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# NEPAL

## COUNTRY REPORT

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# 1. History

Tobacco has aged old history in Nepal, as elsewhere. However, a noted guess about the practice of smoking has a history of less than 400 years in Nepal, as a royal prerogative. In early days, smoking was a royal characteristic, which then gradually spread throughout the country. Smoking, then, was common in all settings, especially in rural Nepal. For many communities, use of tobacco became a customary. Consumption of tobacco in the rural Nepal was mainly supplied through homemade production popularly called *tambakhu* (a locally made smoking tobacco used in different ways). While the landlords, royal and high-class family would use either imported or made by working class family, in most of the rural household a few plants of tobacco in the backyard were common. The Indian, Chinese and other imported variants were popular for royal and high-class family. Before the establishment of the first tobacco factory in 1948, locally made tobacco was major source of supply for common people. For high class tobacco consumer, the import was from India. With the increasing interference of factory made and imported tobacco, practice of local production of tobacco gradually disappeared. The official policy of Nepal considered tobacco as one of the major cash crops and therefore insisted farmers for its production until a recent controlling measure. The government made interventions to promote tobacco farming by giving legal status to tobacco industry and establishing a state-owned tobacco industry called Janakpur Cigarette Factory Limited in 1965. In 1971, in order to promote the tobacco production, the state-owned Tobacco Development Company (TDC) was established. Until the liquidation in 1994, the TDC was engaged in promoting the production of tobacco in the country. These early initiatives made tobacco as an import substituting and employment generation industry. A recent data shows 30 tobacco industries are in operation with variation in capital size, production and market participation. However, a number of unregistered and unrecorded small industries producing non-smoking tobacco are supposed to be in operation.

## 2. Tobacco industry in Nepal

The first ever registered production of tobacco in Nepal dates to 1948 through a small semi-mechanized factory that was established in Birgunj, a town in southern Nepal bordering with India. The installed production capacity of the factory was 300 million sticks per year, that could meet only a fraction of over 1000 million sticks demand at that time. The deficit was managed through imports, mainly from India. In April 1959, the Soviet Union Government agreed to lend support for industrial development of Nepal. As a result, Janakpur Cigarette Factory was established which was officially inaugurated in 1965 by then King, with installed capacity of producing 3,000 million sticks per year, equivalent to the total annual demand of the country<sup>1</sup>. Moreover, only half of the import was officially recorded by custom office whereas more than 1,000 million stick was supposed to enter Nepal illegally via more than 600 miles of porous border between Nepal and India.

By the mid of 1990s, total number of registered tobacco industries reached to over 35, indicating the flourishing market. Among them most were small and improperly managed industries. In the market, five large scale cigarette-producing factories had the control over domestic market. Among those five, Janakpur Cigarette Factory was public enterprises and the rest four Surya Tobacco Company Pvt. Ltd., Perfect Blended Pvt. Ltd., Nepal Tobacco Pvt. Ltd. and Seti Cigarette Factory were in operation as private companies. Interestingly, before 1980s, there was no or very rare private investment in tobacco industry and the Janakpur Cigarette Factory had the monopoly in the domestic market.

Updated in 2011/12, there is record of 30 establishments<sup>2</sup> for manufacturing of tobacco, with employee engagement of 1585 persons and total output of NPR over four billion per annum<sup>3</sup>. With the establishment of private companies and ineffective management, the productivity and market share of state owned Janakpur Tobacco Industry started declining before arriving current state of functionally closure. Restrictive government policies also discouraged government to increase investment on tobacco industry. With these adversities, the state-owned tobacco industry is now at the verge of liquidation, leaving the entire tobacco market to private companies and imports.

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<sup>1</sup> Devkota GM, 1968. Janakpur Cigarette Factory, Pvt. Ltd. In Industrial digest Nepal 1968. Kathmandu.

<sup>2</sup> The tobacco companies claimed to be over 100 in number. Most of them are small scale are poorly managed. See [http://supremecourt.gov.np/nkp/full\\_detail/21](http://supremecourt.gov.np/nkp/full_detail/21).

<sup>3</sup> Central Bureau of Statistics. 2020. Nepal Statistical Year Book 2019. Kathmandu: Central Bureau of Statistics.

## List of Tobacco Companies

### Cigarette and Bidi Manufacturing

1. Gorkha Lahare Pvt. Ltd.
2. Janakpur Tobacco Co. Ltd. (closure)
3. Perfect Blends Nepal Pvt. Ltd.
4. Surya Nepal Pvt. Ltd.
5. Chand Bidi Factory

### Smokeless Tobacco Industries

1. Baba Gutkha 108 Pan Masala Company
  2. Bimurti Federation Company
  3. Mahabir Suppliers
  4. Munjushree Gutkha and pan Masala Company
  5. Radha Krishna Surti Packaging Company
  6. Rijal Pan Bhandar
1. K.P. Pan Production Pvt. Ltd.
  2. Ganesh Kumar Gutkha and Paan Masala Company
  3. Nepal Pan Masala Company
  4. Puja Surti Packaging Company
  5. Shree Deuti Gutkha Industries
  6. Shyam Suppliers

By 1999, the private companies hold almost 70 percent share of cigarette production in Nepal, while the state-owned company had a share of 30 percent. Among the private companies, Surya Nepal Pvt. Ltd. (SNPL), an Indo-Nepal-UK joint venture company, was the leading company with almost 56 percent share in domestic production (WHO, 2002). Interestingly, the state-owned company reached to closure by 2011 marred by the government's unclear policy, political interference and mismanagement.

Figure 1 shows the annual production of cigarette between 1987-2010. The official records of the tobacco productions are not regularly updated in recent years. This requires further verification from the Department of Industry and Department of Inland Revenue.

**Figure 1: Annual production of cigarette, in million sticks (1987/88-2010/11)**

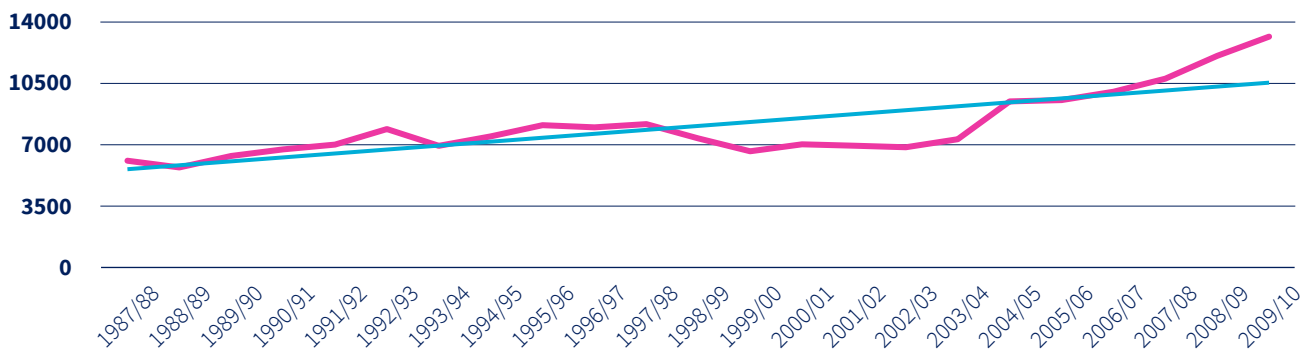


Figure 1 above is a cumulative production of cigarette from all industries in Nepal. The annual production of cigarette until 2010/11 was increasing steadily. The change in trend of production after 2010/11 has been difficult to compare due to lack of publicly available updated data. However, the annual report of Surya Nepal Pvt, Ltd (SNPL), a leading private company holding major cigarette market share, indicates slow growth in annual production in recent years. It may be likely that because of response to stringent restrictions imposed by the government to control the tobacco production and consumption. However, between 2006-2011 the tobacco products saw a negative growth of -2.8 percent<sup>4</sup>.

As stated earlier, in recent years the cigarette market in Nepal is dominated by Surya Nepal Pvt. Ltd (SNPL). Claimed by the SNPL, it controlled the market in terms of cigarette production. The SNPL stated that in the premium segment of the market it holds 95 percent, in the high segment 82 percent and the lower segment 60 percent<sup>5</sup>. The SNPL further claims that the share of cigarette in tobacco consumption is only about 20 percent, against the 90 percent of global average. The rest 80 of tobacco consumption is supplied as bidis and smokeless tobacco like khaini<sup>6</sup>, gutkha<sup>7</sup>, snuff and betel-quin.

## Bidi Production

The 'bidi' is a local product which is made from a tree-leaf of particular type filled with dry tobacco leaves. This could be instantly made, stored and transported conveniently. Trademark production of 'bidi' started with the establishment of the first tobacco factory in 1948. However, unregistered

<sup>4</sup> Central Bureau of Statistics. 2021. National Economic Census 2018: Analytical Report, Food and Beverage Industry. Kathmandu. Central Bureau of Statistics.

<sup>5</sup> Annual report of Surya Nepal Pvt Ltd, 2012. The data requires independent verification. But interestingly, despite having largest share in the domestic market, the SNPL recently has diversified its product to non-tobacco products, indicating that the company may have seen some threats in the market.

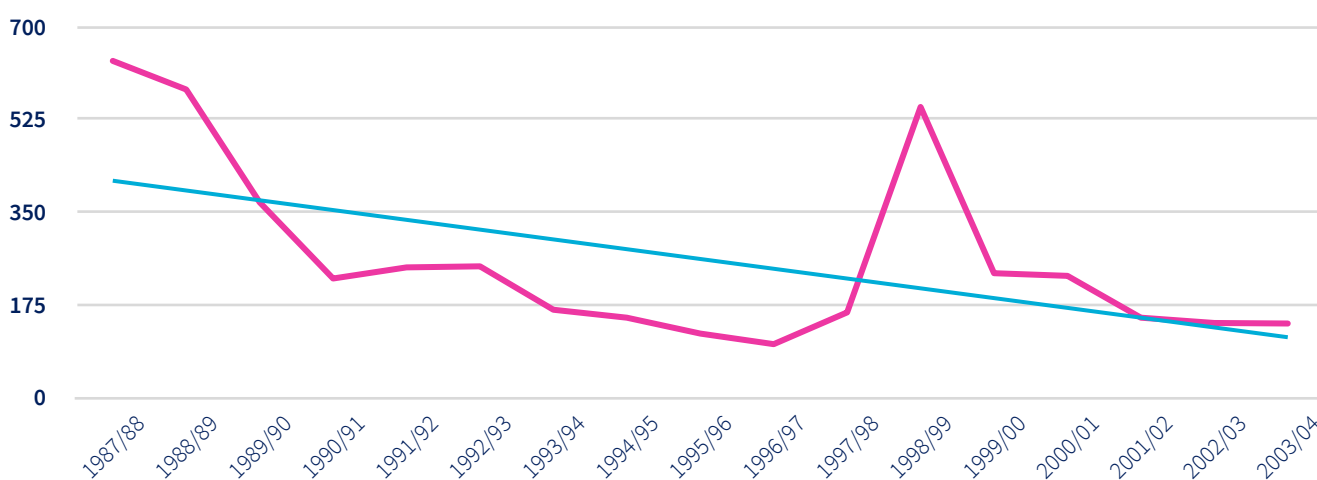
<sup>6</sup> Khaini, a chewing tobacco, is local product and comes in different variants. It is also imported from India and claimed to have large volume of illegal trade. Two variants of khaini are popular. a) Dried tobacco leaves consumed with lime- it is popular in Nepal and easily available. In many rural communities, people make these products at household for their self-consumption, while there are some small-scale industries to produce it. b) Tobacco leaves mixed with some chemicals and industrially processed. This variant is available in different taste and packing.

<sup>7</sup> Gutkha, a chewing tobacco, is a mixture of betel-nut and tobacco. It is available in different taste and flavor. Its consumption is increasing faster as it is easily accessible and cheaper. This is one of the unregulated industries and said to have illegal establishments.



productions do not have specific timeline and accounts, and they were supposed be in existence long before and pervasive. Although official statistics are not available, bidi production was a major livelihood for many rural households for serval years. However, official statistics show gradual decline in total production of 'bidi'. For example, in 1987/88 annual production of 'bidi' was 635 million sticks which then declined to 139 million sticks by 2003/04 (Figure 2), against steady increase of cigarette production. The 'bidi' production is displaced replaced by the cigarette and non-smoking tobacco. Many of the 'bidi' production industries are either closed or dysfunctional due to restriction imposed by the government and access to cigarette and other forms of tobacco products. As of now only one registered 'bidi' company is functional. Official statistics on 'bidi' production is not available for recent years.

**Figure 2: Annual bidi production, in million sticks (1987/88-2003/04)**



Source: Ministry of Finance, (2011)

### 3. Government share in tobacco production

Government has dubious role in tobacco production. The government considers tobacco as one of the cash crops that has high yielding potentiality. With the establishment of Janakpur Cigarette Factory (JCF) as public enterprise in early 1960s, government considered tobacco industry as an important source of economic activities. The JCF was established with an intention of import substitution and regulating domestic tobacco market, it had positive impact on the overall tobacco production. In 1971, government established Tobacco Development Company (TDC), under the Ministry of Industry, for research and crop development, redrying farmer grown tobacco leaves, and marketing. It was also responsible for regulating and promoting domestic production of tobacco. The TDC had field offices in major tobacco producing districts. The field offices were responsible assisting tobacco growers to obtain credits and crop inputs, informational services to farmers on tobacco production and procuring raw tobacco from farmers. The TDC has maintained monopoly to supply of locally produced raw tobacco to JCF. It also used to export the surplus raw tobacco, especially to India. The TDC had its own tobacco research lab maintained in 12 hectares of land in one of the tobaccos producing district with 40 staff engaged in research and development. For tobacco farmers, credit was available through state-owned Agriculture Development Bank and Cooperatives. The relation between JCF and TDC did not go friendly for long. This caused loss for both institution while the TDC suffered more and entered into financial loss while the JCF was managing its financial position.

Industries	Number of establishments	Number of persons engaged	Number of employees
Tobacco manufacturing	30	1637	1585
Other industries	4076	204360	194989
<b>Total</b>	4106	205997	196574

## 4. Tobacco industries and employment

There are no uniform statistics about tobacco industries. The Central Bureau of Statistics, central agency to maintain national statistics has a record of 30 tobacco industries but no updates are available after 2011/12<sup>8</sup>. The Department of Industry, central agency to keep records of industries, does not have updated records. The records of industries are kept in different institutions. For example, the records of small industries are kept at district level by Small and Cottage Industry Office. Many of the tobacco industries, particularly smokeless tobacco manufacturing, are small scale industries and registered at district level. The consolidated records are not available in the central database. In an official correspondence of the Department of Inland Revenue to Ministry of Industry on September 10, 2019, a total of 210 tobacco related industries are registered for purpose of excise duty. While a report prepared by Ministry of Industry claims about 800 tobacco related industries are registered since last 20 years<sup>9</sup>. These discrepancies in data create problem in assessing the actual investment, output and tobacco market in Nepal.

In terms of employment, as of 2011/12 tobacco manufacturing industries were able to generate less than one percent of employment in manufacturing industries. However, there is claim by the Surya Nepal Pvt. Ltd. to support the livelihoods of more than 4 lakh farmers, farm workers and others engaged in tobacco cultivation and tobacco trade.

### **Table 1: Employment in tobacco industries, 2011/12**

*Source: Central Bureau of Statistics, 2020*

Tobacco manufacturing industries were at a boom between 1980s to early 2000. The decline is noticed as the Government of Nepal started imposing different impositions around the promulgation of tobacco control and regulation act in 2010.

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<sup>8</sup> No updated information is available on employment in tobacco industry. The Economic Census 2018 conducted by the Central Bureau of Statistics was supposed to make a separate analysis of tobacco industries but did not make it available.

<sup>9</sup> Report prepared by Ministry of Industry for expanding capacity of tobacco related industries, submitted to Ministry of Industry on December 3, 2019.

## 5. Trends and prevalence rate of tobacco use

The 2018 estimates of WHO shows that 28.4 people aged 15 years and above use tobacco in Nepal, male having more than three times higher prevalence (45.3%) than that of female (13.2%). This is higher than that of India and Sri Lanka while lower than that of Myanmar in the region<sup>10</sup>. Interestingly, the prevalence rate is decreasing for smoking while it is increasing for smokeless tobacco. This section outlines the available data on the prevalence rates for tobacco use in Nepal, and the possible reasons behind these trends over time.

Tobacco use continues to be a significant burden among the Nepali people. There are estimates that more than 21,000 children (10–14 years old) and 3,745,000 adults (15+ years old) consumed tobacco every day in 2015<sup>11</sup>. The STEPS Survey 2019 records 28.9 percent of adults aged 15- 69 years currently use tobacco in any form (smoked or smokeless) and this accounts over 3.5 million adults<sup>12</sup>. The overall prevalence rate of tobacco use was found to be 36.8 percent between 2016 and 2018<sup>13</sup>. The major forms of tobacco use in Nepal can be divided into smoking tobacco products and smokeless tobacco products. Smoking includes cigarette smoking along with hand rolled cigarettes (bidis). Smokeless tobacco products consumed include gutkha (which contains areca nut, tobacco, catechu and sweet flavor), zardapaan or betel quid (rolled betel leaf with lime, betel nut and tobacco), khaini (flavored tobacco mixed with lime), and sokha (non-flavored raw leaf of tobacco crushed manually, mixed with lime and rolled in hands before use).

The Nepal Demographic and Health Survey (NDHS) 2016 shows overall prevalence rate for any form of tobacco use was higher in males aged 15-59 years (52.3%) than in females aged 15-49 years (8.4%)<sup>14</sup>. Similar differences were also reported for tobacco smoking (27.4% in males and 5.5% in females) and smokeless tobacco use (40.1% in males and 3.8% in females) (NDHS, 2016). Likewise, STEPS 2019 reports increase in prevalence of tobacco smoking (33.5% in male and 14.1% in female) and smokeless tobacco (43.6% in male and 7.4% in female)<sup>15</sup>. While the STEPS 2013 reported similar trends between male and female: the prevalence of tobacco smoking was 18.5% (27% among men and 10.3% among women), and for smokeless tobacco use it was 17.8% (men 31.3%, women 4.8%) (STEPS Survey Nepal 2013)<sup>16</sup>. Looking at international comparisons Nepal's overall tobacco prevalence rate in comparison with other South Asian countries is presented below. Care needs to be taken with these international comparisons, with some of the data being updated. However, data show that of other South Asia countries only Bangladesh has a higher level of tobacco consumption – including smokeless and smoking tobacco.

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<sup>10</sup> WHO. 2019. Global Report on Trends in Prevalence of Tobacco Use 2000-2025- Third Edition. Geneva. World Health Organization. Retrieved from <https://www.who.int/publications/i/item/who-global-report-on-trends-in-prevalence-of-tobacco-use-2000-2025-third-edition>.

<sup>11</sup> <http://tobaccoatlas.org/wp-content/uploads/pdf/nepal-country-facts.pdf>

<sup>12</sup> Nepal STEPS Survey 2019 <http://nhrc.gov.np/wp-content/uploads/2019/11/Tobacco-Fact-Sheet-1.pdf>

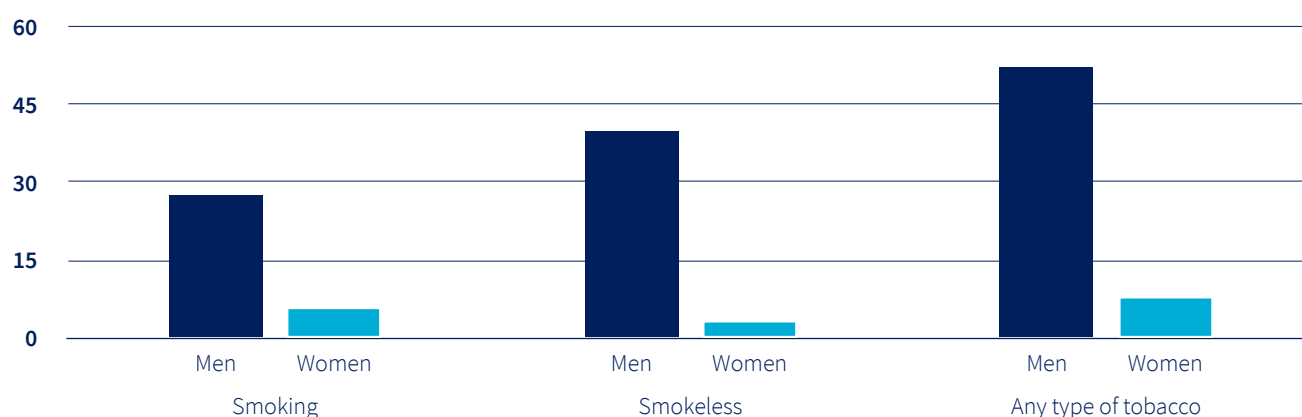
<sup>13</sup> <https://apps.who.int/iris/bitstream/handle/10665/272694/9789241514170-eng.pdf?ua=1>

<sup>14</sup> Nepal Demographic and Health Survey, 2016. Ministry of Health and Population.

<sup>15</sup> Nepal STEPS Survey 2019 <http://nhrc.gov.np/wp-content/uploads/2019/11/Tobacco-Fact-Sheet-1.pdf>

<sup>16</sup> Nepal STEPS Survey 2013 [https://www.who.int/ncds/surveillance/steps/2012-13\\_Nepal\\_STEPS\\_Report.pdf](https://www.who.int/ncds/surveillance/steps/2012-13_Nepal_STEPS_Report.pdf)

**Figure 3: Prevalence of smoking, smokeless and any type tobacco among men (aged 15-59) and women (aged 15-49), 2016**



Source: Nepal Demographic Health Survey 2016

Using data from the Nepal Demographic and Health Survey 2016 Shrestha et. al. (2019)<sup>17</sup> make useful analysis on the prevalence and pattern of tobacco consumption. In unadjusted analysis, prevalence of any form of tobacco use among males was 51.5% in urban areas and 53.9% in rural areas. Similarly, prevalence of any form of tobacco use among females was 7.6% in urban areas and 9.7% in rural areas. Multivariable analysis showed that males from urban areas had lower odds of using any form of tobacco, including both smoking (AOR 0.78, CI 0.63–0.96) and SLT (AOR 0.80, CI 0.66–0.98) than their counterparts from rural areas. On the contrary, females showed no such significant association of urban-rural residence with tobacco use.

We can notice some sort of spatial differences in the patterns of tobacco consumption. Nepal is a country with socio-cultural diversity and mostly rural dominance. In some cultural groups smoking is common and culturally permitted. Nepal has been recently federalized and practicing new form of governance with newly formed subnational governing units<sup>18</sup>. Shrestha et al (2019) made analysis of tobacco consumption at subnational level for both males and females. The provinces from western and uphill regions particularly Karnali<sup>19</sup> and Sudurpaschim<sup>20</sup> report to have higher prevalence for both males and females while Province 2<sup>21</sup> has higher rate of smokeless tobacco consumption.

Noticeably, after 2006 a slow decline in the prevalence of tobacco consumption among males is

<sup>17</sup> Shrestha, N., Mehata, S., Pradhan, P.M.S., Joshi, D., & Mishra, S.R. 2019. A nationally representative study on socio-demographic and geographic correlates, and trends in tobacco use in Nepal. Scientific Report. <https://www.nature.com/articles/s41598-019-39635-y>

<sup>18</sup> The 2015 Constitution of Nepal federalized Nepal into seven provinces- ranging from eastern Nepal, Province 1 (yet to give their own name), Province 2 (yet to give their own name), Bagmati Province (earlier called Province 2), Gandaki Province (earlier called Province 4), Lumbini Province (earlier called Province 5), Karnali Province (earlier called Province 6) and Sudurpaschim Province (earlier called Province 7). Each Province has a unique socio-economic and cultural characteristic. In early political-administrative system Nepal was divided into five eco-development regions. The new structure allows the provincial governments to prepare and implement their own act on public health including tobacco control and regulation. The newly formed provincial governments have started taking measures to improve public health in their jurisdiction including regulation of tobacco. However, as of now the national law prevails over the provincial law. The provincial governments are expected to take additional measures in future.

<sup>19</sup> Karnali Province is socio-economically and geographically disadvantaged area. It is situated in western hill and mountain area, mostly in rural setting, unregulated and have less access to information.

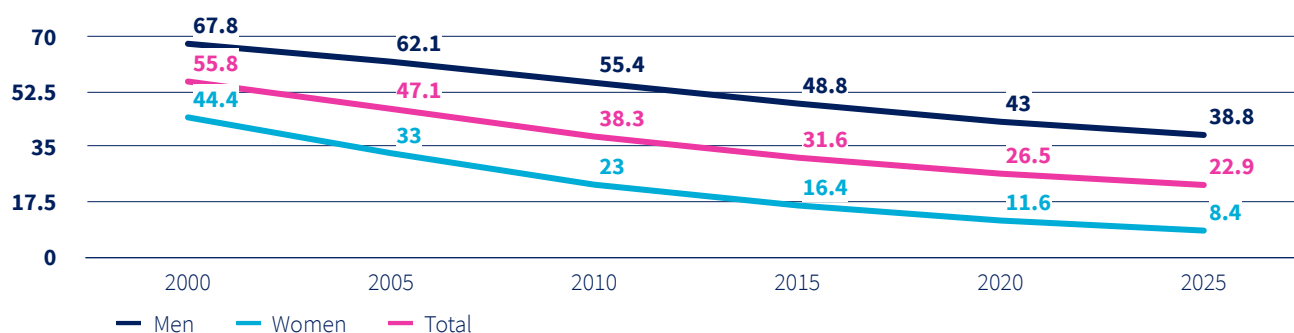
<sup>20</sup> Sudurpashim Province is socio-economically and geographically disadvantaged area. This province stretches from southern plain, bordering with India to northern mountain.

<sup>21</sup> Province 2 is southern plain and has longest border with India. This Province has largest number of smokeless tobacco manufacturing industries. This Province is also predominantly resided by the Terai ethnic population where smokeless tobacco consumption is higher than any other group.

observed. Within the steady rate, interesting trend is observed. While the prevalence of tobacco smoking among males has declined remarkably, there is inverse relationship with the consumption of SLT. For females, a faster declining trend has been observed in tobacco smoking while the decline is slow for SLT. The age group 35 years and above have positive response on decline of prevalence of tobacco smoking for both males and females. However, in reciprocity, the prevalence of SLT increased significantly among males aged 35 and above. We could notice inverse relationship between economic status and pattern of tobacco consumption. For example, while the prevalence of tobacco smoking among male in the lowest 20 percent wealth quintile was 34 percent, the corresponding rate for the top 20 percent was nearly 22 percent in 2016. Interestingly, as shown by the NDHS 2016, in comparison to women from high wealth quintile (1.8%), smoking is heavily skewed towards women from low wealth quintile (14.2%)<sup>22</sup>.

While the estimates of WHO for 2000-2025 shows a steady decline in tobacco prevalence and expected to decline further. In 2000 the prevalence was estimated to be as high as 55 percent (67.8 % for men and 44.4% for women) which declined rapidly to arrive at 26.5% (43% for men and 11.6% for women), by almost 20 percent points in a period of one decade<sup>23</sup>.

**Figure 4: WHO estimates on trend in tobacco prevalence (2000-2025)**



Source: WHO, 2019<sup>24</sup>

Two recent surveys conducted in 2020 show almost similar pattern of tobacco consumption. The 2019 National Survey on Socio-economic a Policy Aspects of Tobacco Use in Nepal (NSEPT) conducted among the people of age 18 years and above more than half of men (51%) use tobacco in Nepal that is more than four times the prevalence of tobacco uses among women (13.7%). One of the main reasons of high rate of tobacco use among male as compared to the female is found to be the patriarchal society that allows men morally acceptable to use tobacco. Education is another significant variable that is inversely proportional to the rate of using tobacco. Illiterate male laborer's have one of the highest rates of tobacco use (more than 66%) and the prevalence of tobacco use among illiterate male is three times as compared to the male with bachelor's degree. The survey also records some gender stereotypes in use of tobacco. The report cites a statement from a male

<sup>22</sup> Nepal Demographic and Health Survey, 2016

<sup>23</sup> These estimates are slightly higher than shown by Nepal Demographic and Health Survey 2016 and STEPS 2019.

<sup>24</sup> WHO global report on trends in prevalence of tobacco use 2000-2025, third edition (2019)

respondent as ‘women do not have rights to use cigarette or *surti* openly’. A young student makes more strong observation as ‘people do not react if they find boys using tobacco but in case of girls people generally feel negative and they are uncivilized and not well cultured’.<sup>25</sup> These statements represent a deep rooted prevalent gendered social understanding about tobacco consumption in Nepal.

Overall smoking prevalence rates for men and women aged 15-49 have reduced by more than half from 2000 to 2016 across all age. However, as per the 2019 STEPS survey found no significant difference in prevalence of tobacco use in men and women from 2013 to 2019 indicating in the somewhat stagnation in the previously observed downward trend. Similarly, the 2019 STEPS survey also found that the cessation attempt rates are low and declining that is only around 19% of tobacco smokers are making attempt to quit each year compared to the 26% in 2013. And large majority of the users who tried to quit did receive any major assistance. It implies that given the more assistance the rate for tobacco quitting would like to increase.

## **Who needs support?**

Studies show that initiation of tobacco consumption is generally at the young age. There are several reasons for initiation of consumption of tobacco. However, peer pressure and demonstration effect are the major reasons for initiation. In addition, easy access, weak law enforcement, lack of knowledge about health hazards of tobacco consumptions and cultural and social stereotypes are other reasons for initiation of tobacco consumption. Youth initiate tobacco consumption as demonstration effect and peer pressure, as it continues it turns into addiction. It is therefore, intervention is required to prevent the youngsters from being addicted towards tobacco consumption. Specifically, following could be area of intervention for quitting tobacco or preventing it.

- The NSEPT 2020 shows that only a quarter of tobacco users showed interest to quit consumption. Of these, major reasons for interest to quit were cited as health consequences, family pressure, social pressure and cost. It is however, important to promote these factors to influence tobacco users to encourage for cessation.
- Studies show that the quitting behavior is low in consumers who are illiterate and work as wage labors. It shows differential pattern and tendency in quitting behavior. It is necessary to identify such specifically disadvantaged groups and extend support.
- Reasons for not showing interest to quit include psychological (feeling of stress), easy access and lack of information or support system for quitting. These reasons indicate to tobacco cessation programme should increase investment to reduce these types of barriers.
- The exposure to second hand smoking is also over 20 percent of the population. The proportion of population being exposed to second-hand smoking is higher at the home (33.5%) by about 10 percent

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<sup>25</sup> NSEPT, 2020

points that the exposure at the work place (22.5%)<sup>26</sup>. This population should also be at target of reducing harm of smoking.

- Studies show that the vulnerable youth population has limited knowledge about legal provisions and there is an easy access to tobacco products. They are also influenced by tobacco advertising, promotion and sponsorship<sup>27</sup>. It is therefore, these group shall be prevented from the exposure to tobacco products.

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<sup>26</sup> Nepal STEPS Survey 2019 <http://nhrc.gov.np/wp-content/uploads/2019/11/Tobacco-Fact-Sheet-1.pdf>

<sup>27</sup> Gautam, P., Bhatta, D., Sharma, E., Rahman, A., Dawit, R., Li, W., Ebrahimi Kalan, M., Acharya Gautam, S., Li, T., Maziak, W. (2020). 'Influence of Tobacco Marketing on Nepalese Adolescents: Cigarette Use and Susceptibility to Cigarette Use', *Asian Pacific Journal of Cancer Prevention*, 21(9), pp. 2689-2695. doi: 10.31557/APJCP.2020.21.9.2689.



## 6. Tobacco control initiatives

### 6.1 Legal arrangements

Nepal officially started taking initiatives to regulate tobacco production and consumption from 2003 at it is became signatory of the WHO Framework Convention on Tobacco (WHO FCTC). The framework was officially by the government ratified in 2006. Since then, Nepal took some important initiatives to regulate tobacco production and consumption. The first milestone was achieved when the government enforced ***The Tobacco Product (Control and Regulation) Act, 2011***. The Act mainly regulates the following activities in tobacco production and consumption:

- prohibition of smoking in public places and
- banning tobacco advertising from any media and sponsorship.

The Act in its preamble states the rationale and scope of the Act as ‘...expedient to make legal provision to reduce, control and regulate the import, production, sales and distribution and consumption of tobacco products as smoking and tobacco consumption are very injurious to human health and they also have negative impact on activity of society, economy and culture; and whereas, it is expedient to control such activities in order to improve the health, facility and economic interest of general public’. The Act sets basic foundation for regulating tobacco production and consumption in Nepal. It is however important to note that the Act during deliberation and legislating process faced several challenges from the tobacco industries. The pressure from the tobacco industries continued after the enforcement as well<sup>28</sup>.

In 2014, making the tobacco control more stringent, the Government introduced ***Directive for Printing and Labeling of Warning Message and Picture on the Box, Packet, Wrapper, Carton, Parcel and Packaging of Tobacco Product***. The Directive required manufacturers to maintain display of graphic warnings with the coverage of at least 75 % of a tobacco packet. The directive was amended in Oct 2014 that increased the general health warning (GHW) level in tobacco packet to 90%. There was great dissatisfaction shown by the tobacco companies in these provisions. The Surya Nepal Pvt Ltd (SNPL), leading tobacco manufacturer, in its 2018 annual report expresses its dissatisfaction as:

The pictures and warning messages [provided in the health directives] are even more egregious, gruesome and exaggerated than the existing GHW and seem to be designed to shock, as opposed to factually inform, the consumer. The existing 75% GHW already impedes the legal cigarette industry from providing comprehensive brand information on the cigarette packet, thereby preventing cigarette consumers from making fully informed choices across brands. <sup>29</sup>

The SNPL further argued that the increasing of GHW to 90% would have additional impacts on the

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<sup>28</sup> Bhatta et al., 2020, Defending Comprehensive Tobacco Control Policy Implementation in Nepal from Tobacco Industry Interference (2011-2018). Nicotine & Tobacco Research. <https://bit.ly/3lplhn2>.

<sup>29</sup> <https://www.itccorporate.com/about-itc/shareholder-value/annual-reports/itc-annual-report-2019/pdf/Surya-Nepal-Private-Limited.pdf>

tobacco industry as poor brand image, market discrimination as imported or smuggled tobacco products may not have similar GHW and decrease in tax revenue from tobacco industries. The tobacco industries continue to pressurize the government and the case was dragged to the Supreme Court<sup>30</sup>. The tobacco companies used different strategies, network and methods to influence the decisions of the government. However, it should be noted that the government remain adamant on its decision to regulate tobacco market. For this the public support and the support from organizations working in control of tobacco and improving public health was praiseworthy<sup>31</sup>.

## 6.2 Key provisions in tobacco control laws

**Smoke free places:** The legal provisions of Nepal restrict smoking in public places like public transportation, hospital, public parks, specified public places. 32

**Tobacco Advertising, Promotion and Sponsorship:** The laws restrict for advertising tobacco in means or media.

**Tobacco Packaging and Labelling:** The laws make mandatory for 90 percent of GHW in tobacco packet.

**Cigarette Contents and Disclosures:** The contents of the cigarette are not regulated. However, during imports the importers require to disclose contents and emissions of tobacco products.

**Sales restrictions:** The law prohibits retail sale of single stick of cigarette or small packet or repackaging. It also restricts sale of tobacco within 100 meters distance of educational and health institutions and the sale is restricted to minors below 18 years. Unfortunately, these provisions are mostly violated in practice due to poor market monitoring and regulation.

**Tobacco Taxation and Prices:** The tobacco tax in Nepal is well below the WHO recommendation of 70% of retail price.

## 6.3 Major policy and legal instruments

Following are the major policy and legal instruments that regulate tobacco in Nepal

1. The Tobacco Products (Control and Regulation) Act, 2011
2. Tobacco Product (Control and Regulation) Regulation, 2012
3. Directive for Printing and Labeling of Warning Message and Graphics in the Boxes, Packets, Wrappers, Cartons, Parcels and Packaging of Tobacco Products, 2014

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<sup>30</sup> A total of 11 cases against the tobacco control law were filed to the Supreme Court by the tobacco industries. However, in December 2013, the Supreme Court upheld the decision and order the government to ensure immediate and effective implementation of the law.

<sup>31</sup> Bhatta et al., 2020, Defending Comprehensive Tobacco Control Policy Implementation in Nepal from Tobacco Industry Interference (2011-2018). Nicotine & Tobacco Research. <https://bit.ly/3plhn2>

<sup>32</sup> [https://www.tobaccocontrolaws.org/legislation/factsheet/policy\\_status/nepal](https://www.tobaccocontrolaws.org/legislation/factsheet/policy_status/nepal)

4. WHO Framework Convention on Tobacco Control, 2005
5. Framework Convention on Tobacco Strategy 2030

In addition, several short-term specific purpose policy, strategy and plans are introduced by the concerned agency. However, unfortunately the recent National Health Policy 2019 does not mention any exclusive provisions related to tobacco control.

These legal provisions and awareness programs indicate that Nepal has given high priority to reducing the demand for tobacco in the country. However, supply reduction strategies have been given less emphasis. Whilst government has prohibited the sale of tobacco to pregnant women and people below the age of 18 and ceased the supply of tobacco from duty-free shops since 2008 to reduce the tobacco supply in the market, there is a significant gap between the recommended tax rate by the WHO and current tax levied by the government of Nepal. MPOWER is the term used to describe the six measures promoted by the WHO FCTC to help countries implement and manage tobacco control. These are as follows:

- Monitor tobacco use and prevention policies
- Protect people from tobacco smoke
- Offer help to quit tobacco use
- Warn about the dangers of tobacco
- Enforce bans on tobacco advertising, promotion, & sponsorship
- Raise taxes on tobacco

According to WHO report on the global tobacco epidemic, 2019, Nepal has performed well in three of the six MPOWER measures: Nepal has complete policies in terms of smoke-free policies (Protect), health warnings (Warn) and advertising bans (Enforce). However, the taxation policy (Raise taxes) is still weak and Nepal also needs more effort in cessation programmes (Offer) and monitoring aspects (Monitor) too. The report finds no trend change in affordability of cigarettes and no data on mass media. Implementation of the policies enacted, is not comprehensive.

Nepal has adopted the brief intervention (5A's approach) to support tobacco users to quit. These services are available at the primary health care level of few districts. This intervention is included in the Package of Essential Noncommunicable Diseases (PEN) interventions since January 2017<sup>33</sup>.

Similarly, the implementation of the four provisions of WHO FCTC and its impact on Nepal's health and economy over the next 15 years (2019–2033) have be significant in the endeavor of tobacco control in Nepal. The four interventions are:

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<sup>33</sup> Framework Convention on Tobacco Control 2030 Strategy: Nepal. Available at: [https://publichealthupdate.com/framework-convention-on-tobacco-control-2030-strategynepal/?\\_ga=2.11601972.1841351147.1625905978-1707102160.1617347976](https://publichealthupdate.com/framework-convention-on-tobacco-control-2030-strategynepal/?_ga=2.11601972.1841351147.1625905978-1707102160.1617347976)

1. Increasing tobacco taxation to reduce the affordability of tobacco products;
2. Enforcing bans on smoking in all public places to protect people from tobacco smoke;
3. Implementing plain packaging;
4. Support reducing tobacco dependence and cessation by training health professionals to provide brief advice to quit tobacco use.

The benefits of implementing four tobacco control provisions outweigh the cost of their implementation at both 5 and 15 years, with a return-on-investment (ROI) at year 15 of NPR 51 for every Nepalese rupee invested. All interventions are cost-effective. Increasing tobacco taxes has the highest ROI (581:1), followed by plain packaging of tobacco products (74:1), enforcing bans on smoking in public places (40:1), and brief advice from primary care providers to quit tobacco use (4:1).

Tobacco taxes lead to significant health and economic benefits for the poor by leading to a greater decrease in tobacco prevalence among the lowest income earners, lowering healthcare expenditures and the incidence of catastrophic expenses that can trap individuals in poverty. Under the first year of the described tax increase, increasing taxes could prevent 2,512 cases of impoverishment caused by out-of-pocket spending on tobacco-attributable diseases, and 4,963 catastrophic healthcare expenditures. In addition, reduced prevalence prevents tobacco-attributable deaths. Under the first year of the described tax scale up, the tax increase would avert 2,106 deaths, 46 percent of which would have occurred among Nepal's poorest income quintile.

Offering cessation services builds a robust foundation of support for those seeking to quit tobacco use. While the ROI for the “brief advice to quit tobacco” intervention is comparatively lower than other intervention laying a strong foundation for future cessation infrastructure. This infrastructure—e.g., increasing access and affordability of nicotine replacement therapy—can be implemented later and it would amplify the impact of existing cessation services. Providing assistance to those who would like to quit, but cannot do so on their own, is an important service: especially given that implementing other demand-reduction policy measures will provide a conducive environment and motivate more tobacco users to quit<sup>34</sup>.

## 6.4 Implementation status

At present, the government has increased information, education and communication programs to disseminate information on the harms of tobacco use. The National Health Education Information and Communication Centre a subsidiary of Ministry of Health and Population is responsible for driving health education including awareness about tobacco control. Several other entities like Ministry of Home Affairs, Ministry of Education and Ministry of Communication, among others, are

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<sup>34</sup> National Health Education, Information and Communication Centre, Ministry of Health and Population, Government of Nepal RTI International, United Nations Development Programme, WHO FCTC Secretariat, World Health Organization (2019), Investment Case For Tobacco Control in Nepal, The Case for Investing in WHO FCTC Implementation

policy, regulatory and implementing agencies at the national level. Besides, several non-governmental organizations like World Health Organization, Nepal Cancer Relief Society, among others are playing roles in reducing the tobacco harm. However, no comprehensive list of the organizations working in the area of tobacco control is available.

The 2015 Constitution of Nepal has assigned public health as shared responsibility among the federal, provincial and local governments. As per the Constitution all levels of the governments have constitutional rights to prepare laws to improve public health, including regulation of tobacco. For example, the Gandaki Province, a popular destination for tourist, has enforced a separate act on regulating tobacco products. Likewise, several local governments have enforced laws to regulate tobacco. However, the result of enforcement is yet to assess.

## 6.5 Public awareness about legal provisions and effectiveness of law enforcement

The NSEPT 2020 identifies public response on the legal provisions and effectiveness of law enforcement. The Survey records that over 60 percent people feel poor implementation of the tobacco related laws, while the proportion considering effective enforcement is less than five percent. Interestingly, the proportion of considering poor enforcement of law is higher among non-users (63%) compared to tobacco users (55%)<sup>35</sup>. This shows that government has to improve enforcement of laws. There are regulatory provisions for tobacco market like restriction in open sale, age limit, smoke free public places, the provisions are poorly implemented<sup>36</sup>. For example, the NSEPT report cites a 9<sup>th</sup> grade female student as ‘I bought it from the nearest store from my home, they did not stop me and gave it very easily’.<sup>37</sup>

For example, a recent study conducted among school students in a municipality of the capital districts shows low level of awareness about tobacco control laws. The school age children considered as the vulnerable population for tobacco use. The study shows that less than half of the surveyed students are aware that there is tobacco control law in Nepal, while the proportion having knowledge that smoking and tobacco use in schools is prohibited in Nepal is almost three quarter and those who have knowledge that sales of tobacco product is restricted to minors less than 18 years is 65.9 percent.<sup>38</sup> While the 2011 Global Youth Tobacco Survey (GYTS) reports that nearly eight-tenths youths aged 13-15 years acknowledged that they have been taught in class about the dangers of smoking<sup>39</sup>. The NSEPT survey shows little bit encouraging results about awareness on some legal provisions like ban of smoking in public places like public transports (98.6%), shopping mall, hospital and cinema hall (96.6%). Likewise, the proportion of people who notice the health warning in the tobacco packet is 93 percent.<sup>40</sup>

### The strengths

Nepal’s commitment to tobacco regulation is a strength in itself. Despite having industry interference and tottering political support in early days, the ratification of WHO FCTC, enforcement of tobacco legislation<sup>41</sup>, banning public advertisement and promotion, imposing restriction on imports, regulating consumer’s behavior through public awareness are the strengths tobacco legislation in

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<sup>35</sup> NSEPT 2020

<sup>36</sup> NSEPT 2020

<sup>37</sup> NSEPT 2020

<sup>38</sup> KC, B., Oli, LK. & Dahal, N. (2020). Awareness and implementation status of tobacco policy provisions among school level students in Kathmandu, Nepal. *Journal of Karnali Academy of Health Sciences* 2020;3(2): 41-46.

<sup>39</sup> MoHP. 2012. Nepal 2011 (Ages 13-15) Global Youth Tobacco Survey: Fact Sheets. Kathmandu: MoHP. [https://mohp.gov.np/downloads/nep\\_gyts\\_fs\\_2011.pdf](https://mohp.gov.np/downloads/nep_gyts_fs_2011.pdf)

<sup>40</sup> NSEPT 2020

<sup>41</sup> Bhatta et al., 2020, Defending Comprehensive Tobacco Control Policy Implementation in Nepal from Tobacco Industry Interference (2011-2018). *Nicotine & Tobacco Research*. <https://bit.ly/3lp1hn2>.

Nepal. The adoption of FCTC 2030 Strategy with clearly defined policy objectives and implementation strategies would serve as a strength of tobacco regulation in Nepal. The Strategy sets following priorities:<sup>42</sup>

- National tobacco control strategy and development planning
- National multi sectoral coordination for FCTC implementation
- Legislation and policy environment
- Protection from tobacco industry interference
- Raising taxes and innovating financing for development
- Smoke free policies
- Packaging and labelling
- Education, communication, training and public awareness
- Tobacco advertising, promotion and sponsorship
- Cessation
- Sales to and by minors
- Alternative livelihoods
- Research, surveillance and exchange of information
- Cooperation

The strategies are backed by the legal instruments and implementation arrangements.

## **The Weakness**

Khanal and Khatri (2021)<sup>43</sup>, through a narrative review of available literature summarize the implementation status and challenges of tobacco regulation laws in Nepal in the broader areas as a) monitoring tobacco use and prevention policies, b) protecting people from tobacco smoke, c) quitting tobacco use, d) awareness of harms, e) bans on tobacco advertising and promotion and f) raising taxes. They conclude that while there are number of policy and legal arrangements, the implementation suffers challenges in several fronts. Nevertheless, Nepal's effort to regulate tobacco market is praiseworthy for many reasons and it requires continuous tracking, creating pressure and learning from practices of other countries<sup>44</sup>. The prevailing challenges for tobacco legislation include generating political will, garnering support for tobacco legislation and facing tobacco industry efforts

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<sup>42</sup> Ministry of Health and Population. (2017). FCTC 2030 Strategy: Nepal. Kathmandu: National Health Education, Information and Communication Centre, Ministry of Health.

<sup>43</sup> Khanal, GN., & Khatri, RB., (2021). Burden, prevention and control of tobacco consumption in Nepal: a narrative review of existing evidence. *International Health* 2021; 13: 110–121. <https://bit.ly/3AtgHcN>.

<sup>44</sup> Bhatta et al., 2020, Defending Comprehensive Tobacco Control Policy Implementation in Nepal from Tobacco Industry Interference (2011-2018). *Nicotine & Tobacco Research*. <https://bit.ly/3lplhn2>.

to block legislation<sup>45</sup> and ineffective implementation of policy provisions<sup>46</sup>, among others.

The major weakness of Nepal's effort to regulate tobacco market can be summarized as follows:

- Weak enforcement of legal provisions specially sales to and by minors, market transaction, smoke-free public places
- Implementation of cessation service is relatively weak, as the number of trained health professional is less, counseling centers and quit-line services are less. Other efforts to encourage quitting behavior is not sufficient.
- Ineffective surveillance system to check tobacco use
- Unregulated market of tobacco, specifically of the smokeless products

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<sup>45</sup> <https://www.agora-parl.org/tobacco-control/legislation-monitoring>

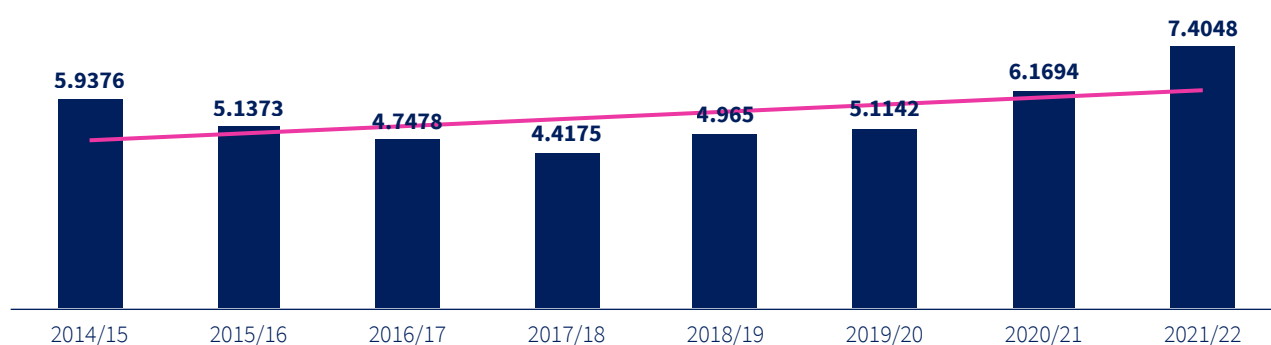
<sup>46</sup> NDRI & Cancer Research UK. 2021. Policy Brief: Enforcement of Tobacco Control Policies in Nepal. Kathmandu: NDRI. [https://ndri.org.np/wp-content/uploads/2021/07/Final-English-Policy\\_Brief\\_Tobacco\\_Policy-2.pdf](https://ndri.org.np/wp-content/uploads/2021/07/Final-English-Policy_Brief_Tobacco_Policy-2.pdf).



## 7. Health sector budget

Against the global understanding of spending of five percent of GDP in health sector<sup>47</sup>, Nepal spent only 1.8 of GDP in health sector in 2018/19, which was 1.4 percent in 2015/16<sup>48</sup>. This discrepancies in health financing shows Nepal is already underfinanced in health services. Of the allocated health sector budget nearly, a quarter is spent in wages and salaries of the staff, whereas 44 percent is allocated for hospital as grants. The programme activities and capacity building receive five percent and two percent respectively. Although is difficult to learn about specific budget allocated for activities related to tobacco regulation, the Health Ministry has allocated less than two percent in health education and training, not much better than 2014/15 allocation for National Health Education and Information Communication Centre<sup>49</sup>, the central agency working in the promotion of public health awareness and has leading role in preparing environment for reducing harm of tobacco consumption.

**Figure 5: Share of health sector budget in total national budget (2014/15-2021/22, %)**



Source: Ministry of Finance, Annual budget book

Data show irregular trend in the proportion of health sector budget in total national budget between 2014/15 to 2021/22, with steady upward trend after 2019/20, mainly because of Covid response. If the recent trend is sustained, it can be considered as good indication for putting health in priority for public expenditures. The health sector budget in Nepal is shared among the federal units (federal, provincial and local levels). For example, of the total health sector budget in 2019/20, the Provincial government received 6.25 percent while the share for local government was 27.04 percent<sup>50</sup>. The 2015 Constitution assigns important responsibilities of public health including tobacco control for provincial and local governments. For example, the Constitution requires the Provincial government to function on the standards, control and regulations of the tobacco, alcohol and intoxicant while the local governments are responsible for control in use and awareness promotion of tobacco, alcohol

<sup>47</sup> Chatham House Report. (2014). Shared Responsibilities for Health: A Coherent Global Framework for Health Financing. London: Chatham House. [https://www.chathamhouse.org/sites/default/files/field/field\\_document/20140521HealthFinancing.pdf](https://www.chathamhouse.org/sites/default/files/field/field_document/20140521HealthFinancing.pdf)

<sup>48</sup> MoHP and DFID/NHSSP. (2019). Budget Analysis Health Sector (2019). Ministry of Health and Population and DFID/Nepal Health Sector Support Programme.

<sup>49</sup> <https://www.moHP.gov.np/downloads/eAWPB-Analysis-English-2071-72.pdf>

<sup>50</sup> MoHP and DFID/NHSSP. (2019). Budget Analysis Health Sector (2019). Ministry of Health and Population and DFID/Nepal Health Sector Support Programme.

and drug-related substances<sup>51</sup>. However, it is yet to be factored in the responsibilities related to tobacco control in the budget allocation. No specific record of budget allocation for tobacco cessation programme is available.

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<sup>51</sup> Government of Nepal, Ministry of Health and Population. 2019. Situation Analysis of Health Financing in Nepal. Kathmandu: MOHP, World Bank, WHO, GIZ.

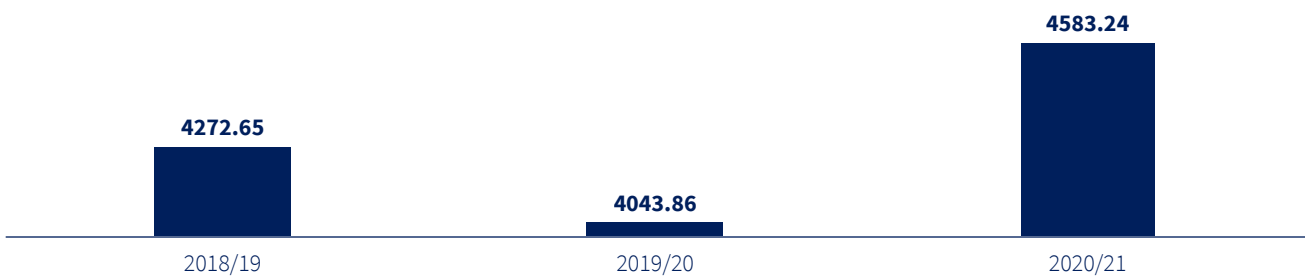
## 8. Tobacco market and taxation

Tobacco market in Nepal is fluid and undervalued<sup>52</sup>. Several important statistics are either not updated in recent years or not made publicly available. Most the recent studies on tobacco production in Nepal rely on data of at least a decade or old. In the absence of the data, the recent trend on tobacco market has been difficult to estimate.

### 8.1 Tobacco market

Tobacco market in Nepal is controlled by private sector productions after the collapse of state-owned Janakpur Cigarette Factory. A study listed 23 type of smoking and 21 smokeless tobacco products available in Nepali market<sup>53</sup>. The 2020/21 report of Central Bank of Nepal shows that the total installed capacity of producing cigarettes in Nepal was 12.2 billion sticks (in review period of 2020 August-December) of which only 37.57 percent (4.6 billion sticks) capacity was utilized, which was up by 1.95 percent than preceding year<sup>54</sup>.

**Figure 6: Production of cigarette (FY 2018/19-2020/21 August- December, millions stick)**



Source: Central Bank of Nepal, 2021

### 8.2 Import/Export of tobacco

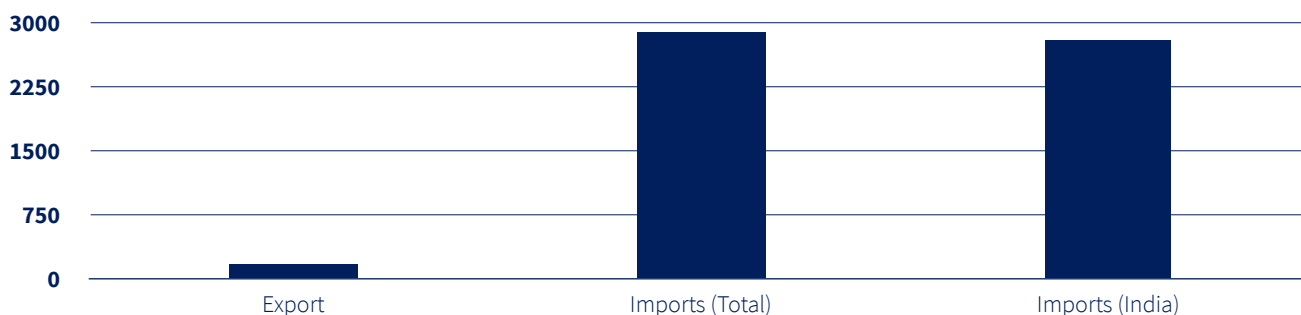
Once self-sustained and major export commodity, Nepal is net importer of tobacco product since last two decades. The import of tobacco is increasing in a steadfast rate without any sign of flattening the import curve. The gap between imports and exports of tobacco is almost 18 times as of 2018/19. Figure xxx shows the export-import data of tobacco for 2018/19. The tobacco import is totally India dependent with almost 97 percent of imports are from India.

<sup>52</sup> Karki, YB., Pant, KD., & Pande, BR. (2003). A Study on the Economics of Tobacco in Nepal. Washington DC: The International Bank for Reconstruction and Development/The World Bank. <https://openknowledge.worldbank.org/handle/10986/13750>

<sup>53</sup> Action Aid Nepal, <https://actionnepal.net/publications/951List%20of%20tobacco%20products%20with%20their%20prices.pdf>

<sup>54</sup> <https://www.nrb.org.np/category/study-reports/?department=red>. The decomposed statistics of cigarette production by type of product and industry is not available.

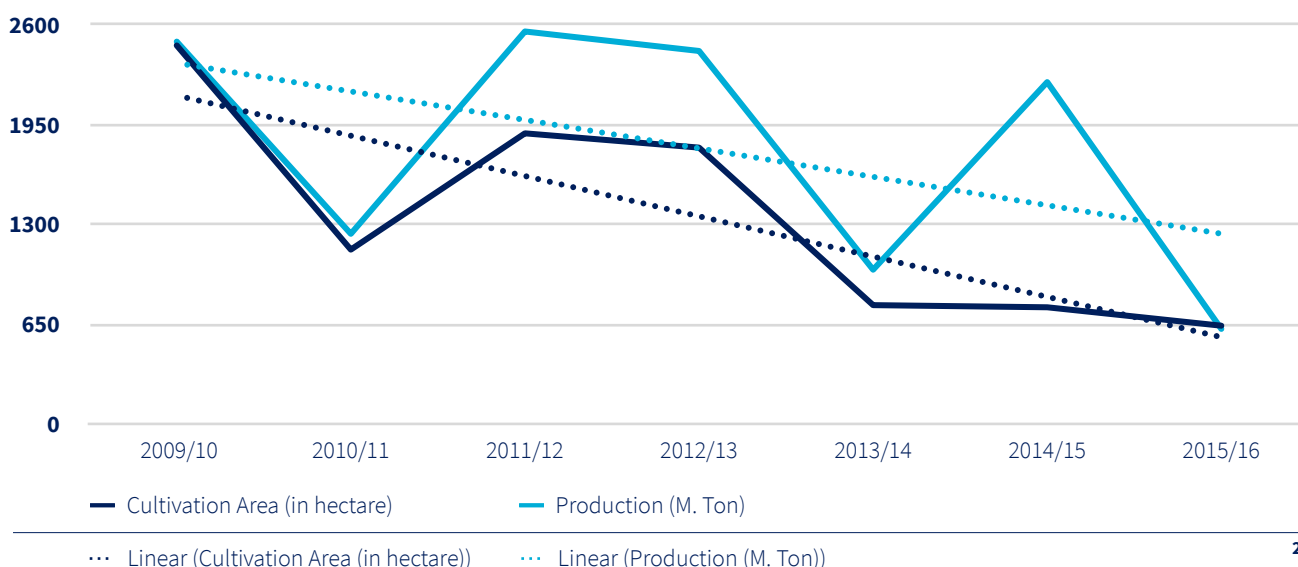
**Figure 7: Export/Import of tobacco products, 2018/19 (in NPR million)**



Source: Trade and Export Promotion Centre (2021)<sup>55</sup>

Tobacco Type	Brands	Price (NPR)
<b>Cigarettes (20 sticks) – premium</b>	Surya Malboro Black	260-280 (with a reported price of 360Rs)
<b>Cigarettes (20 sticks) – high</b>	Shikhar	160-180
<b>Cigarettes (20 sticks) – lower</b>	Pilot Khukuri	75-100
<b>Single stick</b>	Range of brands	5-15
<b>Smokeless tobacco</b>	Range of brands	5-20

The increase in import of tobacco is supported by the decreasing trend in domestic production. For example, between 2009/10 to 2015/16, both the tobacco cultivation area and production declined by almost 75 percent, while the demands and annual production of tobacco products are increasing. This shows that Nepal’s tobacco market is largely dependent to imports which is causing as a reason for trade deficits. The reason for declining cultivation and production of raw tobacco is mainly due to dubious policy provisions of the government and industry-farmer’s tenuous relations. There are number of bans imposed on tobacco sale for which an individual farmer cannot negotiate. As a result, farmers’ interest in declining<sup>56</sup>.



**Figure 8: Cultivation area and production of tobacco, 2009/10-2015/16**

Source: Central Bureau of Statistics, 2019<sup>57</sup>

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<sup>57</sup> Central Bureau of Statistics. 2019. Statistical Year Book 2019. Kathmandu. Central Bureau of Statistics.

### 8.3 Market price

The most common cigarette brands found in Nepal are Surya, Shikar and Marlboro, the earlier two are domestic while the latter is imported. In addition, as stated above a wide range of other brands, particularly cheap, are on available in the market. In the tobacco market, leading private sector company Surya Nepal Private Limited (SNPL) claimed that its holds 95 percent of the premium segment market, 82 percent of the high segment and 60 percent of the lower segment<sup>58</sup>. Table xxx show the price ranges of premium, high and lower cheap brand of cigarettes and smokeless tobacco.

#### Table 2: Price of cigarette and smokeless tobacco

Source: NDRI & Cancer Research UK, 2019<sup>59</sup>

The market price shows a wide variation in tobacco products, almost a difference of over three times between lower and premium brand. Although reliable statistics are not available, it is estimated that lower brands have high share in the market, as they are relatively cheaper and easily accessible<sup>60</sup>. For example, in 2019, single stick cigarette and a packet of smokeless tobacco are commonly available at very low prices (only NPR 5 equivalent to less than 0.05 USD).

### 8.4 Tobacco tax

Nepal has applied tiered-based taxation according to type (filtered and unfiltered cigarettes) and the length of the cigarettes (up to 70 mm, 70-75 mm and 75-85 mm). While tobacco taxes have been increasing in line with inflation over the last few years, the most fundamental problem of tobacco taxes in Nepal is that taxes are very low to begin with. The taxation of tobacco products in Nepal is significantly below the WHO standard of 70% of retail price. As of 2019, Nepal imposes tobacco tax of just 15.5% of retail price (excluding VAT), which is the lowest among South Asian countries. As Nepal has the lowest taxation in the South Asia and many other countries, there is an opportunity to increase taxes on cigarettes which will both decrease consumption and increase government revenues. This could be a crucial source of revenue during these fiscally pressing times.

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<sup>58</sup> Annual report of Surya Nepal Pvt Ltd, 2012. The data requires independent verification. But interestingly, despite having largest share in the domestic market, the SNPL recently has diversified its product to non-tobacco products, indicating that the company may have seen some threats in the market.

<sup>59</sup> NDRI & Cancer Research UK. (2019). Tobacco in Nepal: The Current Context. Kathmandu: NDRI & Cancer Research UK. [https://ndri.org.np/wp-content/uploads/2019/11/Context-Mapping-Documents\\_TCP.pdf](https://ndri.org.np/wp-content/uploads/2019/11/Context-Mapping-Documents_TCP.pdf)

<sup>60</sup> Karki, YB., Pant, KD., & Pande, BR. (2003). A Study on the Economics of Tobacco in Nepal. Washington DC: The International Bank for Reconstruction and Development/The World Bank. <https://openknowledge.worldbank.org/handle/10986/13750>

**Table 3: Tobacco Taxation in South Asia**

Country	Excise tax (%age of retail price)	Total tax (%age of retail price)	Price (USD)
Pakistan	46	60.7	0.64
Bangladesh	62	75.6	1.28
India	26	66.1	2.36
Nepal	15	46.6	1.68
Sri Lanka	51	73.5	6.86

Source: WHO, 2015, 2017 (cited in Shahzad, Shah & Chaloupka, 2020<sup>61</sup>)

As shown in the Table 3, the tax rate in tobacco products (cigarettes) is the lowest in the South Asia, while in terms of price it stands in the higher than Pakistan and Bangladesh but lower than Sri Lanka and India. The tax rate is even lowest compared to other Southeast Asian countries, where for example, Thailand has as high as 80 percent tax in tobacco products in the region.<sup>62</sup> The excise tax on tobacco in Nepal has fluctuating between 12.8 percent to 16.2 percent between 2008 and 2018 with an average of 15.95 percent. The highest rate of 18.4 percent was imposed in 2012. The rate declined by 2.1 percent points in 2014 and further by 1.5 percent points in 2016. In 2018, the excise tax again increased by 1.4 percent points compared to 2016. This fluctuation in taxation shows that Nepal is facing challenges in taking measures to regulate tobacco market through taxation. As stated above, the tax rate in tobacco products in Nepal is fairly low than the WHO recommended of 70 percent.

**Table 4: Taxation in cigarette in Nepal (2008-2018)**

Year	Price of most sold cigarette (NPR)	Excise tax (% of retail price)	Total tax (% of retail price, including VAT and other tax)
2008	65	12.8	24.3
2010	85	17.2	28.7
2012	95	18.4	29.9
2014	132	16.3	27.8
2016	180	14.8	26.3
2018	216	16.2	30.0

Source: WHO, 2021<sup>63</sup>

Despite having low tax, the tobacco industries in Nepal are lobbying for either reduction or uniform distribution of tax. For example, the SNPL, leading cigarette manufacturer, officially expressed its discontent on taxation policy of Nepal government as citing ‘... impacts of discriminatory taxation and regulatory policy framework against the legal cigarette industry has led to steady and continuous erosion of legal cigarette’s share in the overall tobacco basket, leading to several unintended and

<sup>61</sup> Shahzad, M., Shah, A., & Chaloupka, F.J., (2020). Tobacco Control Laws of South Asian Countries: A Quantitative-Comparative Analysis of Compliance with FCTC and their Effects on Smoking Prevalence. *Business & Economic Review*: Vol. 12, No.4 2020 pp. 97-130.

<sup>62</sup> NDRI & Cancer Research UK. 2020. Taxing Tobacco in Nepal: What can be done. Kathmandu: NDRI & Cancer Research UK. <http://www.ndri.org.np/wp-content/uploads/2020/11/Tobacco-Taxation-in-Nepal-What-can-be-done.pdf>

<sup>63</sup> <https://apps.who.int/gho/data/node.main.TOBNATTAX?lang=en>

adverse consequences like increase in smuggling of cigarettes and other tobacco products and increase in consumption of lightly taxed/tax evaded tobacco products etc.<sup>64</sup>. The tobacco industries are continuously advocating and lobbying for favoring tobacco industries in taxation policies, as a result we may notice erratic excise tax rates in tobacco products in Nepal.

## 8.5 Recent changes in tax policy on cigarettes

The recent budgets of the government have made slight increase in the rates of taxation on tobacco. Most recently, the 2019/2020 Nepal budget has introduced the Health Hazard Tax which will be applied to items involving the production and import of cigarettes, cigars, bidis, khaini, surti, pan masala, and gutkha. Further detail is shown in Table below. This tax is a hypothecated tax which is used to fund healthcare needed to address the impacts of tobacco use. In addition, 25% of tobacco excise revenues are directed to the Health Tax Fund. Nevertheless, there are no specific reports on the utilization of health tax fund.

**Table 5: Health risk tax implied on the production/import of various tobacco products**

<b>Khaini, Surti, Pan Masala, Gutkha</b>	NPR 25 Rupees Per Kg
<b>Cigarette, Cigar, Bidi</b>	NPR 25 Paisa Per Stick

Source: MoF, 2019<sup>65</sup>.

Most countries levy excise duty to tax cigarettes. In Nepal, excise duty is levied on select goods at the point the manufactured product is sold to wholesalers – not at the point of final sale. There are two ways in which excise duty on cigarettes can be imposed:

1. Specific Taxes and
2. Ad Valorem Taxes.

Specific excise is a set monetary amount which is levied on a pre-determined unit. Different countries have different units for specific excise. Nepal has practiced specific excise tax on 1000 sticks of cigarettes after the cigarettes are produced in a factory. Although there is an overall increase in specific excise tax, the tax rates are fluctuating over the years.<sup>66</sup>

Ad Valorem excise are levied as a percentage of a price at a particular point in the supply chain. It could either be the price at the point of manufacturing or the wholesale price. This varies among countries. According to the Excise Duty Act (2002) of Nepal, the ad-valorem excise tax is levied at the point of manufacturing for all manufacture products. Currently in Nepal, there is no ad-valorem

<sup>64</sup> Annual Report of Surya Nepal Pvt Ltd, 2011. <https://www.itcportal.com/about-itc/shareholder-value/annual-reports/itc-annual-report-2012/pdf/SURYA-NEPAL.pdf>

<sup>65</sup> Ministry of Finance. (2019). Budget Speech for Fiscal Year 2019/20. Kathmandu: Ministry of Finance.

<sup>66</sup> The World Bank Group. (2018). Economics of Tobacco Taxation Toolkit. Washington DC: The World Bank Group. <https://documents1.worldbank.org/curated/en/238861522243274209/pdf/124696-REVISED-P154568-IDNTobaccoExciseAssessment.pdf>



excise duty on cigarettes.

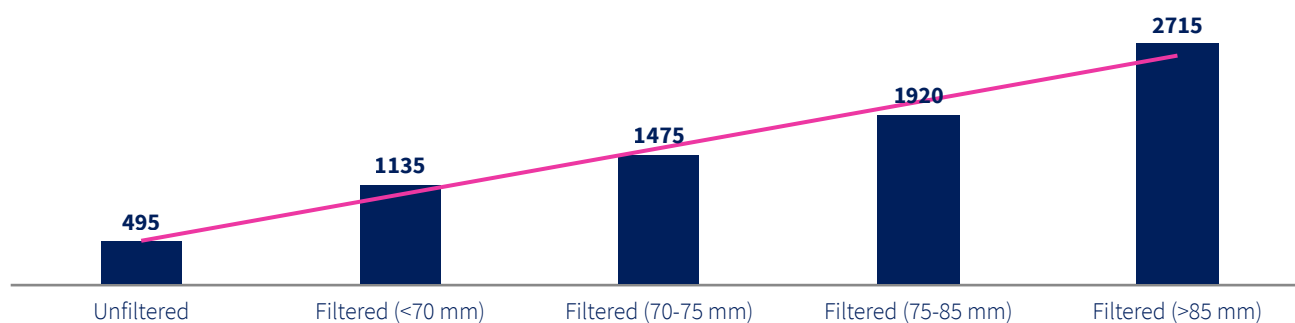
Similarly, both these excise taxes can be levied in two ways:

1. Uniform and
2. Non-Uniform (or Differential).

Uniform tax rates imply that a single rate is levied on all of the products. In case of cigarettes, it would imply having a particular rate for cigarettes of all characteristics. In case of the non-uniform tax rates, different tax rates are imposed on products of different characteristics. Nepal follows non-uniform (differentiated) tax on the tobacco product, particularly on filtered cigarette based on the lengths of the cigarette. Cigarettes of shorter length have a lower specific tax compared to cigarettes of longer length. The annual Economic Act states the excise duties. In 2019, total tax on tobacco was 27 percent of the retail prices, which has two components- the excise duty and Value Added Tax (VAT) of 11.5%. The base rate of excise tax on tobacco without VAT was only 15.5 percent, dramatically lower than the WHO recommendation of 70 percent.

The tax rates for the different tiers of cigarettes differ in a large range. For example, the excise tax for unfiltered cigarettes was Rs. 495 per thousand cigarettes in 2019, while for the filtered cigarettes, it was Rs. 1135 (up to 70 mm), Rs. 1475 (70 to 75 mm), and Rs.1920 (75 to 85 mm) and Rs. 2715 (higher than 85 mm), a difference of more than 139 percent between the lowest and highest brand. Given the weak market monitoring system, such differences would encourage the tobacco companies to manipulate the reporting to the lower tier<sup>67</sup>.

**Figure 9: Tax rate for cigarettes (per 1000 sticks, NPR), 2019**



Source: MoF, 2019

The tax rate for tobacco products seems to be growing at a constant rate between 2013 to 2018 between 8 to 12 percent, with a fluctuating rate.

<sup>67</sup> NDRI & Cancer Research UK. 2020. Taxing Tobacco in Nepal: What can be done. Kathmandu: NDRI & Cancer Research UK. <http://www.ndri.org.np/wp-content/uploads/2020/11/Tobacco-Taxation-in-Nepal-What-can-be-done.pdf>

**Table 6: Excise tax on cigarette (per 1000 sticks), 2013-2018**

Type of cigarette	2013-2014	2014-2015		2015-2016		2016-2017		2017-2018	
	Rate	Rate	Y-Y % change	Rate	Y-Y % change	Rate	Y-Y % change	Rate	Y-Y % change
<b>Cigarettes without filter</b>									
<b>All length</b>	272	294	8	320	9	346	8	374	8
<b>Cigarettes with filter by length</b>									
<b>Up to 70 mm</b>	597	657	10	723	1	795	10	859	8
<b>70-75 mm</b>	763	839	10	931	11	1024	10	1116	9
<b>75-85 mm</b>	977	1075	10	1193	11	1336	12	1456	9

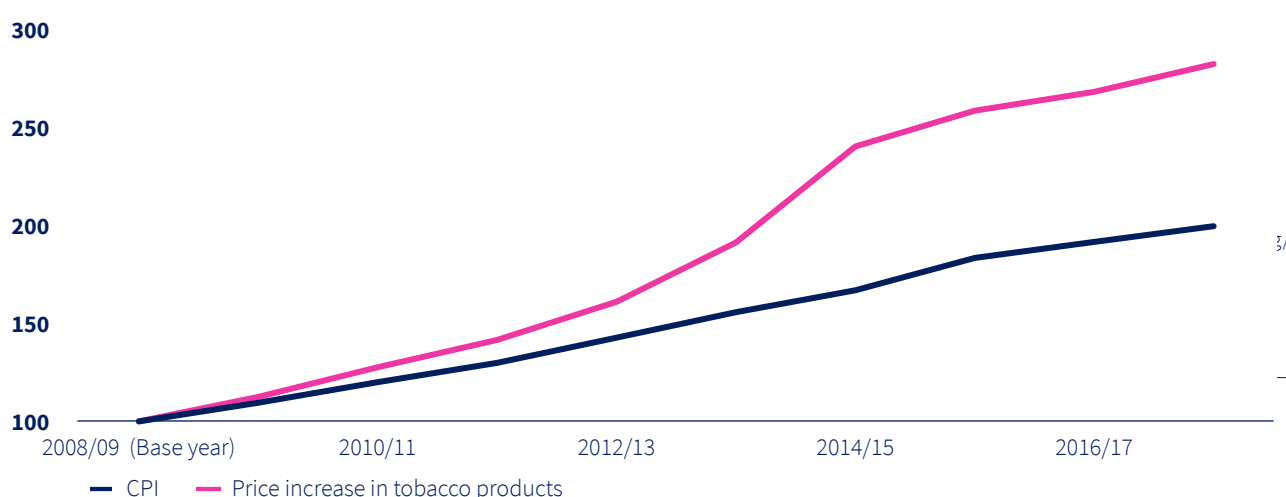
Note: Rate denotes the excise tax on per 1000 sticks of cigarette in NPR. Y-Y% change is percentage change in tax rate between two years.

Source: The World Bank Group (2018)<sup>68</sup>

The increase in tax rates have superseded inflation in the last three years. But tobacco tax as a percentage of retail price is significantly below the WHO guideline of 70%. The fundamental problem with the tax rates in Nepal is that they start at a very low base, compared other countries.

## 8.6 Consumer price index and affordability

Despite low taxation, between 2008/09 to 2018/19, there is a noticeable increase in the tobacco price compared to the Consumer Price Index (CPI). For example, considering the 2008/09 as the base year, the CPI has increased by almost cent percent in a decade reaching to 199.67 in 2017/18. In reciprocity, the price of products has increased by over 180 percent and reach to 282.5. This indicates that the tobacco products are being dearer however, considering the inflation and GDP growth the tobacco product still seem to be affordable to the consumers. This is likely that the price difference between lower and higher brands are high. The users may switch to lower brand in order to manage their demands. The tobacco companies argue that due to increase in tobacco taxation and affordability, consumers are switching to low grade tobacco they may illegal and smokeless. For example, the Surya Nepal Pvt Ltd argues over 80 percent of tobacco consumers in Nepal consume low grade tobacco, smokeless tobacco and illicit tobacco as an impact tax burden on legal cigarettes and weak market monitoring<sup>69</sup>.



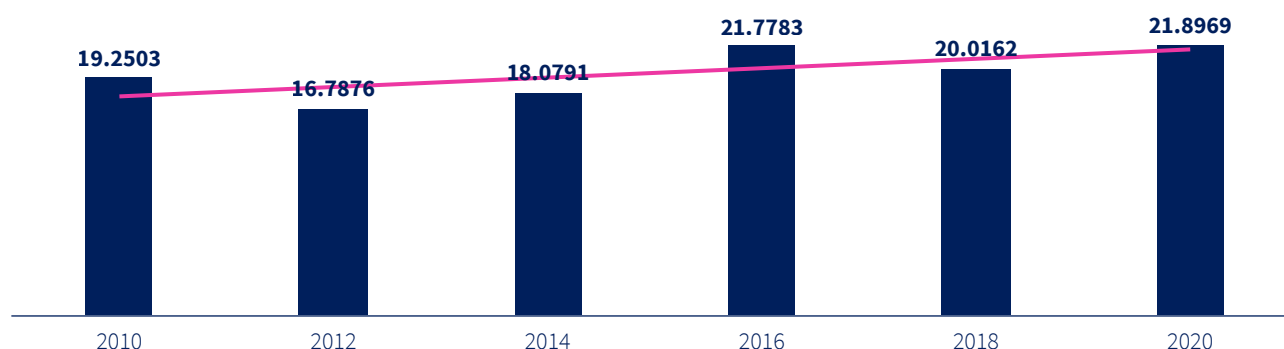
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### Figure 10: Consumer price index (CPI) and price increase in tobacco products

Source: Ministry of Finance, Economic Survey (2008/09-2017/18)<sup>70</sup>, NDRI & UK Cancer Research (2020)<sup>71</sup>

The recent analysis of national data by the WHO shows that the tobacco affordability index in Nepal is increase at a marginal rate, implying tobacco consumption is being expensive. For example, in 2010, an individual has to spent 19.25 percent of per capita income to buy 2000 sticks of cigarettes, whereas in 2020 the proportion has increased to 21.90 percent. This increase in the relative cost of tobacco purchase indicate that the tobacco is being expensive, while the growth rate is one of the slowest in the world.

### Figure 11: % of GDP per capita required to purchase 2000 sticks of cigarette of the most sold brand



Source: WHO, 2021<sup>72</sup>

The NDRI and UK Cancer Research (2020) shows that the tobacco affordability has decreased between 2012/13 to 2015/16, in a decade of 2009/10. In the rest of the years, it has been always positive, giving a significant rise in the recent years. It could be mainly because of the improvements in the overall GDP rate and constant or marginal change in tobacco taxation. In contrast, the tobacco companies argue that tobacco affordability in Nepal is one of the highest in the world<sup>73</sup>, causing a decline in the demand. Nevertheless, increasing taxes on tobacco products is considered the most cost-effective method and tool of choice for the policy makers<sup>74</sup> for regulating the tobacco market. Taxation on the tobacco means an increase in the retail price of tobacco products. It consequently reduces the demand. Evidence suggests that in low and middle-income countries a 10 percent increase in the price of tobacco products is expected to reduce demand by 5-10 percent<sup>75</sup>.

Tobacco taxes lead to significant health and economic benefits for the poor by leading to a greater decrease in tobacco prevalence among the lowest income earners, lowering healthcare expenditures

<sup>70</sup> <https://www.mof.gov.np/site/publication-category/21>

<sup>71</sup> NDRI & Cancer Research UK. 2020. Taxing Tobacco in Nepal: What can be done. Kathmandu: NDRI & Cancer Research UK. <http://www.ndri.org.np/wp-content/uploads/2020/11/Tobacco-Taxation-in-Nepal-What-can-be-done.pdf>

<sup>72</sup> <https://www.who.int/publications/i/item/WHO-HEP-HPR-TFI-2021.9.6>

<sup>73</sup> Surya Nepal Pvt Ltd 2017 Annual Report.

<sup>74</sup> World Health Organization (2010), "WHO Technical Manual on Tobacco Tax Administration"

<sup>75</sup> <https://www.who.int/news-room/fact-sheets/detail/tobacco>

and the incidence of catastrophic expenses that can trap individuals in poverty. Under the first year of the described tax increase, increasing taxes could prevent 2,512 cases of impoverishment caused by out-of-pocket spending on tobacco-attributable diseases, and 4,963 catastrophic healthcare expenditures. In addition, reduced prevalence prevents tobacco-attributable deaths. Under the first year of the described tax scale up, the tax increase would avert 2,106 deaths, 46 percent of which would have occurred among Nepal's poorest income quintile<sup>76</sup>.

Policy analysis showed that low excise tax, weak monitoring mechanisms, poor compliance to bans on the advertisement and promotion of tobacco, smoke-free zones and insufficient programs on tobacco cessation were the major factors behind weak implementation of tobacco-control policies. Hence, targeted and high-risk group tobacco-cessation interventions, increasing taxation and strict policy implementation are crucial for effective tobacco prevention and control in Nepal<sup>77</sup>.

## 8.7 Tax revenue from tobacco products

The excise duty and VAT are considered as two major sources of the revenue in Nepal. In 2019/20, the government received revenue over 40 percent revenue from these two sources. The excise tax alone contributed 17 percent in total government revenue. Within the excise tax, the contribution of tobacco is between 20-28 percent. In 2019/20 of the total NPR 64.84 billion excise revenue, the tobacco contributed NPR 18.54 billion (28.60%), up by 3.5 billion than previous year. Looking for last three year's data, we see slight increase in the share of tobacco tax in total excise revenue. The WHO recent data shows that Nepal has collected However, studies show that over the past one decade the share of tobacco tax in revenue is decreasing.<sup>78</sup> The decrease in the contribution of tobacco tax in revenue are mainly, as cited earlier, the switching behavior of consumers to lower brand, prevalence of illicit trade and unregulated market<sup>79</sup>.

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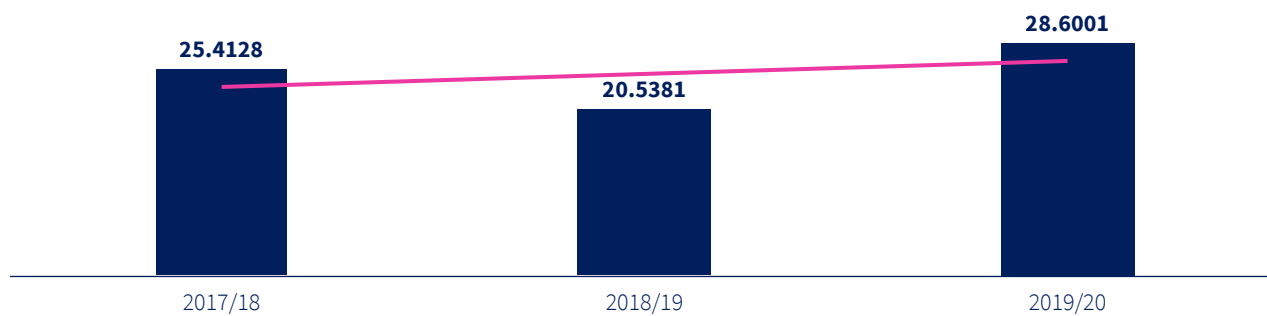
<sup>76</sup> National Health Education, Information and Communication Centre, Ministry of Health and Population, Government of Nepal RTI International, United Nations Development Programme, WHO FCTC Secretariat, World Health Organization (2019), Investment Case For Tobacco Control in Nepal, The Case for Investing in WHO FCTC Implementation

<sup>77</sup> Khanal G.N & Khatri R.B. (2021) Burden, prevention and control of tobacco consumption in Nepal: a narrative review of existing evidence, International Health, Volume 13, Issue 2, March 2021, Pages 110–121. Available at: <https://academic.oup.com/inthealth/article/13/2/110/5904102>

<sup>78</sup> NDRI & Cancer Research UK. 2020. Taxing Tobacco in Nepal: What can be done. Kathmandu: NDRI & Cancer Research UK. <http://www.ndri.org.np/wp-content/uploads/2020/11/Tobacco-Taxation-in-Nepal-What-can-be-done.pdf>

<sup>79</sup> Surya Nepal Pvt Ltd 2017 Annual Report.

**Figure 12: Contribution of tobacco tax on total excise revenue, 2017/18-2019/20 (% of excise revenue)**



Source: Department of Inland Revenue annual reports (2017/18, 2018/19, 2019/20)<sup>80</sup>

<sup>80</sup> <https://ird.gov.np/publication/category/annual-reports>

## 9. Harm reduction products

There is no official policy for harm reduction products (HRPs) in Nepal. However, media reports and some studies show a growing trend in use of HRPs. Among the HRPs, the e-cigarette or vaping is growing popular. The vaping is a recent trend in Nepal and the exact number of users is unknown. There are some retail shops and online shops located in the capital city. The consumers of the e-cigarettes are classified and generally are based on network and reference as one needs to pay reasonably higher prices than the ordinary smoking cigarette. The teenagers and young adults are attracted towards vaping and a few vape lounges are in operation in the capital city<sup>81</sup>. The Chinese brand of vape products are popular in Nepal while other brands are available on request<sup>82</sup>. Public awareness about the effect of vaping is inadequate as there no organized civic education programme on e-cigarette<sup>83</sup>.

The sale, advertisement, consumption of e-cigarette in public places is banned in Nepal<sup>84</sup><sup>85</sup><sup>86</sup>, but the Tobacco Control Act 2011, the main legal instrument to regulate tobacco consumption and market in Nepal has not been amended yet to include exclusive prohibitory measures about harm reduction products. The regulation is simply functional on the basis that any substance that has tobacco ingredients is regulated to use, sale and advertise unless allowed by the law. However, the sale and use of vaping is increasing at an alarming rate due to weak regulation and low public awareness<sup>87</sup>, where many traders have made attractive advertisement as an alternative to smoking and they have portrayed vaping as harmless product. Despite the growing demands to ban the vaping, stringent official measures are yet to be in enforcement<sup>88</sup><sup>89</sup><sup>90</sup>.

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<sup>81</sup> <https://kathmandupost.com/miscellaneous/2018/11/04/vaping-by-youth-rises-with-no-regulatory-controls>

<sup>82</sup> <https://www.nepalisansar.com/health/e-cigarette-trend-catches-up-nepal-public-awareness-a-concern/>

<sup>83</sup> <https://risingnepaldaily.com/opinion/knowning-the-risks-of-e-cigarette>

<sup>84</sup> [https://landing.ggtc.world/wp-content/uploads/2020/03/Countries-that-Ban-Ecigs\\_v15-feb2020.pdf](https://landing.ggtc.world/wp-content/uploads/2020/03/Countries-that-Ban-Ecigs_v15-feb2020.pdf)

<sup>85</sup> <https://vaping360.com/learn/countries-where-vaping-is-banned-illegal/>

<sup>86</sup> <https://gsth.org/resources/item/burning-issues-global-state-tobacco-harm-reduction-2020>

<sup>87</sup> <https://canadianreporters.com/archives/6217>

<sup>88</sup> <https://www.nayapatrikadaily.com/news-details/44278/2020-05-28>

<sup>89</sup> <https://www.bbc.com/nepali/news-49752860>

<sup>90</sup> <https://healthtvonline.com/health-news/2020/05/28068/>

## 10. Illicit trade of tobacco

No specific and reliable estimates of the illicit trade of tobacco is available for Nepal. A study by Global Financial Integrity in 2020 for the period of 2008-2017 shows that Nepal ranks in the 6<sup>th</sup> position among the 135 developing countries in terms of illicit financial flow through trade, particularly mis-invoicing of the imports and exports. The report exclusively does not mention about share of tobacco in mis-invoicing, but reports that tobacco contributes 20 percent in total illicit financial flows<sup>91</sup>. The Economic Intelligence Unit has published a global ranking of 84 countries on the global illicit trade environment index 2018. The report does not include Nepal but provides ranking for India (49<sup>th</sup> out of 84) and China (44<sup>th</sup>), with value ranging from 0 to 100, higher value being the better control on illicit trade<sup>92</sup>. Nepal staying between two huge economies and populations, the illicit trade including tobacco cannot be ruled out. Nepal is bordered with India- east, south and west, and China- north. Border with India is open while it is regulated between Nepal and China, while Bangladesh is few kilometers away. The high trade dependency and existence of open border, the risk and tendency of illicit trade is likely to happen with India, while there are reported illicit trade with China and Bangladesh as well.<sup>93</sup>

However, there are certain grounds to assume that a significant portion of tobacco market in Nepal is illicit. The illicit trade has two aspects- a) the domestic illicit trade, it is estimated that several unregistered tobacco companies are in operation, specifically for smokeless tobacco products; b) cross-border illicit trade, it is argued that Nepal practices porous open border with India, the country that has a large tobacco market, in terms of production and consumption.

### 10.1 Unregulated and undervalued domestic market

There is no exact record of the number of tobacco producers in Nepal. Different official records provide different statistics. For example, an official record of Department of Inland Revenue in 2019 shows that there are 210 tobacco related industries, while an official report of Ministry of Industries claims over 800 tobacco related industries were registered in the past 20 years. Surprisingly, the official statistics maintained by the Central Bureau of

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<sup>91</sup> Global Financial Integrity. (2020). Trade-related illicit financial flows in 135 developing countries: 2008-2017. <https://bit.ly/3yaQ374>

<sup>92</sup> <http://illicittradeindex.eiu.com/>

<sup>93</sup> Karki, YB., Pant, KD., & Pande, BR. (2003). A Study on the Economics of Tobacco in Nepal. Washington DC: The International Bank for Reconstruction and Development/The World Bank. <https://openknowledge.worldbank.org/handle/10986/13750>

Statistics reports only 30 tobacco related industries since 2010. These discrepancies in data warrant for the unregulated domestic tobacco market in Nepal. It also indicates that the domestic tobacco trade undervalued and there is possibility of huge revenue loss to the government.

## 10.2 Cross border illicit trade

There are three different scenarios for cross border illicit trade of tobacco. First, the contraband cigarette and raw tobacco are smuggled to Nepal from India<sup>94</sup>, as Nepal is facing shortage of raw tobacco. Although the price of cigarette is relatively higher in Indian market because of higher taxes than that of Nepal, there are reported tendency of smuggling cigarettes to Nepal either by misdeclaration or tax evasion. Second, as the cigarette prices are relatively cheaper in Nepal, smuggling to India has been recorded. For example, the Hindustan Times, a popular national newspaper of India, reports that smuggled Nepali cigarette brand dominates in border area. The newspaper reports that over 90 percent of consumers prefer the Nepali brand for the reason it is cheaper<sup>95</sup>. The price difference is a major reason for increasing smuggling of Nepali cigarettes to India<sup>96</sup>.

Third, it is reported that the fake or duplicate brand Nepali cigarettes are produced in Indian border area and smuggled to Nepal. This is rampant in the southern border area between Nepal and India<sup>97</sup>.

## 10.3 Market value of illicit trade

Although no robust estimates of market value of illicit tobacco trade in Nepal is available, there are rough estimates that Nepal has gross loss of eight billion NPR due to illicit tobacco trade<sup>98,99</sup>. This figure could be even higher if the estimates will consider all types of illicit tobacco trade- contraband, mis-invoicing, unregistered tobacco companies, cross border smuggling and tax evasion.

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<sup>94</sup> Directorate of Revenue Intelligence. (2020). Smuggling in India Report 2019-2020. New Delhi: Department of Revenue, Ministry of Finance, Government of India. [https://dri.nic.in/writereaddata/dri\\_report\\_dat\\_1\\_12\\_20.pdf](https://dri.nic.in/writereaddata/dri_report_dat_1_12_20.pdf)

<sup>95</sup> <https://www.hindustantimes.com/india-news/smuggled-nepalese-cigarette-brand-dominates-border-areas-of-uttarakhand-101610735143799.html>

<sup>96</sup> <https://timesofindia.indiatimes.com/business/india-business/smuggled-cigarettes-form-25-of-domestic-industry/articleshow/72808090.cms>

<sup>97</sup> <https://www.news24nepal.tv/2019/10/25/582862>

<sup>98</sup> <https://www.onlinekhabar.com/2019/10/805826>

<sup>99</sup> <https://bizmandu.com/content/20191024143705.html>



## 10.4 Reasons for illicit trade

There are several possible reasons for illicit trade of tobacco in Nepal.

### Open and weak border regulation

The weakly regulated porous border is considered as the major reasons for increasing illicit trade between Nepal and India<sup>100,101</sup>. For people living in border area, cross-border movement is common without any restriction. This free flow of people and open border creates ground for smuggling. In addition, the weak border and custom governance promotes illicit trade<sup>102,103</sup>. Ineffective custom surveillance allows the formal and informal traders to transport goods across border illegally, without proper scrutiny<sup>104,105</sup>.

### Informal trade

Informal economy has a significant contribution in Nepal's economy. The Central Bureau of Statistics reports that half of the business enterprises in Nepal are unregistered, unmonitored and untaxed.<sup>106,107</sup> The proportion of unregistered businesses for manufacturing including tobacco is over 50 percent. This indicates that a significant proportion of tobacco market in Nepal could be under informal business and unregulated.

### Lower taxation and lower price

Evidences show that Nepal has lower tax rate on tobacco and subsequent lower market price, almost stagnant over a decade, while India has higher tax rate and market price of tobacco product and growing annually. This price difference has been an incentive for cross border smuggling of tobacco product, making it as a lucrative business. Such price difference has been a reason for illicit trade in other products as well, for example fuel.<sup>108</sup>

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<sup>100</sup> <https://archive.nepalsamaya.com/detail/56645>

<sup>101</sup> NDRI &

<sup>102</sup> <https://www.thehindu.com/news/international/India-Nepal-to-curb-illegal-trade-across-border/article16888929.ece>

<sup>103</sup> <https://www.hindustantimes.com/india-news/nepal-india-discuss-ways-to-control-illegal-trade/story-AZ1kMTiv9xzKRHRs8y7QGP.html>

<sup>104</sup> <https://dineshkhobar.com/article/48707>

<sup>105</sup> <https://thehimalayantimes.com/nepal/smuggling-continues-unabated-despite-tight-security>

<sup>106</sup> <https://kathmandupost.com/money/2021/07/25/half-of-businesses-in-nepal-unregistered-unmonitored-untaxed>

<sup>107</sup> <https://cbs.gov.np/wp-content/uploads/2021/06/Analytical-Report-Informal-Sector.pdf>

<sup>108</sup> <https://kathmandupost.com/money/2021/02/27/huge-price-differential-triggers-cross-border-fuel-smuggling>

### **Ineffective tax administration**

The revenue governance of Nepal is generally reactive, where the consumers submit the tax, while the government makes less proactive measures and market assessment. The Inland Revenue Department, special branch of the Ministry of Finance to implement taxation, has identified following factors- a) authority of Inland Revenue Department for effective functioning, b) absence of coherent team work and high turnover, c) improper backup and maintenance of IT system, d) staff motivation and ethics and e) coordination among various governance agencies- that have high risk and high impact on improvement of revenue administration<sup>109</sup>.

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<sup>109</sup> Inland Revenue Department. (2018). Inland Revenue Management Second Strategic Plan 2018/19- 2022/23. Kathmandu: Inland Revenue Department, Ministry of Finance. <https://ird.gov.np/public/pdf/303710844.pdf>

## 11. Further research area

The control of tobacco is a long standing social, economic and political issue. The government of Nepal has taken some important measures to regulate the tobacco market and reduce health burden of tobacco consumption, particularly since early 2010s, when it enforced tobacco control act in 2011. Since then, several other measures like graphic health warning, banning of promotion and advertisement, banning of sales to minors, introducing health burden tax, promoting public awareness are a few notable policy and legal measures that are enforced. Despite the efforts, reducing the consumption tobacco is long standing battle. As of 2018, the tobacco use takes lives of 27137 per annual, which is 14.9 percent of all deaths. It is also a leading cause for cardiovascular disease.<sup>110</sup> For achieving the goal of tobacco free healthy society by gradually reducing the prevalence rate; preventing the exposure of vulnerable population and reducing health burden, it is necessary to improve knowledge base on some specific aspects of tobacco regulation.

**Mapping the tobacco consumption pattern:** Recent studies indicate that tobacco consumption pattern is significantly changing in developing countries from smoking to smokeless tobacco. A nationally representative study is required to learn about the socio-demographic characteristics, switching pattern, vulnerability, knowledge about health risk, quitting tendency, among others. The national survey like Demographic and Health Survey and STPES do collect data on tobacco consumption, they are limited to identify the level of prevalence. A comprehensive study will add value for the government to improve effectiveness of tobacco regulation policy.

**Effectiveness of tobacco control regulation:** Effectiveness of tobacco control regulation is a contested issue. A study that will identify the level of public awareness, state of industry and trader compliance, gaps in implementation, funding and institutional arrangements for law implementation is necessary to improve the governability.

**Health facilities mapping:** Health facilities are facing increasing burden of tobacco related morbidity. It is necessary to map the knowledge, attitude and practices of health service providers, individual and institutional capacity, and morbidity pattern.

**Market assessment:** The tobacco market in Nepal is undervalued. It is necessary to have a robust study assess the market of tobacco, including the assessment of industries, wholesaler and retailer market.

**Illicit trade:** There are reports that Illicit trade of tobacco has been a common problem in border area between Nepal and India. But no specific estimates are available. A study that will map the practice and volume of illicit trade in Nepal-India border would be an added advantage.

**Second-hand smoking:** Exposure to domestic second-hand smoking is common and it has serious health impact on women, children and elderly people. Although, with the advancement in

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<sup>110</sup> [https://apps.who.int/iris/bitstream/handle/10665/272687/wntd\\_2018\\_nepal\\_fs.pdf?sequence=1](https://apps.who.int/iris/bitstream/handle/10665/272687/wntd_2018_nepal_fs.pdf?sequence=1)

technology and available alternatives of smokeless cooking system, it is decreasing. But still for a large population firewood is major source of cooking fuel. It would be important to learn about social and economic aspects of second-hand smoking.