unicef for every child

POLICY BRIEF

TAX REFORMS ON MENSTRUAL HEALTH AND HYGIENE (MHH) PRODUCTS IN PAKISTAN

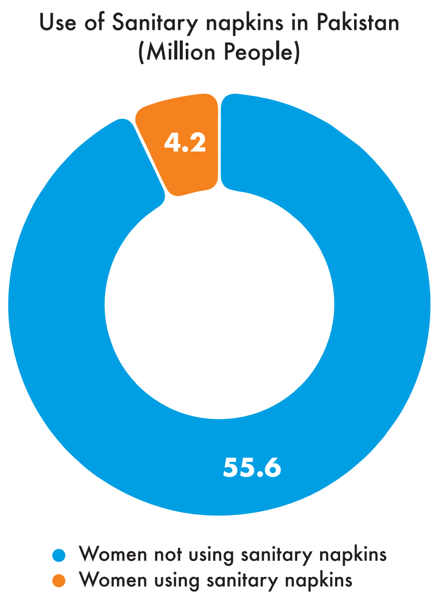
This policy brief discusses 'Period Poverty' in Pakistan, the relevance and impact of taxation on period poverty and policy recommendations for tax reforms to make Menstrual Health and Hygiene products more affordable.

INTRODUCTION

The Government of Pakistan took a significant step towards gender equality by ratifying the U.N. Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) in 1996. However, despite this commitment, women in Pakistan continue to face economic challenges in managing their menstrual cycles. The phenomenon known as "period poverty" disproportionately affects girls and women from low-income and marginalized backgrounds. With approximately 60 million women of reproductive age in Pakistan, a significant portion cannot afford appropriate sanitary products, forcing them to resort to unhygienic alternatives. This socio-economic barrier has far-reaching consequences, profoundly affecting the health, education, and overall well-being of women and girls. The situation is extremely grave in case of adolescent girls as it is estimated that 1 out of 5 girls miss school because of their menstrual cycle, which adds up to missing a minimum one year's worth of education. (U- Report Pakistan, 2017)

According to data from the World Health Organization (WHO), the total number of women of reproductive age in Pakistan (15-49 years) is approximately 60.3 million. Assuming an average consumption of 10 napkins per menstrual cycle (equivalent to 1.25 packs of 8 napkins), the annual consumption for an individual woman would be 15 packs[1]. Extrapolating this to the population of 60.3 million women, the estimated annual consumption would amount to a staggering 904,559,250 packs.

Figure 1 Estimated number of women of reproductive ages using sanitary napkins in Pakistan

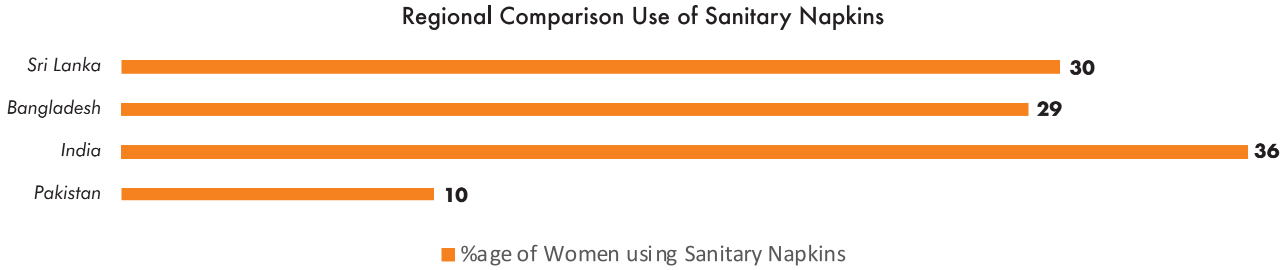


An estimate of average consumption is used as there is no reliable information is available on the actual usage that may vary from person to person.

In 2022, the estimated sales by leading sanitary napkins manufacturers in Pakistan was valued at approximately PKR 15.6 billion, or roughly 65 million packs representing 7% of the estimated requirement (1). If we add 5% as the sales by informal sector, the approximate % of women using sanitary pads comes out to be merely 12%.

These statistics highlight the significant disparity in providing safe MHH products to the female population in Pakistan compared to its regional counterparts. For instance, according to the National Hygiene Survey conducted by the Bangladesh Bureau of Statistics in 2018, around 29% of menstruating women in Bangladesh use sanitary pads, a notable increase from 14% in 2014. In India, the National Family Health Survey 2015-2016 estimates that out of the 336 million menstruating women, approximately 121 million (roughly 36%) use sanitary napkins, whether locally or commercially produced. In Sri Lanka, where there are approximately 4.2 million women and girls of menstruating age, about 30% have access to tampons or pads.

Figure 2 Regional comparison on use of sanitary napkins



Various studies including a recent Ethnographic Study on Menstrual Health and Hygiene (MHH) in Pakistan identified affordability and price as a key barrier for girls and women in accessing MHH products. Globally, there is a growing movement to reduce or eliminate taxes on MHH products, aiming to improve affordability and reduce price. This movement is a crucial step towards achieving gender equity. While several countries have already abolished taxes on sanitary materials, Pakistan has yet to implement similar tax reforms. Currently, menstrual health and hygiene products, including sanitary pads and their raw materials, are classified as non-essential items and are subject to a maximum sales tax of 18% and other tax and duties on raw materials of sanitary napkins.

Synopsis of Sanitary Napkins Market, Tax Regime and Total Tax Incidence

The dynamics of the sanitary napkins market in Pakistan have undergone significant changes over the years, transitioning from primarily an import-based market to local manufacturing by major brands. These brands utilize varying percentages of local and imported raw materials. The price of the product varies across brands, determined by factors such as the type of napkin, quality, and packet size. On average, an eight-napkin pack is priced between PKR 170 to PKR 375. In the case of locally manufactured sanitary napkins, essential raw materials are still imported. The proportion of imported raw materials in the total production cost varies among manufacturers

Total tax incidence

The table below provides Harmonized Standard (HS) Codes and details of taxes and duties applicable on the raw materials of sanitary napkins and contribution of each raw material in the total cost of the product. The percentage contribution of each raw material in the final product may vary with brand, quality and type of the product, however, the figures used in the table represent the indexed cost of a reasonable quality sanitary napkin and therefore, can be used as a reliable reference.

Average price was PKR 240 per pack of 8 napkins

This % is estimated on the basis of sales reported by large manufacturers and does not include the unreported sale, sales made by informal sector and sale of counterfeit products. Also % is estimated on the basis of average price reported by large manufacturers. The change in price and inclusion of sale of informal/unreported segment would change the % significantly.

It is important to note that the rate of duties and tax and their impact on the overall cost of product sometime varies according to the type of raw material used by the company, the size of the company (whether the company qualifies as SME or a large company), the overall product mix of the company, production capacity, the location (if it is in industrial zone or outside), the country of import etc.

For example raw materials will differ for thick pad as compared to thin or slim pad.

Table 1 HS codes and related taxes

HS CODE	ITEM DESCRIPTION	% component in cost	Sales Tax	Custom Duty	Regulatory Duty	Income Tax	Additional Custom Duty
4818.9000	Sap Paper	26%	25.0%	0.0%	24.0%	5.5%	6.0%
4703.2100	Wood Pulp	15%	18.0%	0.0%	0.0%	2.0%	0.0%
3920.1000	Perforated PE Sheet	8%	18.0%	16.0%	0.0%	5.5%	4.0%
4811.5990	Release Paper	6%	18.0%	12.8%	0.0%	5.5%	6.0%
5603.1100	Non-Woven	3%	18.0%	11.0%	0.0%	5.5%	2.0%
3906.9090	Sap Gel Powder	2%	18.0%	11.0%	0.0%	5.5%	2.0%
3919.9090	Adhesive Tape/Easy Tape	Small component	18.0%	16.0%	5.0%	5.5%	6.0%
4823.9090	Airlaid Paper	Small component	18.0%	18.0%	0.0%	5.5%	6.0%
3923.2100	Poly Bags	Small component	18.0%	20.0%	10.0%	5.5%	6.0%
3919.1010	Double Side Tape	Small component	18.0%	11.0%	00.0%	5.5%	6.0%
3919.1090	Easy Sticker	Small component	18.0%	20.0%	5.0%	5.5%	6.0%
3506.9190	Adhesive Glue/ Hot Melt	Small component	18.0 %	16 %	0.0%	2.0 %	4.0 %
9619.0030	Local Raw Materials	40%	18%				
Total Contribution of taxes and duties in Cost	Sanitary Napkins	NA	18.0%+3% Additional Sales Tax	20.0%	15.0%	5.5%	6.0%
		100%	19.82	3.81	6.59	3.13	2.74

If we calculate the impact of the duties and taxes imposed on raw materials taking their total contribution in the cost as weightage, as provided in Table 1 above, the total contribution of taxes and duties in the cost of production comes out to be 36.08%, as provided in Table 2 below .

Table 2 Overall contribution of taxes and duties in cost of sanitary pads in Pakistan

Sales Tax	Custom Duty	Regulatory Duty	Income Tax	Additional Custom Duty	Cumulative contribution in cost
19.82	3.81	6.59	3.13	2.74	36.08%

The finished product is also subject to 18% sales tax, and would additionally contribute at least 3 to 4% (considering value addition/profit margin between 15-20%) in the price of the product, taking the total tax incidence to roughly 40% to be charged to the customer.

As per a report of Euromonitor, for 2021 sales tax collected from Sanitary napkin manufacturers was 0.884 billion based on PKR 13 billion market size. Latest figures of tax collection are not currently available.

In terms of the Sales Tax Act, 1990 as amended up to 23rd February 2023, sales tax rates at the rate of 18% is applicable on the sanitary napkins finished product.

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Proposed period tax reforms

Derived from the aforementioned analysis, it becomes evident that taxes and duties comprise about 36% of the total price of sanitary napkins. This implies that for every Rs.100 spent on purchasing napkins, PKR 36 is directed towards the government in the form of taxes. Given the substantial impact of this taxation, it becomes imperative to implement reductions, thereby enhancing the affordability of the product for all consumers. This policy brief aims to present the following argument:

- Sanitary pads are necessities - WHO recently declared MH as a human right and not only a hygiene issue. Women and girls need menstrual products to be able to manage their periods safely, hygienically and with dignity. In Pakistan, menstrual products are often not considered basic necessities and thus are not subject to a reduced tax rate or exemption. They are often taxed at the same standard rate as more luxurious items. Lacking dignified solutions to menstrual health including little or no access to sanitary products, violates a variety of human rights conventions, which governments have a duty to uphold.
- Taxing sanitary ware is gender discriminatory – Period taxes are discriminatory because they effectively tax women and girls who have no choice but to buy menstrual products because they menstruate. Menstruation is a physical function, not a choice.
- Supportive enabling environment leads to increased production – Tax removal is envisaged to support more production and reduce the cost thereby increasing accessibility

Considering the aforementioned facts, UNICEF and all relevant stakeholders put forth the following proposals to the government for contemplation in the forthcoming budget:

- It is recommended that locally manufactured sanitary napkins be designated as an 'essential item' and included in the Sixth Schedule of the Sales Tax Act, 1990. According to Section 13 of the Sales Tax Act, 1990, the Sixth Schedule explicitly outlines goods that are eligible for sales tax exemption. While certain medicines and food items are exempted, neither the raw materials used in the production of sanitary napkins nor the finished products themselves fall under this category. It is important that the adjustment of input tax or zero rating of all raw materials is explicitly stated, so that maximum price reduction can be achieved. If input adjustment is not allowed, the impact on price would be negligible as input tax would become part of the cost that would be charged to the customers. Case in point is of period tax reforms in India, where government removed 12% GST on sanitary pads without allowing input tax adjustment that resulted in nominal price reduction for local manufacturers.
- Alternatively, the government should consider a suitable reduction in sales tax by adding locally manufactured sanitary napkins and their key raw materials to the Eighth Schedule of the Sales Tax Act, 1990. The Eighth Schedule provides details of items eligible for a reduced rate of sales tax. Currently, none of the raw materials required for sanitary napkin production are listed in this schedule. As stated in above paras, the companies should be able to claim the input tax in order to fully pass on tax reduction in the retail price.
- Exclusion of sap paper, which is a key raw material for sanitary napkins (constituting approximately 26% of the total cost), from the list of non-essential luxury items. Currently, these materials are subject to the highest sales tax rate of 25%. If the sales tax rate is reduce to a level of 18% from 25%, this small move alone will reduce cost of sanitary napkins by Rs.2.
- As a result of strong policy advocacy by UNICEF and other stakeholders, the government included exemption of all duties on the import of raw materials for sanitary napkins in the proposed budget 2023. It was indeed a

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Input tax is the amount paid by the registered person on business purchases and imports. He can claim a deduction for the sales tax paid as input tax if used in the manufacture of taxable supplies.

In Pakistan for 3rd Schedule items such as Sanitary Napkins, sales tax is collected from manufacturers instead of retailers/distributors and final retail price inclusive of sales tax is printed on the pack of the product.

In case of zero- rating, the impact on cost would range between 18-22%, reference Table 2, where contribution of sales tax in raw materials is 19.82%. Since every company uses different mix of raw materials, so impact would be different but nevertheless not below 18%.

big step toward tax reforms to end period poverty in Pakistan, however, the exemption of import duties though could not sail through and was withdrawn due to extreme economic uncertainty. A duty reduction on two imported raw materials was allowed, that has a very nominal impact on price. If the import duty exemption is approved, it will significantly reduce the cost of production and ultimately the price of product. It is however, reiterated that the percentage contribution of each raw material in the cost of production varies with the quality and type of product, therefore, each manufacturer pass on the impact of tax reduction differently making it difficult to track and measure the impact of tax reduction. Experience in different countries showed, that the price reduction in response to tax reforms was maximum in countries where markets were competitive and when there was more transparency in terms of measuring and tracking the impact of tax reforms and price reduction.

- Currently, the supply of sanitary napkins in Pakistan is insufficient, with only approximately 12% of the population utilizing commercially manufactured products. This significant gap represents an opportunity for Small and Medium-Sized Enterprises (SMEs) in the industry. By reducing taxes and simultaneously incentivizing production through measures such as reduced duties on imported machinery/plant for sanitary napkin manufacturing and providing accessible loans, the demand for these products can be stimulated. This approach will not only ensure an ample supply of sanitary napkins but also foster competition, lower prices, promote economic activity, and generate employment opportunities. Consequently, we can create a world where menstruation is no longer a barrier but rather a natural and celebrated part of life for all girls and women in Pakistan.

In a market like Pakistan, that is practically a duopoly and marred with lack of transparency, free competition and accountability, the chances of market abuse and excessive profiteering by dominant players will increase to the disadvantage of consumers.

Details provided at Pg. of report attached. Hyperlink (will attach once finalized and approved)