction. Smoking cigarettes, for example, imposes a cost on the health of those in the surrounding area.

A widely accepted solution is to use taxes to increase the price so that it reflects the additional cost to society (also known as a Pigouvian tax). Other solutions for negative externalities are to enforce standards (regulation) or set restrictions (legislation). If the individuals involved are motivated to internalise the additional costs they impose on others, then information, education, and advice can be effective.

Imperfect information happens when consumers don't have access to relevant available information about the long-term health impact, addictive nature, and/or nutritional content of a product when deciding whether to consume it.

There are more direct tools for addressing this informational failure than a health tax, such as awareness and education initiatives and food systems regulation through product certification standards and nutritional labelling. A health tax might strengthen awareness of the negative health impact and serve as a stopgap solution for the underestimation of harm and addiction in later life. However, it relies on governments having complete and up-to-date information on the negative health impact and extent of the information gap.

Negative internalities occur when consumers don't make choices that are in their best interests (including their future selves), even when they have full information. This can stem from impulsive behaviour, addiction, and time inconsistency, for example, the difficulty individuals face in persisting with long-term wellbeing commitments when facing short-term pressures or influences.

The appropriate policy instrument for this can be wide-ranging. Beyond taxes, it can include regulatory and legislative interventions such as outright bans (e.g., smoking in public), legal sanctions (e.g., drunk-driving punishments), age restrictions (e.g., alcohol purchase), marketing regulations (e.g., cigarette advertisements), and encouraging positive behaviours (e.g., funding SMPs).

Whether a health tax is the best policy solution depends on its purpose. There is a dual role for the tax system in addressing over-consumption:

- Raising the price of products with a negative public health impact to discourage the consumption of harmful content. In some instances, this pathway is reinforced when a health tax creates incentives for suppliers to reformulate products to have less harmful content, for example, to have less sugar content in SSBs ^[28]
- Raising revenue to fund health-promoting policies which address the over-consumption



Empirical Evidence

The WHO has urged countries to use fiscal policy to correct the market failure observed by the increasing intake of less healthy foods such as SSBs. ^[29]

A considerable body of literature has examined the effects of health taxes on harmful products, most showing that health taxes reduce their consumption. ^{[30] [31] [32] [33] [34] [35] [36] [37] [38]}

SSB taxes reduce overweight and obesity rates in middle-income countries globally. ^{[39] [40]}

The NCD-reducing effects of health taxes are also observed in studies examining alcohol and tobacco taxes. ^{[41] [42]}

Health taxes are predominantly implemented as excise taxes worldwide for SSBs, alcohol, and cigarettes. ^[43]

Import taxes, including surcharges and levies, have been used as SSB taxes by small island economies, presumably where domestic production is negligible. ^[44]

Balancing Objectives

The optimal design of a tax, including what products to tax and how to optimally tax them, differs based on the desired balance between these two primary objectives.

Creating a reform package from a menu of options can achieve both objectives. Some health tax reforms have more impact when coupled with complementary spending policies. For example, awareness campaigns can gradually address information gaps, while a health tax adds weight to this public messaging and serves as a financial deterrent.

For a Direct Health Objective

After identifying the most over-consumed harmful content from a societal health perspective, a health tax would target the most common retail products containing it and aim to increase the cost as the amount of harmful content consumed rises. For example, products with more sugar would be taxed more.

Choosing the best rate is less straightforward. In theory, it means measuring the cost imposed on society from the harmful consumption that the buyer has not considered. This is highly contextual and, in practice, difficult to measure.^{b [45]}

International recommendations provide rules of thumb to be tailored to context, such as targeting a 70% share of excise tax in the retail price of tobacco products^[43] and raising the retail price of SSBs by at least 20%.^[29] Rates are often set based on the desired impact relative to the current situation and on rates in similar countries, although neither guarantees convergence towards best practice.

For a Revenue and Direct Health Objective

When giving weight to generating revenue as well, a health tax might target some consumption that is not sensitive to changes in its price, i.e. it is price inelastic. Common examples are necessities and high-end products (e.g. expensive wines and spirits). With a dual objective, the aim is not only for the health tax to increase with the amount of harmful content but with other factors that are associated with higher price inelasticity, that is when consumer demand is insensitive to a change in price. The optimal tax structure under these objectives is not clear cut.

Sometimes these two objectives overlap and are economically efficient. For example, taxing wine and spirits may discourage some harmful consumption and may also raise revenue by taxing consumption that is not sensitive to price changes.

On other occasions, what to tax and how to tax it is not always the same for each of these objectives. Increasing taxes on a product whose demand is price sensitive would discourage its consumption and may reduce tax revenue. A good example of this is SSBs. On the other hand, if a product's demand is not price sensitive, taxing it more would generate revenue and may have less of a direct health impact.

The appropriate rate to tax can also differ for these two objectives. A revenue-maximising tax rate is not necessarily the same as the one which corrects for over-consumption.^[46] Tax rate increases are more likely to increase revenue “if the initial tax share [of price] is low and consumer demand is not highly sensitive to price.”^[6]

b For example, it involves judgement of how much others are negatively affected in monetary terms, how much less people would consume if they knew all the adverse effects, or to what extent people are unable to translate an understanding of the full costs into their decision-making.



In Practice

Smoking prevalence in Indonesia is the second highest globally, contributing to 290,000 deaths annually. Youth smoking is also part of a major public health challenge. The case study focuses on a dual objective: designing a more effective health tax and, given the price inelasticity of tobacco, funding health-promoting activities like the flagship national nutrition programme, Makan Bergius Gratis (Free Nutritious Meals).

Uganda's health problem is spread across tobacco, alcohol, and sugar as NCD risk factors. Its sugar consumption by children is the second highest in the world. The case study's sugar health tax reform therefore focuses on discouraging its consumption, given the price-sensitive nature of SSBs and other sugary foods, while alcohol and tobacco tax reforms have a dual health and revenue objective.

Tax Structure Options

There are two broad tax structures commonly used that refer to different choices of tax base: ad valorem and specific.

Ad valorem taxes are taxes applied as a percentage of the product's price. The price could be defined as the price charged when the product leaves the factory (ex-factory price), import price, or wholesale or retail price.

Specific taxes are fixed amounts applied per unit of a product. Two versions of specific taxes are:

1. **Volumetric taxes**, which use a standardised measure of the quantity of the product. This is often the volume for beverages, like the number of litres of soda, but it can also be another suitable measure of quantity, like the number of kilograms of chocolate or the number of cigarette packets.
2. **Content-based taxes**, which use a measure of the harmful content in the product, like litres of pure alcohol, grams of sugar or salt, or milligrams of caffeine.

Some countries combine an ad valorem and a specific volumetric tax. A mixed system adds a specific and ad valorem rate, blending the advantages and disadvantages of the two structures. A "whichever is higher" approach effectively sets a minimum tax using a specific rate and applies an ad valorem rate if it exceeds the minimum amount.

A tiered approach is sometimes used for specific taxes, which means that they apply different tax rates depending on the concentration of harmful content. It signals that some nutrients are harmful when they are highly concentrated in a product. This allows a simpler definition of what is taxable when the harmful

content is prevalent in many products and avoids the need to verify exact nutritional content. For example, rather than identifying all sugary products by name, a health tax could apply to products with a sugar content above a threshold (with some exclusions).

In principle, a content-based tax would be better for addressing the over-consumption of harmful content. However, health taxes often balance not only these two primary objectives, but also practical design considerations and sometimes secondary objectives like protecting domestic industry and strengthening domestic value chains.

We summarise the key pros and cons of these tax structures below. These considerations are well documented in the literature and outlined in *Practical design considerations*.

Ad Valorem (tax is levied as a percentage of the item's price)

Advantages	Disadvantages
Automatic revenue protection against inflation	Doesn't target the harmful content in products
Administratively simple	Susceptible to under-reporting of value
Perceived as fairer for targeting more expensive products	Can disincentivise improvements in product quality

Volumetric (a specific tax amount is levied per unit of an item)

Advantages	Disadvantages
Partially targets the harmful content in products	Needs protection against inflation
Administratively simple	Can unintentionally lead to more harmful content in a product
Difficult to under-report quantity	Perceived as unfair to cheaper products (if locally produced)

Content-Based (tax rate increases in line with the harmful content of an item)

Advantages	Disadvantages
Directly targets the harmful content in products	Needs protection against inflation
Incentivises product reformulation	Risk of switching to un-taxed harmful equivalents (e.g. artificial sweeteners, table sugar, or salt)
	High risk of under-reporting harmful content
	Administratively complex

Mixed System: AV + Volumetric

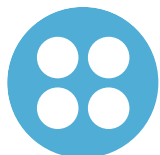
Advantages	Disadvantages
Partially targets the harmful content in products	Requires measurement of two tax bases
Partial automatic revenue protection against inflation	Could encourage harmful content concentration and reduced quality
Balances revenue generation and health goals	



Empirical Evidence

The most common excise tax structures are: volumetric and mixed (volumetric plus ad valorem) for cigarettes; volumetric and content-based for beer; content-based for wines and spirits; and volumetric and ad valorem for SSBs. ^[43]

Content-based taxes have rarely been used in lower-income countries, where volumetric, ad valorem taxes, and a mixture of the two are more common. This tells us that practical design considerations are important. ^[43]



Key Resources

- Understanding Policy Options ^[47]
- Mirrlees Review: Tax By Design (Chapter 2.1.3, 6.3) ^[48]
- Health Taxes: Policy and Practice (Chapter 1.1, 1.5.3) ^[46]
- Tax Policy Handbook (Chapter in Excise Taxes) ^[49]
- World Bank Knowledge Note 1 ^[7]
- WHO Health Tax Databases ^[43]
- World Bank Global SSB database ^[44]
- Government Revenue Dataset ^[50]

Practical Design Considerations

Key Takeaways

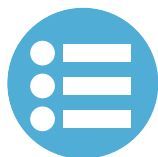
Moving from principles to practice

A policy appraisal toolkit^[51] can provide a step-by-step guide to the considerations needed to identify a reform proposal and gather supporting evidence.

Designing an effective health tax should: clearly identify the key problem(s); start from a deep understanding of the market; be cost-effective to implement; and mitigate risks to the policy's impact.

Key design choices for a health tax include what products to tax, the point of collection, the structure, the rate, and how the revenue is used. Answering these questions requires thinking through a range of topics:

1. **The objective:** discouraging harmful consumption is most aligned with a specific tax. Whether such a tax generates revenue depends on many other factors.
2. **Administrative costs and enforcement risks:** might mean that the ideal design is less effective, and a simpler design is preferable, such as choosing a volumetric tax instead of a content-based one until capacity is strong enough for the latter.
3. **The legal context:** determines whether a specific rate can be adjusted regularly for inflation. If it is difficult to do, mixed structures (ad valorem and specific) give some automatic inflation adjustment. Defining which products to tax requires balancing the inclusion of similarly harmful products with the ease of administration.
4. **Consumer behaviour:** if the consumption of a good is price sensitive, a relatively small health tax rate increase can be enough to discourage consumption. Understanding consumption drivers and substitution patterns will aid in identifying other harmful products to tax and healthy alternatives to encourage.



Key Takeaways (continued)

5. **Equity:** assessing the progressivity of a health tax should take a longer-term view covering productivity gains, avoided healthcare costs, and gender and environmental equity. Taxing more expensive goods at higher rates is sometimes perceived as fairer, although not aligned with the direct health tax objective.

6. **Industry behaviour:** domestic industry protection arguments can obscure a health tax objective, complicate its administration, and breach trade rules. The choice of tax rate also depends on how much of the tax suppliers are expected to pass to consumers. A content-based tax has the added advantage of giving suppliers an incentive to reformulate their products to have less harmful content.

7. **Impact analysis:** even with limited data, simple analyses can approximate revenue and health impacts, but they should model for different scenarios. With more data, different policy options can be compared based on expected health, revenue, and price outcomes in the medium-term. Evaluation requires technical preparation pre-reform, and clear policy objectives.

Problem Analysis

Defining the problem leads to the policy objective and therefore steers policy design significantly. When justifying a health tax from a public health perspective, a step-by-step approach could include gathering evidence on:

1. **Existing health strategies.** Governments may have already identified health problems and devised a strategy to address them. This might include details on which policy instruments to use and the funding needed for their implementation. Even if the revenue from a health tax is not explicitly linked to financing school meals, showing that the health tax aligns with an agreed strategy for improving child wellbeing would strengthen the case for change.
2. **NCD and risk factor trends.** Resources like the WHO NCD country profiles,^[52] the International Diabetes Fund's Diabetes Atlas,^[53] the Tobacco Atlas^[54], and the Global Obesity Observatory^[55] give an overview of NCD contributions to mortalities and contributing risk factors. This can help identify a country's most significant NCDs, the most important risk factors, and/or those which are growing significantly over time and therefore which health impacts to focus on. WHO factsheets show that there is a well-evidenced link between tobacco,^[56] alcohol,^[57] and sugar^[58] and NCDs.^[58]

Many of the above resources also show demographic variations and trends. Highly relevant indicators are childhood diabetes, overweight, obesity, consumption of SSBs and UPFs, and adolescent alcohol and tobacco consumption. The Demographic and Health Surveys reports^[59] cover similar topics through country survey results and research papers, providing analysis by gender, age group, and/or urban or rural setting.

Household survey data can show consumption of relevant products, although in a health tax context, individuals tend to under-report how much they consume of those products. If a health tax already exists, risk factor evidence could also come from tax declarations on those products, although it will omit consumption of informal production.

- 3. The cost of treatment.** While country-specific evidence is preferable, broader evidence can still be helpful. Moucheraud et al.^[60] provide a systematic review of the direct medical cost of diabetes for a patient in low- and middle-income countries. The Cost Recovery and Revenue Estimator^[61] calculates the national economic cost of smoking by country worldwide, which includes productivity losses and direct medical expenditure.
- 4. The grounds for intervention by the government.** As noted in Tax Policy Principles, Options, and Design, identifying the exact degree of over-consumption involves judgement, but the reason why lower consumption would be desirable for society should be supported by evidence.
- 5. The grounds for adjusting the tax system.** If the evidence suggests that tax is an appropriate policy instrument, the next step is to identify the shortcomings of the existing tax system. This could be, for example, the absence of a health tax, an administrative challenge that undermines an existing health tax, or simply financing a non-tax policy solution. The Tobacconomics Cigarette Tax Scorecard provides a useful snapshot assessment of a country's cigarette tax policy.

From the revenue generation side, a step-by-step approach could include gathering relevant evidence on:

- 1. Existing financing strategies.** A government strategy that focuses on Domestic Revenue Mobilisation (DRM) would identify financing objectives, the general direction of the tax system and some specific reforms. This might have already identified health tax reforms and specified a broad revenue generation goal.
- 2. The general spending needs of a government.** A country's Medium-Term Expenditure Framework (MTEF) gives indicative spending allocations to government bodies, including a Ministry of Education. In some countries, SMPs are explicitly included in the MTEF, particularly where they are legally mandated or politically championed. However, in many other contexts, MTEFs may not reflect spending needs according to SDGs or broader commitments to, for example, school meals expansion.

- 3. Funding challenges for the health and education sectors specifically.** A ministry of health may, for example, identify shortfalls in funding existing NCD interventions, and a ministry of education may lack the financing to reach the desired school meal coverage level.
- 4. Excise revenue trends and diagnostic assessments.** If the share of revenue coming from health taxes in a country is reducing over time despite growing consumption and in the absence of policy changes, it could already indicate a problem in tax design or administration, such as tax base under-reporting or consumers shifting to untaxed – but potentially equally harmful – substitutes. Irrespective of revenue trends, a tax policy or administrative assessment, such as the International Monetary Funds's Tax Administration Diagnostic Assessment Tool^[62], may have identified relevant issues in a country.
- 5. The grounds for intervention by a government.** Not having enough revenue could imply insufficient tax revenue or excessive (or inefficient) spending. In some contexts, it may be appropriate to reassess both aspects and determine the right financing solution before looking at tax policy instruments.
- 6. The case for introducing or adjusting a health tax.** For broad-based revenue generation purposes, many tax instruments are available to governments and not just health taxes. Introducing or adjusting health taxes requires some further justification of what the relevant issue is with the current health tax regime, or how it links better to a specific spending need like SMPs.

Administration

Administrative costs and enforcement risks might mean that the ideal design from the *Tax structure options* is less effective, and a simpler design is preferable.

Ease of Enforcement

Some health tax options are more complex to administer than others, which may make the tax less effective as a tool to tackle poor health and raise predictable revenue for SMPs. Administrative challenges exist with different health tax structures:

- 1. Ad valorem taxes can be susceptible to price under-reporting.** For example, under-reporting an import's price reduces the ad valorem tax burden. Mitigating this requires administrative efforts to audit selectively or review market prices.^c This challenge is less relevant for ad valorem taxes applied on retail prices, but these are more challenging to collect (see below).
- 2.** While ad valorem tax revenues increase in line with inflation, in some contexts, the compliance risk may be too high. Countries may opt for a simpler volumetric tax where it is easier to monitor a standardised measure of quantity.

^c The structure of a domestic supply chain can play a role here too. If a distributor is a related party to the producer, there is a risk of under-reporting of the ex-factory price in their internal operations.

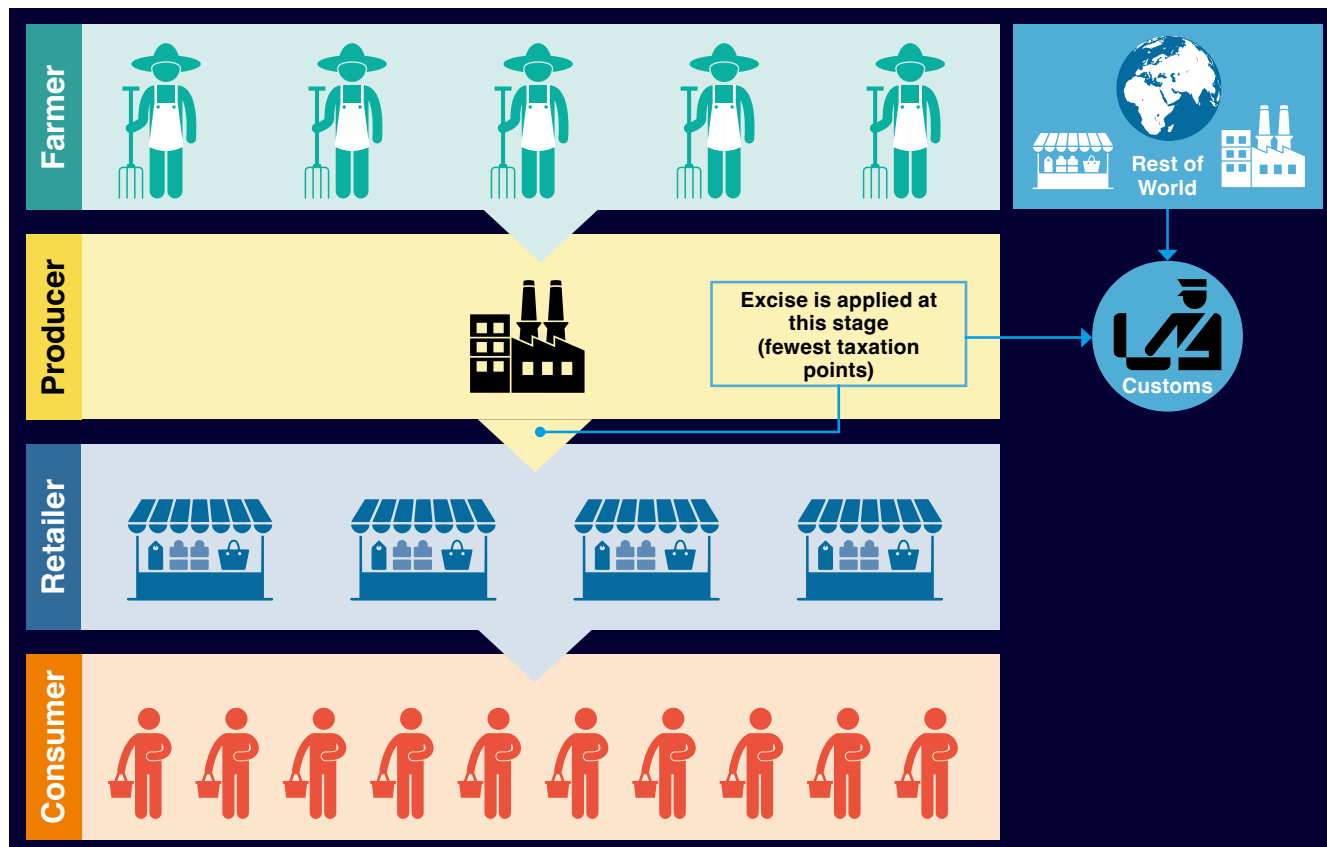
3. Content-based taxes rely heavily on proper product labelling within a country and on its imports. If the relevant regulator cannot ensure accurate product content labelling, there is a significant risk to the revenue and health impact. This risk is arguably greater on imported products, as their labelling depends on many other countries' regulations. The sustainability and credibility of solutions, such as random or risk-based product testing, depend a lot on the institutional context and governance framework within a country.

Ease of Collection

Having a limited number of collection points simplifies the domestic administration of an excise tax. The appropriate number depends on many factors, including the size of a country, its tax administration's capability, the formality of the economy, and how the good is produced. For example, a health tax on all ultra-processed foods could have a high administrative cost if there are many small and informal producers of such goods. Having a wide scope for the tax might then need to be balanced with administrability.

To limit the number of collection points, most excise taxes are applied on and collected from the manufacturer or wholesaler. As a result, an ad-valorem tax on retail prices is less common because it becomes more difficult to determine the retail price at that collection point. The figure below illustrates how it can be easier to collect from a producer than from retailers or consumers.

Figure 1: Ease of Excise tax collection at the producer level



Source: Authors' own elaboration.

Reducing the risks of smuggling and illicit production. Imposing health taxes may unintentionally encourage consumers to switch to smuggled or illicitly produced goods, undermining the health and revenue benefits of the tax. The feasibility of producing illicit goods, whether they are attractive to buyers as a substitute, and the ability to smuggle items across borders will vary from country to country. Regional initiatives play an important role in harmonising excise tax rates and products in neighbouring countries and improving border control procedures.

Researching existing risks and the credibility of deterrents can inform any adjustments that might need to be made to the analysis of the revenue and consumption effects of the tax. When used properly and proportionately, deterrents like seizures of illicit produce and customs scans can reduce the likelihood that a health tax change will lead to more smuggling or illicit production.

Legislation

Inflation Adjustments

The ease of updating tax rates for inflation distinguishes ad valorem from specific tax structures. Without regular updates to keep up with inflation, specific rates effectively reduce over time. Ad valorem rates provide some protection against inflation, subject to the choice of retail, wholesale or ex-factory price, and whether the tax base is under-reported.

A first step is to determine whether primary legislation must specify the tax rates and whether these rates can be updated automatically or through secondary legislation. If the law allows the tax rate to be automatically indexed to inflation, it can be routinely adjusted without further approvals, resolving a significant disadvantage of specific taxes. Alternatively, regularly amending the relevant law (e.g. through an annual finance law) could be viable if there is a credible political commitment to this approach.

Clarity and alignment on how the specific rate will be adjusted helps ensure a sustained health impact. This might involve specifying in law whether the inflation adjustment follows a formula based on headline CPI inflation, wages, income growth, or inflation for that product or product group.

If automatic indexation is viable, there are further design considerations: whether to increase the tax in real terms by “indexing to CPI plus a certain percentage”; how to balance the frequency of automatic adjustments with the administrative burden; and whether to have discretion to “override” this automatic indexation. Inflation indexation has political economy implications too. If average income growth is lower than inflation, a health tax would reduce the affordability of those products over time.



In Practice

Turkey's alcohol, tobacco, and SSB excises are indexed to producer price inflation.^[63]

Indonesia, Kenya, the Philippines, and Uganda update specific rates using annual finance laws or ministerial regulations, but this does not necessarily happen every year. In Burundi, the excise tax system itself is in the Annual Finance Law.

Product Definition

If not done carefully, the legal definition of a product can undermine the impact of a health tax. Clarity on what should be taxed, and the use of appropriate legal phrasing to reflect that, is crucial. A market review through desk research or understanding of the market, as explained further in *Consumer behaviour considerations*, clarifies which products are popular and which can be substitutes.

Defining excisable products clearly in tax laws with reference to the Harmonised System (HS) codes^d prevents ambiguity, which can be open to misinterpretation and abuse.

Sugar and UPFs illustrate this well since they come in an abundance of forms, thus defining them needs careful attention. The focus of a sugar health tax is often on SSBs as a driver of free sugar consumption.^[63] Debate continues around the appropriate scope of taxable products: whether to target non-caloric sweeteners; whether natural and added sugars should be treated differently; whether to have a sugar content threshold above which a health tax applies; and whether sugar in a few specific products should be excluded, such as baby food and formulated drinks for medical purposes.

Targeting non-caloric sweeteners is a policy question of growing importance. Taxing them is best suited to a volumetric or ad valorem structure. How to define them can draw on precedents from countries with these taxes, such as Mexico and the Philippines. Sugar concentrate drinks should also be included in the tax net, with appropriately increased rates to reflect their higher sugar content. Therefore, they may need a separate volumetric tax rate compared to other SSBs.

Traditionally, the scope of a sugar health tax would include retail products like “ [sweetened] soda, fruit drinks, sports drinks, energy drinks, sweetened teas/coffees and sweetened/flavoured milk”, sugar confectionery, chocolates, sugary spreads, cereals with added sugar, and ice cream.^[46] This could also be done broadly by defining taxable products as those with sugar content exceeding a certain level.

^d A standardised classification of products used by customs agents.

This becomes more complex when balancing administrative considerations. Some product definitions and exclusions are difficult to enforce cost-effectively. Applying a health tax on products where sugar is added later in the supply chain, such as liquids served in open containers (coffee or tea), would be very difficult to implement. HS codes separate the classification of beverages containing added sugar, non-caloric sweeteners, and those without sweeteners. This makes it easier to administer a health tax on SSBs and not on beverages without added sweeteners. The mapping of relevant HS codes for sugary products is shown in Figure 8.2 of *Health Taxes: Policy and Practice*.^[46]

Some products contain varying mixes of harmful contents that could be over-consumed, such as saturated fats, trans fats, and salt. Nutrient profile models (NPMs), which assess and classify products based on their nutritional composition, are valuable for defining these complex products clearly for tax purposes. Most common in Latin America, they are usually national government initiatives that enable broader food policy, such as front-of-package labelling and marketing regulations.



In Practice

Complex processed foods are approximated by product definitions like UPFs (Colombia), non-essential energy-dense foods (Mexico) or fast foods at branded restaurants (Kerala, see Box 2). Mexico's definition combined different harmful contents, including sugar, based on the caloric density.^e

Kenya's NPM can support the broadening of the scope of health taxes, as shown in its case study. Concurrently, Uganda is at an advanced stage of developing and adopting one.

Box 2: Kerala's Fat Tax

The Indian state of Kerala's fat tax was introduced in 2016 on branded restaurants and multinational chains which sold fast food. NCDs were responsible for 74.6% of the total disease burden in the state. Obesity rates were high and rising, and the three leading risk factors were high blood pressure, dietary risks, and a high body mass index.^[64]

How this tax was defined encountered two issues: it targeted businesses that tend to sell certain fatty foods rather than the high-fat foods themselves, and a narrow share (less than 10%) of the relevant businesses. Bakeries and domestic fast food chains, which were a significant share of the fast food market, were omitted because of limited standardised reporting of nutritional content. Reliable food labelling regulation alone is insufficient, but it is needed for a tax explicitly targeting nutritional content.

^e The tax affected chips and snacks, candies and sweets, chocolate, puddings, peanut and hazelnut butters, ice cream and ice pops, and cereal-based products with substantial added sugar.^[119]

Consumer Behaviour

Understanding the market underpins how a health tax might work in practice. It would include mapping the range of products available in the market, their price points and harmful content, the retail shopping environment, the extent of informal consumption, and who the consumers are. The WHO's databases for SSBs, tobacco, and alcohol include information on the price, tax, and harmful content of the most popular or internationally comparable brands in several countries.

The core empirical evidence required for understanding consumer behaviour is demand elasticities, meaning how consumers respond to changes in prices and income. ^{[65] [31]}

Own-price elasticity refers to how consumers' demand for a product changes when its price increases. This is almost always expected to be negative or zero. An own-price elasticity of -1 means that when the price of product A increases by 10%, consumer demand for it reduces by 10%.

The own-price elasticity is a key to understanding whether a change in tax rate will significantly reduce consumption or not, and therefore whether it will result in a direct health impact or leave the behaviour of existing consumers largely unchanged while generating revenue. It does not tell us how the behaviour of potential consumers might change (i.e. whether a price rise would deter new consumers). Empirical evidence at the country level can be limited, but it is stronger at regional and global levels.

This elasticity can vary in the short and long run. Products with similar alternatives are typically more sensitive to price in the long-run. Products that are necessities for a broad population base without realistic alternatives might be price sensitive in the short-run while consumption returns to established patterns in the long run.

Cross-price elasticity refers to how consumers' demand for a product changes when the price of another product increases. For products that are substitutes for each other, this is expected to be positive. A cross-price elasticity of 1 means that when the price of product A increases by 10%, consumer demand for product B, its substitute, increases by 10%.

Knowing the cross-price elasticity makes the prediction of consumer behaviour and health impacts more realistic. Instead of assuming that when demand for a product falls, it is altogether eliminated, it can incorporate how consumers may switch to alternatives.

Looking at cross-price elasticities can increase awareness of unintended substitution risks. Taxing SSBs more, for example, may redirect consumption to untaxed sugary beverages, high-sugar foods, the use of table sugar, or illicitly produced SSBs. This could defeat the intended reduction in sugar consumption and instead nudge

consumers towards forms of sugar (or other unhealthy alternatives) that are harder to tax.^f Similarly, cross-price elasticities may also indicate whether a health tax would encourage people to switch to healthier alternatives.

Empirical evidence at the country and product level is much more limited for most countries, but evidence from the global context can aid understanding of possible consumer switching patterns.

Income elasticity refers to how consumers' demand for a product changes when their income increases. This can be either positive or negative, depending on the specific product. An income elasticity of 1 means that when income increases by 10%, consumer demand for a product increases by 10%. In other words, the product is more desirable as income rises. A negative income elasticity indicates that the product becomes less desirable as income rises. Both are plausible for health tax products. When income levels decline, it is a common occurrence for consumers to "trade down" to lower-grade cigarettes. This is especially pertinent in Indonesia, where the tiered cigarette tax structure varies rates based on production method, product type, and volume, which weakens the consumption-reduction effects.



Empirical Evidence

Price elasticities

SSBs are more price elastic than alcohol and tobacco, suggesting they are less suitable where the primary objective is to raise revenue by increasing tax rates.^[32]

Price elasticities differ across regions and demographics. Own-price elasticities on SSBs are highest in low-income countries for women and the youngest and oldest adults,^[66] while low-income individuals are more price sensitive than high-income individuals.^[26]

Prices are more sensitive in the short run than in the long run.^[67] Notwithstanding, revenues can still increase in the long run when taxes go up, as seen in South Africa and Australia.^[26]

Substitution patterns

There are mixed findings on the extent of substitution of taxed harmful products towards untaxed harmful products and cross-border shopping.^{[68] [69]}

SSB taxes might reduce taxed beverage purchases, but the evidence is too limited to be conclusive on overall substitution patterns.^[70]

^f This point is summarised in the World Bank's blog.^[116]



Empirical Evidence (continued)

Although taxes on sugar-added drinks and calorie-dense foods led to a reduction in purchases of taxed drinks and foods in Mexico, there was an increase in purchases of untaxed food and drink categories. ^[71]

Denmark's health tax on products with saturated fat content above a certain threshold increased the price of high-fat products. Consumers reduced how much saturated fat they consumed by buying less and switching to low-fat alternatives. ^[72]

Consumers faced with taxes on tobacco in Thailand tended to trade down to lower price brands, buying individual cigarettes instead of packs, and substituting roll-your-own tobacco for factory-manufactured cigarettes. ^[73]

Additionally, increases in tobacco taxes result in consumers substituting locally produced cigarettes for cheaper cross-border products that are illegally smuggled into the local markets. ^[74]

Whether health taxes reduce purchases and consumption depends on how individuals' preferences and behaviours change. ^{[75] [76]}

Equity

A health tax targets positive impacts (primarily on health and productivity gains) both for individuals who overconsume the harmful product and society more broadly. It may be deemed regressive when looking narrowly at the short-term financial impact on affected consumers. However, once longer-term impacts on wellbeing and economic gains are considered, health taxes can have a positive, progressive, and partially measurable impact. Indirect but important progressivity impacts of a health tax may exist through gender and environmental lenses. Furthermore, a health tax can be made more equitable by funding progressive interventions like SMPs.

Tools like the Cost Recovery and Revenue Estimator ^[61] and Extended Cost-Benefit Analysis ^[77] show the avoided costs from additional healthcare and the distribution of benefits to individuals. In Indonesia, health and economic costs from tobacco have reached 5.96 million disability-adjusted life years and 2.15% of GDP, respectively.

However, it is still important to know which consumer groups are most financially affected by a reform, particularly poorer and more vulnerable households. Depending on the data and analytical tools available, this can be qualitative or quantitative. Household surveys can show which consumer groups (by income, region, or demographic) tend to purchase a product more, both in absolute terms and as a share of their total spending. More complex analytical options might show how a policy changes the total tax burden on different consumer groups.



In Practice

Microsimulation modelling, like GHATAx, showed the progressivity and magnitude of different health tax reforms in Ghana.

Who is affected by a health tax also depends on who consumes the official version of a product. For example, a formally produced liquor might be mostly consumed by urban populations. A different policy instrument may be needed if informally produced versions are over-consumed by certain population segments.

When there is a strong revenue generation objective, a “whichever is higher” tax structure might be perceived as fairer because more expensive goods are taxed at a higher ad valorem rate, while a floor is set for cheaper products through a specific rate.



Empirical Evidence

The equity impacts of health taxes remain contested. There is a body of literature finding that health taxes tend to disproportionately affect low-income consumers. ^{[78] [79] [80]}

Tobacco taxes are found to be highly progressive because poorer households are more price sensitive and therefore gain more health benefits, with Thailand providing a clear example. ^[81]

“Savings in avoided health costs and increases in labor productivity and extended working life disproportionately favor the poor, thereby making health taxes progressive in the long run. This has been demonstrated for tobacco, alcohol, and SSB taxes in 14 countries using the World Bank’s Extended Cost Benefit Analysis (ECBA).” ^[26]

Equity impacts also vary by social groups. For example, in Ghana, female-headed households were found to spend less on cigarettes and tobacco, meaning they were less affected by their tax reforms. ^[82]

Even though men are the main consumers of tobacco, alcohol, and sugar, women experience disproportionate harms through second-hand smoking, alcohol-related intimate partner violence, road safety risks, and caregiving responsibilities. ^[83]

Industry Behaviour

Domestic Industry Competitiveness

When harmful products are made domestically, the merits of taxing them differently than imported equivalents are sometimes raised because: i) the domestic industry needs protection to grow and compete with mature companies overseas, or ii) there are political sensitivities around the economic contribution (i.e. employment, investment, and tax revenue) of those producers.

Protecting the domestic industry might be a secondary objective that detracts from the achievement of the primary health tax goals. When the design of a health tax is influenced by industry protection, the outcome is likely to feature: i) different tax rates based on whether a producer uses local raw materials, or ii) the use of import taxes for health tax purposes.

Applying different tax rates when local raw materials are used aims to increase demand for those materials over imported equivalents. However, they are complex to verify, weaken the health tax narrative, and are inconsistent with World Trade Organisation rules, which note that tax rates on imported goods should match those on domestic goods.

An import tax would not align with the purpose of a health tax if there were formal domestic producers of that good, because it would leave the consumption of their goods untaxed. It could also lead to confusion about whether the rationale of the import tax would be to protect domestic producers or discourage consumption. Even with limited domestic production, an excise tax is a more appropriate instrument for clear messaging, consistency with international trade rules, and taxing potential future domestic production.

Reformulation

A content-based health tax has the added benefit of giving producers an incentive to reduce the harmful content in their products. For example, taxing SSBs based on their sugar content can lead producers to reduce sugar concentration.

Conversely, volumetric or ad valorem tax structures can create unintended consequences. Under a volumetric tax structure, the tax burden is the same for a one-litre SSB with 10% sugar content as for a one-litre SSB with 50% sugar content. This can create a perverse incentive to concentrate more harmful content in the products sold. Under an ad valorem tax, the tax burden is lower when the price is lower, which might incentivise producers to shift towards lower quality formulations.

Price Modelling

Understanding how much a health tax reform should increase final prices is valuable for technical and political economy reasons. How consumers will react, and therefore what rate is appropriate, depends on this. Additionally, showing a reform's impact on the price of popular products can improve the relatability of the analysis during consultations.

When tax changes, a producer might absorb some of that change, pass it on fully through prices,^g or even change prices by more than the change in tax. Pass-through depends on a complex set of factors, including:

1. *The product.* Evidence suggests that pass-through is lower for more price-sensitive products like SSBs and higher for less price-sensitive products like alcohol.^h [\[26\]](#)
2. *The relationship between the producer and buyer(s).* Producers with market power can influence market prices and therefore pass through taxes to a greater extent.
3. *The tax structure.* An ad valorem system gives less incentive to pass through a tax by more than the price increase, since it would also raise the tax burden. [\[26\]](#)
4. *The place of purchase.* Some locations have more price-sensitive consumers (e.g. rural convenience stores) than others (e.g. luxury hotel bars).

Tax administration data and public data can show the ex-factory price (before tax), excise tax, and retail price (after tax), allowing rough inference of other indirect taxes like a VAT. When comparing estimated product prices before and after a proposed reform, it is most intuitive and simple to assume there is a full pass-through of the tax change unless there is evidence to suggest otherwise.

In Indonesia, cigarette producers under the tiered excise system often adjust prices strategically, expanding cheaper brands and constraining price increases for premium products, which undermines the effectiveness of tax and minimum retail price increases.

g Also known as pass-through taxation.

h For some products, pass-through can be achieved in less obvious ways, such as “shrinkflation” (i.e. where products become smaller but the headline price is the same).

Empirical Evidence

In South Africa and the United Kingdom, SSB content-based taxes led to the industry reformulating affected beverages to have a lower sugar content. ^{[26] [68]}

The announcement of the tax reform in the UK led to a 42% reduction in beverages with sugar content above the threshold before the tax was introduced. This reaction meant the revenue gain was less than expected.

Pass-through

When a health tax is introduced, it increases the prices of the harmful product. ^{[32] [70]} Similar country-specific findings are observed for the Philippines ^[84] and South Africa. ^[85]

On average, 82% of the introduced SSB taxes were passed through into prices. ^[34]

For beer and SSBs, prices have been observed to increase by more than the tax increase and to decrease less when there is a reduction in their taxes. ^[46]



In practice

Country	Technical context	Impact on reform options
Burundi	Limited data, administrative capacity, and macroeconomic context	Gradual tax policy improvements with parallel strengthening of corresponding institutional capacity
Indonesia	Well documented need to simplify cigarette tax structure	How increases in rates under current structure affect revenue more than consumption
Kenya	Nutrient profile model development	Phased targeting of more complex processed foods and shifting towards content based taxes
The Philippines	Industrial objectives and absence of inflation adjustments	Increasing SB volumetric tax rates and indexing for inflation
Uganda	Health problem across all risk factors and competing industrial objectives	Increasing tax rates and broadening scope of taxed sugary products

Policy Impact, Appraisal and Evaluation

The evidence from the previous sections should provide clarity on the type of products to tax and shortlist potential reform options. Deciding on the appropriate structure and rate is guided by policy impact analysis, which itself depends on the availability of the appropriate data. Collaboration with some stakeholders is valuable at this stage for understanding different data sources, analytical methods, and how to measure health impacts.

Even in a context with limited data, some analysis can be done to understand the potential revenue and health effects, as illustrated in the Burundi case study. In a data-rich context, the analytical possibilities expand significantly by allowing analysis at the brand level to address questions like who bears the tax burden, what is the likely impact of a reformulation incentive, and how cross-product substitution patterns affect the impact. Example methodologies are explained in Annex 1.



In Practice

The Burundi and Uganda case studies reference regional EAC recommendations for tax rates on alcohol, sugar, and tobacco. They also use international literature on recommended tax rates and price elasticities, as well as available national data on prices and formal consumption, to guide the choices of rates and taxable products.

Evaluation (ex-ante)

There are various considerations outlined in this toolkit, which can involve a considerable amount of desk research and analysis. This may include benchmarking practices in neighbouring countries or those with documented experience of the proposed reform. The evidence gathered should culminate in a recommended policy proposal or a small number of options with clear trade-offs. In either case, the key points must be concise and easily understood by senior policymakers. A policy appraisal guide can simplify deciding: i) how to structure that evidence so it has a logical flow, and ii) how to adjust the level of technical detail across core and supporting documents.



In Practice

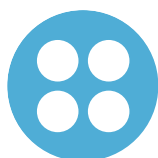
Table 1: Example ex-ante evaluation of reform options - summary of case study simulation results

Country	Simulation – Reform Options	Revenue Potential	School Meals Impact
Burundi	Three-phase simulation: rate increases on cigarettes, beer, spirits, SSBs (Phase 1), structural reform with EAC alignment, base broadening, and digital stamps (Phase 2), content-based taxation on sugar and alcohol, hybrid tobacco system (Phase 3)	Significant incremental revenue across three reform phases (around 1% of GDP)	~1.1 million additional children (76% of coverage gap)
Indonesia	Simulation of an increase in the tax rate and the minimum price by 12%.	12.9% increase in revenue (~0.13% of GDP)	8% of universal coverage requirement, ~6-7m recipients
Kenya	Three-phase simulation: “sin goods” – SSBs and confectionery with sugar, sodium, or fat beyond the set threshold (Phase 1); expand to processed staples – cereals, processed meats, and processed fruits (Phase 2); and expand to more complex formulations (Phase 3)	Potential to mobilise ~1.7% of GDP across all three reform phases.	Only 17% of revenue (KES 46bn or US\$360 mn) estimated to fully fund school meals by 2030
Philippines	Raising volumetric tax rates on SBs and indexing rates to inflation	~0.2% of GDP (first year)	75% of universal primary school coverage requirement
Uganda	Two reform simulations plus a combined option: Option 1 raises existing excise rates on beer, spirits, cigarettes, sugar, and SSBs to align with EAC/WHO benchmarks; Option 2 broadens the tax base to confectionery and salty snacks with smaller rate increases; Option 3 combines both	Option 1: 0.41% GDP; Option 2: 0.22% GDP; Option 3: 0.5–0.6% GDP	Option 1: ~2m learners (poorest 20%); Option 2: ~1m learners; Option 3: ~2–2.5m children

Evaluation (ex-post)

Some preparatory steps at the time of introducing a reform make it easier to evaluate later on. The key outcomes that a reform should be assessed against must be clear to all relevant stakeholders, who must also agree in advance on who is responsible for an evaluation. Often this would be led by a country’s ministry of finance, as the key advocate for revenue-raising tax reform, but it could be a technical team built with expertise across institutions.

The technical preparations for an evaluation may also begin before a reform is announced. The method often involves some comparison of pre- and post-reform data. If the necessary data is not already collected, a survey could be commissioned, or tax administration data could be improved. The level of technical rigour in the evaluation should be proportionate to the resources available and the strategic importance of that evaluation. For example, in an environment with limited staff, evaluating a minor reform with academic rigour would not represent an efficient use of resources.



Key Resources

- WHO NCD Country Profiles ^[52]
- Demographic and Health Survey publications ^[59]
- Global Obesity Observatory ^[55]
- The Tobacco Atlas ^[54]
- The Diabetes Atlas ^[53]
- Health Taxes: Policy and Practice (Chapter 2.5, 4) ^[46]
- WHO Health Tax Databases ^[43]
- World Bank Knowledge Note Series ^[38]
- Centre for Tax Analysis in Developing Countries Policy Appraisal Manual ^[51]

Earmarking

Key Takeaways

Translating revenue into school meals

Allocating specific revenues to school meals may contribute to more sustainable and predictable funding, particularly in contexts where programme budgets are exposed to fiscal volatility or shifting political priorities.

Linking tax revenues to visible services like school meals can improve transparency in public spending and help strengthen public support for taxation, encourage compliance, and build trust in governments.

Earmarking can support programme effectiveness when resources are tied to clear objectives, with expectations for delivery reinforced through monitoring systems and integration into the regular budget process.

Earmarked revenues should add to, not replace, existing government funding for school meals. Clear safeguards are needed to ensure that earmarking builds fiscal space and strengthens programmes, rather than leading to cuts in regular budget allocations.

Assigning specific revenue to school meals through earmarking or tagging improves transparency of financial flows, allowing stakeholders to trace how funds are allocated and used.

However, earmarking comes with public financial management (PFM) risks and inefficiency, where revenues are volatile, not well-matched to required resources, and there is less flexibility to adjust or reallocate resources to changing circumstances.

Not all earmarks are the same. Hard earmarking refers to revenues that are legally dedicated to specific funds or programmes, with automatic transfers. This approach can be suitable in contexts where long-term funding is stable and where PFM systems are strong enough to handle dedicated revenue flows.

Soft earmarking involves political or policy commitments to allocate funds to a priority sector without strict legal hypothecation. Soft earmarking may be more appropriate in situations where the main objective is to build public trust, signal political commitment or secure support for a tax increase, while still preserving greater budgetary flexibility.



Key Takeaways (continued)

Programme design should reflect the national context, including legal frameworks, institutional arrangements, and the need for flexibility within budget processes. Earmarking can be a useful tool for protecting funding, but without adequate administrative systems in place, it may lead to delays or underutilisation. The experience in Ghana illustrates how misalignment between earmarked funding channels and local implementation capacity can hinder timely disbursement.

Even without formal earmarks, transparently dedicating resources through budget lines, programme classifications, or performance targets can reinforce commitment to school meals.

Decisions around earmarking should be guided by the broader fiscal context, institutional readiness, and the specific policy goals that school meal programmes are expected to support.

Trends in Earmarking

As countries look for sustainable ways to fund SMPs, earmarking is gaining attention as a promising strategy. Earmarking refers to the allocation of specific public revenues, such as those collected through excise taxes on tobacco, alcohol, or SSBs, to targeted policy areas or programmes, such as school meals.

Earmarking of health tax revenues is not a novel concept, with examples going back as far as 1971 for tobacco and alcohol, and it is now used in nearly 80 countries.^[86] While this approach has traditionally supported health and social programmes, its potential application to school meals is growing. The increasing adoption of SSB taxes presents an opportunity to earmark these revenues for nutrition and education initiatives. However, only a few countries currently allocate SSB tax revenue to nutrition or SMPs.^{[87] [88]}



In Practice

In the Philippines, a portion of SSB tax revenue under the 2018 TRAIN Law is earmarked for health and social programmes, including support for universal health coverage. Additionally, revenues from health taxes have also been used to support affected sectors, such as tobacco farmers, through programmes that promote alternative livelihoods, illustrating how revenues can serve public health objectives and address the economic impacts of taxation.

Ghana introduced an SSB tax in 2023, accompanied by strong advocacy to channel funds toward the Ghana School Feeding Programme. Similarly, São Tomé and Príncipe legislated the creation of a tax-based funding mechanism for school meals by the end of 2024. These cases are explored in greater detail in the case study boxes below.

Earmarking Trends by Tax Type

- Among countries that levy tobacco excise taxes, at least 38 earmark part of the revenue for specific purposes, most commonly to fund health sector programmes such as universal health coverage, tobacco control, and health promotion. ^{[29] [89] i}
- According to the WHO, ^[88] only nine countries^j earmark revenues from SSB taxes for specific purposes, which are mostly health-related.
- Among countries that levy alcohol excise taxes, at least 22 earmark part of the revenue for specific health-related purposes, including health promotion, addiction treatment, and support for public health programmes. ^[88]
- São Tomé and Príncipe, noted above for its School Feeding Law, earmarks revenues from alcohol and tobacco taxes to finance school meals. It stands out as a rare example of using multiple health-related taxes to advance national nutrition and education objectives.
- In Colombia, the introduction of a new tax on ultra-processed foods has opened space for public debate on using revenues for SMPs. See Box 3 for details on the reform and its potential to align fiscal and nutrition goals.

i Countries that earmark tobacco excise tax revenues for health-related purposes include: Argentina, Azerbaijan, Bangladesh, Benin, Bulgaria, Chile, Colombia, Comoros, Costa Rica, Côte d'Ivoire, Egypt, Estonia, Gabon, Guatemala, India, Indonesia, Ireland, Jamaica, Kenya, Lithuania, Madagascar, Maldives, Mauritania, Mongolia, Morocco, Nepal, Nicaragua, Palau, Panama, Paraguay, Philippines, Republic of Korea, Thailand, Tunisia, United States, Vietnam, and Yemen.

j These are: Azerbaijan, France, Hungary, Nicaragua, Panama, the Philippines, Portugal, Thailand, and Zimbabwe. This list reflects countries reporting earmarking of SSB excise revenues as of 2022.

Income Group Trends

- While WHO^[88] reports no LICs earmarking SSB tax revenues, other sources^[90] note that Uganda earmarks SSB tax revenue for HIV/AIDS programmes.
- Most earmarking practices are concentrated in middle-income countries, where administrative capacity, political demand for visible social returns, and larger tax bases make earmarking more feasible.
- High-income countries often avoid earmarking in favour of central budget pooling, though some use soft earmarking mechanisms.^[86]

Reform Activity and Earmarking Uptake

- Despite the recent wave of tax reforms on SSBs noted earlier, most of these measures do not include formal earmarking provisions, particularly for SSB revenues.
- Among countries that earmark SSB revenues, the allocation is predominantly to health promotion funds, with only a few exploring linkages to education or nutrition programmes.^[87]

Box 3 – Colombia – Earmarking Potential through Fiscal Reform

In 2023, Colombia introduced a national tax on ultra-processed foods through its “junk food law” to support healthier diets and reduce obesity.

Introduced in 2023, the tax was phased in gradually, with increasing rates through 2024 and reaching an estimated 20% price-equivalent by 2025.

The measure targets foods high in fat, sugar, and salt as part of a broader nutrition and public health strategy.

Although revenue data is not yet available, the reform has created space for policy discussions on using the proceeds to strengthen SMPs.

While the tax is not formally earmarked, it illustrates how fiscal tools can be designed to connect health-related revenues with investments in child nutrition.

Colombia’s approach offers a regional reference for linking tax policy with education and nutrition goals.^{[21] [91]}

Role of Earmarking and Considerations for Public Finance Management

Earmarking can play a strategic role in strengthening and sustaining SMPs. In countries where public finances face competing pressures, earmarked funding helps protect essential programmes from short-term cuts, supporting more reliable service delivery over time. Lessons from the health sector show that earmarking can help build public confidence in taxes when there is a clear and visible connection between revenue and services. This may also enhance an SMP's legitimacy and strengthen political commitment to it.

Evidence shows that SMPs deliver benefits beyond education, contributing to improved nutrition and health outcomes, while also supporting local food systems and smallholder farmers. ^[2] In many countries, they are implemented alongside complementary interventions such as safe drinking water, hygiene, and basic health services as part of broader school health and nutrition systems. This has important implications for earmarking. Linking revenues from health taxes to a wider set of outcomes, rather than a single programme, can strengthen the rationale for earmarking by aligning taxes on products that harm health with investments that promote child wellbeing. This suggests that earmarking may be more effective when designed to support a broader package of school health and nutrition priorities, while allowing flexibility in how funds are allocated, or as part of a wider policy approach that aligns taxation and spending priorities.

Good design allows governments to make the most of earmarking for school meals. At the same time, realising these benefits requires careful alignment with fiscal policy frameworks, legal structures, and institutional capacity. This section highlights practical design considerations, based on cross-sectoral experience, that can help governments maximise the benefits of earmarking while addressing potential challenges.

- 1. Funding Stability and Predictability:** Setting aside specific revenue can protect programmes from budget cuts and support consistent delivery over time. It can also help build political commitment by ensuring long-term visibility for programme financing.

In many countries, particularly in middle- and high-income settings, excise taxes on SSBs are being considered or used as an earmarked revenue source. While these taxes offer a politically and socially acceptable funding stream, their performance as a stable source of revenue might also present challenges. SSB tax revenue tends to be volatile, sensitive to price, and pro-cyclical, meaning it may decline during economic downturns when demand for school meals and social support is usually higher. ^{[28] [92]}

Planning for consistent programme delivery becomes more difficult when funding cannot respond to changing needs. This is especially true when earmarked revenues fall short of covering rising food prices or growing enrolment. Protecting

revenue streams is part of the solution, but scale matters too. To sustain impact over time, the expected revenue potential of the earmarked tax should be reasonably aligned with the programme's financial needs. At the same time, relying too heavily on a single source can reduce budget flexibility and limit the integration of school meals within broader national planning and financing frameworks.^[4]

Evidence shows that SMPs in Ghana have a stronger impact on learning when children are exposed to them over longer periods. One year of school meals had limited effects, but children who received meals for two years showed greater improvements in reading and maths, particularly among disadvantaged groups.^[93] Evidence from India reinforces this pattern: children who received meals for the full five years of primary school scored 18% higher in reading and 9% higher in maths compared to those with less than one year of exposure.^[94] These findings underline the importance of stable and predictable funding to sustain delivery.



In Practice

In the Philippines, earmarked excise taxes supported rapid health insurance expansion, though spending capacity initially lagged behind revenue growth due to constraints in administrative systems and programme readiness (see Box 4).

Takeaway: Earmarking can strengthen funding stability and political support for school meals when revenues are well matched to programme needs and integrated into national budget systems. Without this alignment, earmarked funds may fall short of delivering reliable and sustained support.

- 2. Budget Flexibility and Coordination:** Earmarking can offer a degree of funding protection even in challenging fiscal environments, making medium-term planning and coordination with local actors easier. When designed with time-bound allocations or scheduled reviews, earmarking can balance programme protection with some budget responsiveness.

At the same time, earmarking can constrain flexibility. Tying revenue to highly specific purposes may limit a government's ability to respond to changing priorities or emergencies. The most rigid forms, such as hard earmarking, are particularly challenging in contexts with limited fiscal space or weak PFM systems.^[86]^[95] It may also lead to fragmentation if multiple revenue streams are earmarked for separate uses. This can complicate coordination across ministries or sectors. For school meals, it could reduce integration with broader education, nutrition, or social protection strategies.



In Practice

In Brazil, a fixed share of federal revenues is earmarked for education through a constitutional mandate, with school meals funded within this allocation. Although the earmark is relatively rigid in legal terms, its broad focus on education allows flexibility in how resources are allocated across education priorities. The system enables strong coordination between federal and subnational levels through automatic transfers. This has sustained one of the world's largest SMPs, reaching over 40 million students.

In contrast, Ghana channels VAT revenues into a health fund through a hybrid model that retains some flexibility but has faced coordination and disbursement challenges. See Box 5 for details.

Takeaway: Earmarking can enhance planning and investment in school meals, but may reduce flexibility and coordination unless designed with mechanisms that allow for adjustment over time.

- 3. Public and Political Support:** Linking taxes to valued public services through earmarking can strengthen public support and build trust in government. SMPs have a broad public appeal, which can help improve the acceptability of new taxes and increase compliance. For policymakers, earmarking signals commitment and visible investment in social priorities, helping to build or maintain political capital. ^[38] ^[88]

At the same time, visible revenue use raises expectations. If funds are not clearly directed to SMPs or fail to reach them reliably, public trust can be undermined. It can also draw attention from a range of actors. Ministries, civil society groups, and lobbying organisations may seek access to earmarked funds to advance their own priorities, especially in tight budget environments. While earmarking can help safeguard resources, it may also lead to competition over their use. For an example of how fiscal reform sparked public engagement around school meals, see Box 3 on Colombia.

Takeaway: Earmarking can increase public support when the connection between taxes and services is clearly explained, with transparent reporting in place and realistic expectations about what earmarked funds can deliver.

- 4. Equity and Social Solidarity:** SMPs aim to reduce inequality and support children's development regardless of background. Earmarking revenues from harmful products can reinforce this goal, particularly when funding reaches low-income or underserved areas. ^[88]

Under some circumstances, earmarking health tax revenues may raise concerns about fairness. If lower-income groups contribute proportionally more through consumption taxes but benefit less, perceptions of inequity may emerge. This challenge is greater in systems built on universal entitlements.



In Practice

In Argentina and Bangladesh, tobacco taxes are earmarked for health and education programmes. While this promotes equity in access, some raise concerns about the regressivity of such funding mechanisms.

Takeaway: Earmarking can promote equity in outcomes, but may raise concerns about fairness in who contributes.

- 5. Efficiency and Accountability:** Earmarking can support efficiency when funds are directed to programmes with clear goals and measurable results. It can also strengthen accountability by making it easier to track how money is used and what it achieves. When there is a clear link between revenue and outcomes, governments are better able to monitor performance and demonstrate effective use of resources. ^[86]

These benefits are most likely to materialise when earmarked funds are part of the regular planning and budgeting process. If funds are not tied to specific results or are managed outside core systems, it can become harder to coordinate across programmes or maintain consistent oversight. In those cases, earmarking may end up reducing efficiency and make it more difficult to track how funds are used.

Civil society organisations can play an important role in supporting accountability for earmarked funds, regardless of whether arrangements rely on legal rules or policy commitments. They can help monitor how resources are allocated and used, including through citizen oversight and audit mechanisms, contribute to public communication, and support ongoing engagement with stakeholders. In some contexts, legal and institutional frameworks facilitate the participation of civil society in budget oversight processes, which can strengthen transparency and reinforce trust in how earmarked revenues are managed.



In Practice

See Box 7 for a discussion on how disbursement constraints affected spending reliability in Ghana's health fund. Uganda's experience with the Road Fund illustrated how the expected predictability advantage of an earmarked fund was undermined because of insufficient oversight and accountability, but a stronger legal framework has helped address this for its Petroleum Fund.

Takeaway: Earmarking can improve efficiency and accountability when integrated into systems that support performance, transparency, and financial discipline.

- 6. Administrative Feasibility and Capacity:** Earmarking is most effective when administrative systems are prepared to manage funds efficiently and ensure timely delivery. Strong budgeting, procurement, and monitoring systems translate revenue into reliable programme implementation, while clear roles and coordination mechanisms improve delivery across government levels. When these elements are in place, earmarking can reinforce performance and accountability.



In Practice

In Indonesia, local governments received earmarked health funds but lacked operational guidance and monitoring tools, resulting in large unspent balances and weakened credibility. ^[38] These lessons underscore the importance of aligning earmarking with system capacity to avoid bottlenecks and maximise its impact.

Takeaway: Earmarking only delivers results when systems are ready to manage funds effectively. Clear procedures, spending authority, and coordination mechanisms are essential to turn allocated revenues into timely and reliable services.

Box 4: The Philippines Case

Earmarking tax revenues helped protect and expand investment in essential services. Starting in 2012, the Philippines increased excise taxes on tobacco, alcohol, and SSBs. A share of these revenues was earmarked for health, shielding funds from reallocation.

Health spending increased and reached more people: Between 2013 and 2022, earmarked health funding rose from \$0.7 billion to \$1.7 billion. Insurance coverage under PhilHealth expanded from 52% to 89%, with particularly strong gains among low-income groups.

Public support was strengthened through transparency: Earmarking created a visible link between taxes and improved services, reinforcing trust and accountability.

Capacity constraints limited the speed and scale of results: In the early years, revenue growth outpaced the system's ability to spend effectively. Underspending highlighted the need to align revenue flows with implementation capacity.

Lesson for school meals: Earmarking works best when backed by strong financial and institutional systems. ^[86]

Different Forms of Hypothecation: Pros and Cons

1. **Hard earmarking** typically uses primarily legislation to assign revenue from a specific source, such as an SSB tax, to SMPs in a way that cannot be adjusted through the regular annual budget process. In some cases, earmarked funds are channelled through autonomous funds or extrabudgetary accounts.

Benefits	Limitations
Secures long-term funding for SMPs	Difficult to adjust when needs or revenues shift
Supports planning and political commitment	May limit budget flexibility and coordination
Builds public trust through visible commitments	Depends on strong legal and PFM



In Practice

In São Tomé and Príncipe and Indonesia, hard earmarking has been used for school meals (see Box 6).

Takeaway: Hard earmarking can support long-term funding for school meals where systems can manage it. But in some low- and lower-middle-income contexts, enforcement may be a challenge, as seen in São Tomé and Príncipe.

2. **Soft earmarking** allows governments to signal commitment to SMPs through strategies or public statements without a legal obligation. A revenue source, such as an SSB tax, may be identified, but the link is not legally binding. The allocation is decided during the annual budget process and can change from year to year. This can help signal intent and build public support, while allowing flexibility.

Benefits	Limitations
Allows flexibility to adjust funding as SMP needs change	Funding is not guaranteed or protected
Fits within the annual budget process	Depends on consistent political backing and administrative follow-through
Avoids legal rigidity while supporting continuity	May be hard to track without clear budget tagging



In Practice

In the Philippines, revenues from health taxes on tobacco and alcohol are earmarked for health, but the allocation is not automatic. Funds are consolidated into the national budget and disbursed based on proposals submitted through standard budgeting procedures, making this a form of soft earmarking (see Box 4).

Takeaway: Soft earmarking is a flexible way to prioritise SMPs in the budget process, especially where formal earmarks are not feasible, but it depends on political continuity and strong coordination to have a lasting effect.

3. **Direct commitment** involves allocating funds to school meals through the regular national budget, without linking the spending to a specific revenue source. Instead of earmarking, governments make annual allocations that reflect broader policy priorities – for example, a national education strategy may identify school meals as a core programme, with funding included in the education sector budget as a line item. This approach provides an alternative to using earmarked health tax revenues. Sustainable financing can also be secured through routine budgetary processes. While earmarking can build political and public support by visibly tying revenues to services, direct commitment ensures institutional integration, predictability within the budget system, and flexibility to adapt spending. It is particularly useful where legal earmarking is not feasible, or where governments prefer to emphasise that school meals are a mainstream policy priority rather than dependent on a single tax source.

Benefits	Limitations
Embeds school meals within national budget structures	Funding can change each year based on fiscal or political shifts
Offers flexibility to adjust funding as programme needs evolve	No dedicated revenue stream to ensure continuity
Supports transparency if combined with tools like budget tagging	May receive less visibility without strong political backing



In Practice

In Philadelphia, direct budget commitments prioritised social programmes without needing formal earmarking (see Box 5).

Takeaway: Direct budget commitments can strengthen the institutional foundation for school meals, especially where integration and flexibility are key, but rely on sustained prioritisation in each budget cycle.

4. **Complementary commitment** involves funding programmes like school meals to reinforce the objectives of a tax policy, without formally linking the spending to the revenue collected or tracking it explicitly through the budget, unlike direct commitments. This approach aligns investments with public objectives, such as improving child nutrition, while preserving full budget flexibility. They can also form part of broader fiscal packages that include earmarked and non-earmarked components, offering flexibility in how public resources are mobilised and allocated. For example, a government may introduce an SSB tax to discourage consumption of harmful goods, and separately expand school meals to encourage nutritious meals, even though the tax revenue is not legally tied to the programme.

Benefits	Limitations
Encourages coherence between tax policies and spending choices	Lacks a structured mechanism to secure or sustain funding
Creates space for innovation in programme design and delivery	Difficult to track or evaluate without dedicated budget lines or reporting
Useful where legal earmarks are not politically or administratively feasible	Risk of reduced public trust if commitments are made but not delivered



In Practice

In Mexico, revenues from the 2014 SSB tax were not earmarked, but the reform was accompanied by investments in school water fountains and other nutrition-related interventions to support public health objectives. ^{[95] [88]}

Takeaway: Complementary commitments can align tax reforms with social investment goals while preserving budget flexibility, but require clear communication and follow-through to maintain credibility and impact.

Box 5 – Philadelphia: Direct Commitment

No formal earmarking in place: Philadelphia does not use legal earmarking, but instead relies on direct commitments through its budget process to prioritise key services.

Funds allocated through programme-based budgeting: Resources are directed to priority areas such as pre-K, community schools, and infrastructure using annual budgeting and programme classifications.

Commitments linked to performance: Funding decisions are guided by performance targets and regularly reviewed, helping align spending with results.

Direct commitments offer visibility without legal earmarks: Although revenues are not legally tied to specific programmes, budget allocations are explicitly linked to stated policy goals, enabling transparency and accountability. ^{[95] [96]}

(Pre-)conditions for Consideration of Earmarking

Earmarking effectiveness depends on how well it fits within a country's PFM and governance systems. These systems do not need to be perfect, but a few foundational features ensure that earmarked revenues can be reliably collected, allocated, tracked, and used for their intended purpose.

Rather than requiring high-capacity systems across the board, a fit-for-purpose approach can be used: earmark design should reflect institutional strengths and gaps, with lighter, more flexible models adopted where systems are still developing.

1. Align with PFM Functionality

Earmarking is more likely to succeed when supported by systems that can manage funds predictably, transparently, and in line with programme needs. Minimum conditions include:

- Clear tracking of revenues and expenditures through budget lines or programme codes;
- Defined rules for allocating and disbursing funds to reduce delays;
- Capacity to plan and implement at the sector or local level to avoid underutilisation; and
- Oversight mechanisms, such as audits or external reviews, to verify how funds are used.



In Practice

As discussed in the Philippines case study above, despite the rapid mobilisation and allocation of revenues from health taxes, budget execution and programme delivery issues highlighted gaps in spending capacity. This illustrates that effective earmarking depends not only on revenue collection but also on the ability to disburse and use funds efficiently. ^[38]

2. Use Core Budget Systems Where Possible

Channelling earmarked revenues through the main treasury and budget systems promotes integration, coordination, and oversight. This supports alignment with national priorities and reduces duplication across programmes.

Example: In most case study countries reviewed by the WHO and the World Bank, earmarked funds flowed through core budget systems, even when supporting independent institutions. ^[95]

When full integration is not feasible, earmarks can be managed through dedicated funds provided they follow financial controls, reporting standards, and treasury rules. Earmarks should also be clearly defined in law or policy, including the revenue source, purpose, and institutional responsibilities.



In Practice

Burundi's legal framework provides a pathway for revenue-expenditure linkage through special-purpose budgets. These funds are administered within the national budget system, rather than as off-budget accounts, simplifying coordination across government entities.

3. Match Earmark Design to System Capacity

Different contexts highlight the strengths of different approaches:

- In strong systems, soft earmarks or tags may provide enough visibility while allowing flexibility
- In lower-capacity or low-trust settings, hard earmarks can help protect new programmes but should include allocation rules, oversight, and time limits



In Practice

Ghana channels VAT revenues into an extrabudgetary health fund. While this allows earmarked financing, mismatches between projections and receipts have affected disbursement. ^[38]

4. Plan for Delivery, Not Just Allocation

Allocating funds through earmarking does not guarantee they will be used. In settings where planning, procurement, or monitoring systems are weak, and risks of resources being unspent or used inefficiently arise, earmarking could be paired with technical support, clear operational guidance, and strengthened systems for delivery.



In Practice

In Indonesia, local governments received earmarked health funds, but limited guidance and capacity meant large balances went unspent. ^[38]

5. Include Review, Communication, and Adjustment Mechanisms

Earmarks should include provisions for regular review to ensure that allocations remain relevant and effective. Sunset clauses, time-bound earmarks, or scheduled performance assessments can help avoid inefficiencies or misalignment over time.

Public communication is also critical. Earmarks tied to visible public services, such as SMPs, are more likely to build and maintain public support when the purpose and results are clearly communicated. Transparency builds public trust, reinforces accountability, and can strengthen the credibility of links between taxation and spending.



In Practice

Estonia uses time-limited earmarks with scheduled reviews to allow for flexibility and course correction.^[46] In the Philippines, after the sunset clause ended, the earmark towards nutrition ceased.

Box 6 – São Tomé and Príncipe – Hard Earmarking to Sustain School Meals

Earmarking tax revenues helped protect and expand investment in essential services. In 2023, São Tomé and Príncipe passed a School Feeding Law that earmarks 2.5% of alcohol and tobacco excise tax revenues for the national school meals programme. This marks a shift from donor-supported provision to government-owned delivery, with full implementation expected by December 2024.

The reform secured a legally binding, dedicated funding stream. The earmark is formalised in legislation, directing funds to the Ministry of Education to finance the national school meals programme. The law also identifies additional revenue sources and includes provisions to ensure that earmarked funds complement, rather than replace, existing government financing for school meals. It builds on São Tomé's 2011 policy commitment to deliver school meals as a government responsibility and was developed through collaboration between the Ministries of Finance and Education, with parliamentary approval.

The earmarking process was evidence-based and strategically aligned. Excise surcharges were selected after fiscal analysis identified them as a sustainable source of revenue. The reform was embedded in national strategies for education, health, and food security and supported by technical assistance from WFP and GPE.

Lesson for school meals: Hard earmarking can secure long-term domestic financing when supported by strong legal frameworks, inter-ministerial coordination, and alignment with national policy goals.^[97]

Box 7 – Ghana: Earmarking Under Reform – Balancing Protection and Fiscal Flexibility

Ghana has relied extensively on earmarked funds since the 1990s. As of 2023, according to the Ministry of Finance's Strategy to Streamline Earmarked Funds, there are at least 16 statutory funds created through enabling Acts or the Constitution. These include the National Health Insurance Fund (NHIF), the Ghana Education Trust Fund (GETFund), the Road Fund, and the District Assemblies Common Fund (DACF).

Legal framework and Caps (as of 2023):

In 2017, the Earmarked Funds Capping and Realignment Act (Act 947) introduced a ceiling, limiting transfers to earmarked funds to 25% of tax revenue.

In 2022, an amendment reduced the ceiling to 17.5% of tax revenue to create greater budget flexibility.

The DACF is exempt from this cap due to a 2019 Supreme Court ruling, but constitutionally still receives not less than 5% of total national revenue.

Performance and challenges

Between 2017 and 2022, earmarked funds received transfers totalling about GH¢81.6 billion, or roughly 28% of tax revenue over the period.

Key funds such as the NHIF and GETFund remain vital for health access and education infrastructure but face challenges, including arrears, rising debt, and delayed transfers. The NHIF has reported sustainability risks, while GETFund has relied on securitisation of future inflows to finance educational infrastructure.

Many funds suffer from audit backlogs, non-core spending, and weak compliance with the Treasury Single Account and GIFMIS requirements.

The Road Fund, in particular, has accumulated large debts to contractors and suffered from governance weaknesses in oversight of budget execution.

Reform direction

The 2023 Strategy to Streamline Earmarked Funds recommended maintaining some funds (such as GETFund, NHIF, GIIF, and GNPC transfers), merging or restructuring others (like the Student Loan Trust Fund and Plastic Waste Recycling Fund), and strengthening governance and audit compliance across the board.

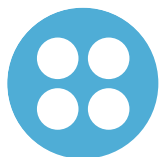
The reforms aim to reduce fiscal rigidities, improve transparency, and ensure earmarked revenues deliver value for money.

Key lessons

Earmarking has played a critical role in building and sustaining flagship social programmes, but it has also contributed to fiscal rigidities and arrears.

Legal caps have reduced the overall share of earmarking from earlier levels that exceeded 30% of government revenue and grants.

Continued reforms, as outlined in the 2023 government review, are necessary to balance the benefits of protecting priority spending with the need for flexibility, accountability, and fiscal sustainability. ^{[98] [99] [100] [101]}



Key Resources

- [To Earmark or Not to Earmark? Allocating Revenue from Health Taxes^{\[102\]}](#)
- [Earmarking for Health: From Theory to Practice^{\[86\]}](#)
- [Health Taxes: Policy and Practice \(Chapter 2.5, 4\)^{\[46\]}](#)
- [UN Revenue Use Chapter^{\[95\]}](#)
- [WHO \(2022\) Health Taxes: Policy and Practice^{\[46\]}](#)
- [Taxes on sugar-sweetened beverages: international evidence and experiences^{\[86\]}](#)
- [The Nature and Contribution of Innovative Health Financing Mechanisms in the WHO African Region: a Scoping Review^{\[90\]}](#)
- [WHO \(2023\). Global report on the use of sugar sweetened beverage taxes.^{\[88\]}](#)
- [Health Taxes Knowledge Note Series^{\[38\]}](#)
- [School feeding and the Sustainable Development Goals: An agenda to combat child hunger, boost education, transform food systems and strengthen equity^{\[4\]}](#)



Policymaking Process, Political Economy, and Role of Consultation



Key Takeaways

Strategy, Communication and Technical Solutions

Navigating political economy dynamics is a fundamental but complex part of the reform process. Success depends on aligning multiple interests, securing political champions, and identifying windows of opportunity.

It involves building alliances inside and outside government to improve the quality of the proposal, strengthening support at key veto points, and promoting a more sustainable impact.

Key stakeholders for such reforms usually include the government institutions responsible for health, finance, education, tax collection, food, drink, and drug regulation, organisations in civil society, and academic circles focused on public health, PFM, and education outcomes.

Civil society groups have an important role in various reform stages: formulation, passing veto points, communication, and oversight of their proper implementation and impact.

Many technical solutions can improve political acceptance. They include phased reform implementation, aligning reform to a government's vision, leveraging existing policy rationales, and securing key supporters by reflecting their priorities in reform design.

Technical evidence can anticipate and counter common industry pushbacks on inflation, macroeconomic effects, smuggling risks, and regressivity.

Communicating a health tax reform for school meals must leverage relevant media expertise and scientific evidence. A solid public campaign increases the likelihood of success and counters the risks of tax narratives being reframed. Linking them to the benefits of SMPs solidifies public buy-in.

A successful health tax reform process goes beyond design technicalities. It is fundamentally a political process shaped by power dynamics, political competition, organisational incentives, and public perceptions of (fair) taxation.

Decision-makers must also consider the political feasibility of a reform process. A successful and politically attuned advocacy strategy is likely to involve joint efforts to build broader public support, targeted approaches to mitigate opposition, and strong counter-arguments to industry objections.

Understanding Tax Policymaking Processes, Veto Points, and Opportunities for Influence

Understanding the typical “life-cycle” of a tax policy proposal and who influences at what stages is vital to understanding how policy can be shaped. Political economy dynamics are influential throughout.

Policy formulation proposals can come from a range of sources, such as finance ministries, sectoral ministries, civil society organisations, and academia. They then go through various stages of negotiation, refinement, and approval or rejection, culminating in budget processes requiring legislative approval. At various points, the relevant stakeholders may engage in formal consultations or exert informal influence.

Identifying the key political players and “veto holders”^k across ministries, departments, and agencies is critical. Successful reform must recognise the substantial political constraints that shape the tax policy-making process, and adopt a gradual approach to working with and around political incentives.

Timing and sequencing are also important. Civil society engagement is usually most productive when sustained throughout the year and not exclusively when the budget is formally debated. By this point, much may have already been decided. Providing timely information and analysis to key actors well in advance of this window can shape the debate more effectively. Advocates for health tax reforms need to pay close attention to budget cycles and when political windows of opportunity might open up.

Veto points, which are moments in policy-making and legislative processes where reform can be blocked, are still relevant after a reform is implemented. Strategically planning how specific taxes will be updated in line with inflation can avoid political obstacles to a routine adjustment. Where viable, using secondary legislation to update specific rates can reduce policy uncertainty.

^k Veto holders or players refer to “individual or collective actors whose agreement is required for a change in policy.” ^[118]

Incremental implementation can be a valuable strategy for many reasons: easing the transition; buying time for administrative improvements; signalling the direction of health tax reform; adjusting policy in response to observed impact; and reducing immediate backlash and opposition, making it easier to build momentum and secure long-term success.



In Practice

The Burundi and Kenya case studies outline options for phasing in reform incrementally for different reasons, while the Philippines case study demonstrates this approach has worked in practice.

The former illustrates the option of making a reform pathway technically realistic, starting with tax rate increases on existing products (phase 1), before changing the health tax structure and broadening its scope (phase 2). After making administrative improvements, health taxes could move towards a content-based approach (phase 3).

Kenya's case study proposes a content-based tax on a gradually broader set of sugary and ultra-processed food and drinks. This has two key rationales: building administrative capacity to target increasingly complex products, while also reducing political opposition.

In the Philippines, tobacco and alcohol health taxes progressed through a series of reforms over a decade.

Finding Potential Allies Among Civil Society Movements

Garnering support from civil society groups in the context of taxation is often challenging, with civil society more often protesting against perceived unfairness or disproportional impacts. ^[103]^[104] However, health taxes for financing school meals provide a rare opportunity to win support from civil society. Framing reforms in terms of their health and school meals benefits can align diverse interest groups, most obviously organisations focused on health, children's welfare, and equity.

Certain narrative framing of reforms also provides more opportunities for more constructive civil society engagement. Three dominant narratives that civic campaigns often use in tax-related contexts are: i) promoting fairness and equity; ii) raising revenue to fund public services (like school meals or primary healthcare); and iii) emphasising the need for transparency and anti-corruption measures in tax administration. ^[105]

Civil society groups can be pivotal reform champions in technical and political channels, both pre- and post-reform. In addition to being supportive advocates, some organisations are a key source of expertise to guide reform design and ensure health taxes are effective. Accurate public understanding of a reform's rationale can also be strengthened by civil society's communication campaigns. Post-reform, they provide crucial oversight and accountability on whether health taxes and the allocation of revenues are working as intended.

Combining 'Outsider' Civil Society Strategies with Building 'Insider' Support Among Government Ministries

Support within government is also essential for a health tax and revenue allocation reform to be given serious consideration. If a reform is initiated by a ministry of finance or a line ministry (like a ministry of health or education), identifying and cultivating internal champions aligned with reform objectives is crucial. Potential allies could extend to a broader group, including those with an interest in education, social protection, family affairs, and justice.

Broadening the group of 'insider' allies can: i) improve the reform proposal by utilising the combined expertise on relevant themes, particularly taxation, health, education, nutrition, and social protection; and ii) build familiarity with and support for the reform among more political leaders. The former would be enacted early in the tax policymaking process, while the latter can be fostered through consultation.

Successful reforms tend to combine these 'insider' and 'outsider' strategies by "supporting and influencing governments directly on reforms, while also applying external pressure through protests, lawsuits, and media campaigns".^[105] The Philippines experience (see Box 3) illustrates how this can be done successfully.

Leveraging Commitments in Existing Strategies and Rationale

A government's existing vision likely references human capital development as a core objective. By highlighting how a health tax reform supports school meal financing within this vision, policymakers can streamline discussions about the reform's purpose. This approach shows coherence, avoiding the impression of promoting an isolated policy change without a wider contextual purpose.

Identifying Easier Political Wins in Broadening the Taxable Products

A policymaker's toolkit should include two processes: strengthening health tax reform in line with existing rationales and proposing new ones – even if consensus is uncertain. For example, an existing health tax on SSBs implies agreement with the principle of discouraging sugar consumption. The same logic could be extended to introducing a health tax on non-caloric sweeteners or e-cigarettes.



In Practice

In the case studies for Burundi, Kenya, and Uganda, the reform options extend the SSB tax rationale to cover a broader range of high-sugar products, bypassing debate on whether the government should discourage sugar consumption.

Bundling Health Tax Reform with Justified Revenue-Reducing Measures

Some products are healthier substitutes for a harmful product, but they also may be subject to additional taxes (beyond VAT). Tax reform could be bundled so that the unhealthy product is discouraged through higher taxes and the healthier substitute is encouraged through lower taxes. In doing so, the potential revenue loss is offset by an alternative revenue-generating option, and the health-promoting objective of the tax becomes stronger.

Bundling health tax reforms with broader tax reforms can build public and political support, especially where concerns about tax burdens are salient.



In Practice

The Philippines Tax Reform for Acceleration and Inclusion (TRAIN) Law raised excise taxes on SSBs and petroleum, while simultaneously lowering personal income tax rates. This “tax swap” approach made the reform more publicly acceptable by signalling that the overall tax burden will remain neutral or tolerable.

All bundled tax policies should be appraised and justified rather than sought only to provide this desired net revenue effect. The bundle must also consider revenue sustainability: “swapping” a stable revenue source for an equivalent volatile one can unintentionally create more financing challenges.

While such strategies may aim for revenue-neutrality to achieve political and public acceptance, it is preferable, where possible, for reforms to remain revenue-positive when aiming to finance additional spending on SMPs.

Anticipating and Addressing Common Industry Pushbacks

Many studies demonstrate that the state’s ability to engage in constructive dialogue with elites, especially within the business community, is a crucial factor for successful tax reform. In the context of health taxes, opposition is predictable from particular industry groups. As Elizondo et al. write: “The power of a social group is not only manifested when they block a policy, it also exists when government officials anticipate the reaction of those with power and so do not press for or implement a policy that would affect them.”^[106] Confronting deep-rooted interests within the political landscape was a key part of the political strategy for health tax reform in the Philippines (see Box 3).

Many arguments advanced by groups opposing a health tax reform are well-known and not country-specific. Preparing evidence that counters or mitigates the risks highlighted by opposition should be part of the technical policymaking process. This could process could involve showing whether:

- and (if relevant) by how much, product prices and inflation are estimated to increase. A simple price analysis model should be sufficient to determine if increases have occurred. In the latter case, the health tax product usually forms a small share of the CPI basket and therefore does not drive headline inflation;^[63]
- the overall health tax for school meals reform is progressive, based on the expected long-term impact, covering financial, health, productivity, gender, and environmental dimensions;
- the reform is effective based on the range and magnitude of benefits from the health tax and school meal financing;
- an increase in smuggling is plausible based on the expected price increase and flagging existing deterrents and mitigation options;
- industry becoming financially unsustainable is plausible based on published financial statements or corporate income tax returns; and
- existing tax policies support investment and job creation. The cited risk to jobs could be offset by jobs created through SMP expansion, with a potential added benefit of shifting towards regenerative agriculture.



In Practice

Indonesia's SMP aims to reach 82 million beneficiaries using 30,000 kitchens, which can alleviate concerns about local economy stimulation, while Kenya's School Meals Programme signals a promising market for local farmers and support for a transition towards regenerative agricultural practices.

Effective Tax Communication

Effective communication serves two distinct purposes in the political economy of tax reform. First, it implies fostering a sense of civic responsibility, where taxpayers not only recognise the importance of fulfilling their tax obligations but also do so willingly. Second, it emphasises the practical implications of particular tax policies. This includes how to comply with tax regulations and awareness of the policy's broader economic impacts, which can significantly influence public perceptions of fairness and equity within the tax system.

Successful health tax reforms need proactive engagement with the public and key stakeholders to build understanding and support. A communication strategy should use channels available to governments and wider policy advocates, given the well-documented risk of industry reframing. Across global contexts, from Mexico to South Africa, the Philippines, and Colombia, industry has shifted the narrative around health taxes towards concerns around regressivity, job losses, and "revenue grabs". The name given to a health tax should minimise opportunities for politically sensitive framings, while recognising that these may still happen. In Philadelphia, for example, an SSB tax was rebranded as a broader "grocery tax" by industry to elicit cost-of-living concerns.^[107]



In Practice

Mexico's successful SSB tax campaign focused on making the health issue and its urgency visible to policymakers and the public. Its advocacy strategy focused on paid and earned media campaigns and formal lobbying by public interest groups, leveraging scientific evidence and a rigorous understanding of the political context.^[108] It highlights the importance of engaging organisations with experience in media advocacy and public health campaigning, incorporating scientific literature, and planning for the right window of opportunity.

In Nigeria's Advocacy and Enlightenment Education Programme, the Lagos State Internal Revenue Service (LIRS) contracted a private sector advertising agency to manage the campaign, and LIRS staff were regularly deployed on public engagement.^[109] Such communication efforts require sufficient resourcing as part of the campaign, but are important for impact.

Strategic Use of Earmarking to Build Political Support

The benefits of utilising earmarking to gain political support need to be balanced against the potential for technical downsides, as explained in more detail in the *Earmarking* chapter above. Translating the revenue impact of a reform into the number of SMP beneficiaries increases its relatability. In some contexts, taxes are more politically sensitive due to concerns over revenue use. Yet central governments often face high revenue needs – both overall and for specific priorities like SMPs. This creates tension around earmarking. Directing part of the revenue to school meals could balance stakeholders' needs while ensuring solid public accountability.



In Practice

Kenya and the Philippines, for example, note the option to share the additional revenue between health and education purposes to gain more support.

Box 8: Tobacco Tax Reform in the Philippines

Building a coalition of insiders and outsiders

The 2012 health tax reform on tobacco in the Philippines involved a broad and diverse civil society coalition, which played a pivotal role in achieving success. A key actor in this process was Action for Economic Reforms (AER), a Philippine NGO focused on economic policy research and advocacy, which was invited by the Framework Convention on Alcohol Policy (FCAP) to collaborate on promoting health tax reform. AER helped build a wide-ranging coalition that included not only tax fairness and economic reform advocates but also health professionals, youth groups, and government officials. With support from Bloomberg Philanthropies, the coalition united organisations such as WomanHealth Philippines, the Philippine College of Physicians, and the Foundation for Economic Freedom, all sharing the goal of improving public health by reducing smoking rates while generating vital healthcare funding. ^[110]

The coalition skillfully combined insider and outsider strategies to advance the reform. On the insider side, they worked closely with key government officials, particularly within the finance ministry, and sought out sponsors in Congress. AER and its partners focused their influencing efforts on the Ways and Means Committee, a key gatekeeper traditionally influenced by pro-tobacco legislators. They also established a “war room” in the Department of Finance to coordinate messaging and strategies among finance officials and party leaders. ^[111]

Box 8: Tobacco Tax Reform in the Philippines (continued)

At the same time, the coalition employed outsider tactics to galvanise public support and counter opposition from the tobacco lobby. They organised press conferences, engaged public health experts to highlight the dangers of smoking, and worked with media outlets to shape public discourse around the issue. By branding the bill as an “anti-cancer tax” and rallying more than 50 medical associations to back their campaign, they created significant public pressure. They also exposed lawmakers and columnists who were seen as biased towards the tobacco industry, particularly those using industry rhetoric in their arguments. By balancing these insider and outsider approaches, the coalition was able to generate widespread support across sectors, manage the political landscape effectively, and ultimately secure a landmark victory for both public health and fiscal reform.

Effective communication

Advocates chose to emphasise the reform’s health objectives, framing it as a means to reduce smoking rates among Filipinos and generate revenue specifically for healthcare, aligning it closely with the broader goal of achieving universal health coverage.^[108] Civil society groups engaged local chronic disease experts to gather data on the harmful effects of smoking. Through dissemination to Congress and collaboration with media outlets, the health tax reform bill was branded as an “anti-cancer tax” and successfully rallied over 50 medical associations to support their petition.^[108]

Anticipating and addressing common industry pushbacks

The Philippines’ excise tax on tobacco and alcohol products saw significant industry pushback. The “strongest tobacco lobby in Asia”, consisting of industry giants as well as the “Northern Alliance” of politicians with ties to tobacco-growing regions, exerts significant influence over policymakers.^[112] These groups were vocal opponents of higher taxes, arguing that such measures would harm local economies and lead to job losses within the tobacco-growing regions.^[108]

Advocates of the health tax reform proposed that some of the additional revenue generated from the tax should be allocated to economic development projects in tobacco-growing provinces, displaying their willingness to foster a constructive dialogue. These concessions formed part of a multifaceted and politically-smart influencing strategy, alongside earmarking and emphasising public benefits, to enhance the political feasibility of the health tax reform.

Earmarking

In the Philippines’ health tax reform, the law mandated that 85% of the additional revenue generated from these taxes be allocated to health spending, with 80% of that portion specifically designated to providing free access to the National Health Insurance Programme (NHIP) for low-income households.^[113] The remaining 15% was set aside to support alternative livelihoods for tobacco farmers and fund economic development projects in tobacco-growing provinces.^[114]

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Annex 1: Revenue and Health Impact Analysis

Below we show example methods that can guide revenue and health impact analysis in a data constrained setting and in a data rich setting.¹

Impact Analysis with Limited Data

A context with limited administrative tax data might have tax data for each taxpayer, tax type, and year. Even in such situations, some analysis can be done to understand the revenue and health impact. Step-by-step, this could involve:

- 1. Gathering and cleaning administrative data** for the relevant tax type (e.g. excise duty). This should include the sales value, excise revenue, and quantity sold (if available) for 3–10 years for both domestic consumption and imports, unless one of the two is negligible in size.
- 2. Classifying the main excisable product sold by each taxpayer.** If multiple product types are sold by a taxpayer, make guided assumptions on the likely split of sales and quantity of those different products by that taxpayer. The taxpayer's financial statements, if published, can assist with this.
- 3. Aggregate the administrative data** by product type and year across all taxpayers. This should leave you with a dataset on sales value, quantity, excise revenue for each product and year.
- 4. Sense-check aggregate data and trends** to ensure they are consistent with information from other sources and a general understanding of the market's evolution.
- 5. Calculate the average price** at the point of taxation as the total sales value divided by total quantity sold for each year and each product.

¹ Health impact analysis is relatively basic in these examples, limited to the consumption of the relevant NCD risk factor. In many instances, it is further limited to the formal consumption of the harmful content.

- 6. Create simple projections** (price, quantity, and revenue) based on the historic time trend (assuming no policy change) to create a baseline scenario.
 - This could involve calculating the compound annual growth rate and applying it to price and quantity for the most recent year of data available.
 - Tax revenue is then the tax applicable on the 'average product' multiplied by the appropriate tax base (quantity, price, or both).
- 7. Create alternative projections** (price, quantity, and revenue) with a policy change
- 8. Calculate the percentage change in price** for the 'average product' resulting from the change in tax.
 - Gather evidence of own-price elasticity or use appropriate benchmarks from literature (see case studies for examples)
 - Multiply the own-price elasticity by the percentage change in price to estimate the percentage change in quantity
 - Calculate tax revenue as the tax applicable on the "average product" and multiplying it by the quantity
- 9. Calculate the policy impact** as the difference between the two projections:
 - The difference in quantity consumed is suggestive of the health impact
 - The difference in revenue shows the financial impact
- 10. Testing different scenarios**, such as for sensitive and insensitive consumption, would give a confidence interval if there is uncertainty around the underlying assumptions. Parameters that could be altered include income growth, elasticities, and pass-through.

Impact Modelling with Detailed Data

A context with more detailed administrative data might have monthly returns for each product sold by a taxpayer. The analytical possibilities expand significantly with such data, and could allow the following forms of analysis:

1. **Creating an inventory of brands and their harmful content** (e.g., sugar per litre for Soda Brand A 33cl, Juice Brand B 50cl etc.) to understand the level of consumption of the harmful content through formal sales of that product.
2. **Using empirically backed evidence on consumption drivers.**
 - How much historic changes in consumption are explained by:
 - price and income changes using the respective elasticities;
 - measurable other drivers of consumer demand like advertising and availability; and
 - a residual factor for unknown or difficult to measure other drivers of consumer demand like addiction, social norms, lifestyle changes, and nutrition knowledge.
 - While a broader reform package might alter this residual factor, the extent and speed at which it does this might be unclear, and the modelling aims to focus on the isolated impact of the tax reform.
3. **Projecting revenue and consumption at brand level.** This becomes more data intensive and is not essential, but it is possible to do if there is sufficient good quality data at this granularity.
4. **Developing a flexible tax structure simulation “menu”.** The more flexibility there is in altering the simulated tax structure, the better. It should allow for changes between ad valorem, volumetric, and content-based taxes. It could also allow a mixture of the above three approaches, thresholds for a tiered tax, and a “whichever is higher” approach.
5. **Testing different scenarios**, such as for sensitive and insensitive consumption, would give a confidence interval if there is uncertainty around the underlying assumptions. Parameters that could be altered include income growth, elasticities, pass-through, and supplier reformulation.
6. **Incorporating the revenue cascading effect** so that the results include the additional revenue and price effects that comes from excise tax being part of the tax base for VAT, and the impact of reduced demand on other taxes.

