THE PHILIPPINES: CRITICAL COLLABORATION AND ADAPTABILITY TO INFLUENCE TAX REFORM

Founded in 1996 by progressive scholars and activists to provide an independent voice on fiscal reform, industrial policy and taxation, Action for Economic Reforms (AER) in the Philippines works through many avenues to influence policy: “research and analysis, lobby and dialogue, networking and coalition building, legal action, media work, publication and public education”. Between 2012 and 2019, AER engaged in various rounds of reform to so-called “sin taxes” – excise taxes paid on alcohol and tobacco products – and to the oil excise reforms proposed by the Duterte government. The group used a multi-pronged strategy that included working directly with government, lobbying members of Congress, engaging the media and mobilizing civil society coalitions to sway public opinion and put pressure on policymakers. As a result of the campaign, substantial increases in sin taxes were introduced and used to significantly expand health coverage. Oil excise tax reforms contributed to increased revenue as well, but their distributional impact was more controversial, partly because the reform was approved without adequate preparation for the cash transfers that were supposed to compensate low-income families.

THE TAX REFORM

The Philippines’ tax system is characterized by a narrow base, high rates, and weak enforcement. Nonetheless, the country collected the equivalent of 14.0% of their GDP in taxes in 2018, above the regional average of 11.9%. Slightly over 2,000 large corporate taxpayers provide half of all government revenue, and around 16% of the population is registered as individual taxpayers. The country collects various excise taxes which account for around a tenth of tax revenues.

Prior to the 2012 reform, excise taxes on tobacco and alcohol products were comparatively low and rates of smoking were high—as many as a third of Filipino adults. An earlier effort to increase “sin taxes” on sales of these goods in 1997 was blocked by the tobacco and alcohol lobby, but they were finally increased in 2012 by the Aquino government: the tax levied on tobacco products increased by a factor of ten and taxes on beer more than doubled. These reforms were styled as a public health measure, discouraging unhealthy behavior while raising funds for the country’s universal health care program. A 2019 reform increased these taxes even further, and taxed e-cigarettes for the first time. Consequently, rates of smoking have fallen appreciably, while health insurance coverage has climbed dramatically; earmarked revenues have increased the country’s health budget by 2.5 times since 2012. Moreover, the sin taxes proved popular: a 2014 poll indicated two-thirds of Filipinos believe that cigarette prices should be further increased.

Additionally, a comprehensive tax reform package—the Tax Reform for Acceleration and Inclusion (TRAIN)—was enacted in 2017 by the Duterte government. TRAIN was made up of five packages that together would make the tax system simpler, fairer, and more efficient—while also raising funds to eradicate extreme poverty by 2040. One of the packages included gradual increases in the excise tax on oil over a three-year period, assessed across various product categories. The reform aimed to correct the

declining real value of oil taxes, which had not previously been indexed to inflation (and also further reduced in 2006); by 2017, petroleum excise tax collections had eroded to just a quarter of what they had been in 1997. To offset the negative income impact of these taxes on the poor, the government coupled this package with lower personal income tax rates for all but the top one percent of earners, unconditional cash transfers to the poorest 10 million households, and fuel vouchers for 179,000 public utility vehicle drivers. But since the reform was rushed to be passed within a narrow window of low oil prices, these mitigation measures were not implemented on time, generating public criticism.

THE CAMPAIGN

AER used a multi-pronged strategy to influence policy during these various campaigns. The group worked directly with government, lobbied members of Congress, mobilized civil society coalitions and engaged the media, helping to overcome the political influence of powerful private sector lobbies.

AER played a crucial role in the 2012 sin tax reforms. To counter the tobacco and alcohol lobbies that had derailed a similar reform attempt in 1997, AER helped organize a broad coalition including not only tax fairness organizations but also health advocates and youth groups. Indeed, the presence of an orchestrated civil society movement may represent the critical difference between the failed 1997 tax reforms and the successful 2012 ones. The coalition decided to communicate the need for sin tax reform primarily as a health measure (rather than as a revenue raiser), connecting the effort to the goal of universal coverage. The alliance effectively used “insider-outsider” tactics to generate public pressure and manage the politics, working with key finance officials, legislators, and party leaders—even setting up a “war room” in the finance department to coordinate efforts—while also applying public pressure at key turning points. Further, the coalition identified sponsors in Congress and helped reach key strategic decisions, such as earmarking revenues for spending (as a bargaining tool to get more votes) and accepting the difficult compromise to reduce the proposed levy on alcohol in order to secure passage of the reform. And it was particularly effective at exposing politicians and columnists who showed a bias towards the
tobacco and alcohol industry, especially those who used talking points lifted directly from industry documents. Even so, the 2012 reform just barely passed the Senate vote (10 to 9).

For the TRAIN reform effort, several years later, AER faced several additional obstacles. They did not have strong political connections with the incoming Duterte administration—and initially could not find sponsors in Congress for a new round of increases on tobacco and alcohol taxes. But because they had built trust with career civil servants in the finance department, the coalition was invited in as a partner. AER assisted the government with bringing in stakeholders during the consultation process and helped liaise with Congress. The coalition discovered that sin taxes were not included in the original reform plans—and further learned industry was planning to lobby for a renegotiation of the past reforms. Building on their past experiences, AER responded by going on the offensive, proposing that sin tax rates be increased even further. Helped by the President’s popularity and political support in both houses of Congress, the tax increase was approved unanimously in 2019. The difficult compromise on alcohol taxes in 2012 allowed the coalition to build credibility and momentum to increase alcohol taxes a few years later.

AER’s role in the oil excise reforms followed a similar pattern with relation to the “backstopping” role that it played with the finance department, providing technical and strategic support to the reform team there, and publishing editorials and opinions at key points in the reform. But organizing other civil society actors around TRAIN and the oil excise plan proved to be much harder than in the 2012 sin tax reform. There was a very small window of time to plan, organize, and communicate the reform. Critically, this period was too short to plan, secure buy-in and build the capacity of executive departments who needed to implement the unconditional cash transfers and the fuel card program, that were meant to protect the poor from being unduly affected by the reform. Even if taxes had already been increased by the start of 2018, these programs could not be delivered until the second half of the year. The delayed implementation of these measures led to public criticism. Finally, oil prices increased shortly after the reform was passed, causing the public to attribute the price increases of basic commodities to the tax reforms.

Critics branded TRAIN a “burden” to the poor, and lawmakers responded to the mounting public pressure by calling for the suspension of oil tax increases. Even though the AER and the finance department released analyses suggesting that such proposals were misguided, by October 2018—with inflation breaching 6%—members of various parties increased the pressure on government to backtrack. When oil prices breached the ceiling that triggered an “off-switch” set by law, the tax increase scheduled for the following year was suspended. Although it would have been strategically preferable to time the safety net measures to begin alongside the oil tax increase, advocates believe that with further delay the measure would not have passed.

**Assessment**

AER’s campaign to increase sin taxes was a significant success. Their advocacy helped bring about a substantial increase in revenue that was used to significantly expand health coverage. And it did so by playing a long game and adapting strategies and tactics along the way. Their support to the government’s planned increase in oil excise taxes—a major revenue source that was meant to also fund cash transfers to low-income families—was more controversial. This was partly because the tax hikes were rushed through without adequate preparation for the social mitigation measures.

Overall, however, AER’s experience demonstrates how an effective “tax reform entrepreneur” deploys numerous skills. During the reform processes, AER played several different roles: liaising between government and advocates, backstopping reform teams, orchestrating voices, and shaping public opinion. Operationally, this meant everything from undertaking technical analyses and policy research, writing press statements, appearing in media briefings, creating one-page briefing notes, drafting coalition statements, writing opinion editorials and being present in coalition meetings, to managing group
conversations among activists with passionate and often conflicting opinions. Through each of these efforts, AER helped shape public opinion and pressure politicians to deliver votes.

LESSONS
This case study illustrates several lessons essential to building an effective civil society movement for tax reform.

First, organizations should work to build trust with government officials—a process that takes time, commitment, and preparation, and that can pay off despite political shifts. Building trust, however, does not mean providing unconditional support, but rather “critical collaboration” and constructive engagement.

Besides direct engagement with the executive, civil society organizations (CSOs) need to engage with and develop good relations with many different stakeholders, from legislators to the media, to various possible allies within civil society. This allows them to play multiple roles in support of the reforms, both inside and outside government.

Regressive excise taxes may be justified for various reasons, such as promoting health and protecting the environment. AER’s work shows that building a successful case for increasing these taxes can rely on “earmarking” them—at least notionally or rhetorically—for progressive spending items like health coverage or cash transfers, which largely benefit the poor.

Finally, successful reform entrepreneurship relies on a mix of skills, for technical analysis, political negotiation and effective communication. These skills, however, need to be accompanied by flexibility and adaptation. CSOs should build consensus on core reform principles but have the courage to compromise while staying true to agreed principles, and change tactics when the conditions demand it, accepting that there are limits to what may be possible at any given moment in time.