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**Milking it dry**

The evolution of the dairy value chain in Pakistan can be compared to the adage of the goose that used to lay golden eggs, in which the goose met its untimely end due to unsatiated greed.

The same analogy can be drawn for the dairy industry in the country. As the packaged milk industry started to evolve through strengthening of both backward and forward linkages, there was a myopic decision to squeeze out taxes from the industry while sacrificing long-term economic and social benefits in the process.

The calculus is simple. Through expansion of a formal dairy sector, and minimum pasteurization rules, the whole dairy value chain can be formalized, having a dual-pronged effect of economic empowerment, and better nutrition. Better livestock incomes would spillover into better farm incomes, and a more robust rural economy.

Technology driven solutions which were inconceivable only a decade back can now be used to scale up milk production while streamlining the supply chain. The added benefit of financial inclusion through formalization of the dairy value chain would improve margins for the livestock owner, rather than enriching various agents in an extended value chain. The choice for the policymakers is clear-cut: either extract a greater share of taxes from an ever-shrinking pie, or catalyze rapid expansion of the pie, which can have positive spillover effects across the largely vulnerable rural value chain.

Presence of a zero-rated regime can catalyze the development of the dairy value chain once again. It is to be noted here that this isn’t any concession, but is a tool through which a largely informal sector can develop through greater investment and participation of the private sector. A snowball effect of this would be lower wastage, higher yields, and better quality of milk for consumption across the country, where malnutrition and stunting have emerged as serious issues.

An overarching macroeconomic goal is to reduce the prevalence of cash in the economy, and increasingly move towards a more formal structure. Currently, almost ninety percent of the milk being produced and sold in the country is in the informal segment. It does not incur any sales taxes, and nor do the sellers pay relevant income taxes. In such a scenario, the formal segment which is exposed to multiple layers of regulations and taxation regimes finds it difficult to compete with the informal segment.

An implicit support to the informal segment is counter intuitive to the government’s overarching mandate of expanding the tax net, and share of the formal economy. Similarly, due to the informal nature of the segment, there is severe absence of scale and quality controls, due to which nutritional content suffers, and wastage is rampant. A zero-rated tax regime with a razor sharp focus on rural development would incentivize investment in the dairy value chain, resulting in better nutritional content, greater scale, and more importantly a transition towards formal economy through digitization of transactions.

Another unintended consequence of the development of the dairy value chain would be an increased focus on value-added dairy products. Currently, due to the highly fragmented nature of industry, lack of consistency in quality of animal feed, as well as lack of quality control, the milk produced is not suitable to develop value-added products at scale.

However, through a transition towards a formal segment, it will be possible to ensure the establishment of certain pasteurization and other standards, through which it will be possible to develop value-added products, which can then also be exported to regional and global markets. In essence, the development of an export market for Pakistani dairy products is largely contingent on the strengthening of the dairy value chain, and that can only be done if the right incentives are in place.

If GDP growth rates in excess of five percent are to be attained for an extended period of time, it is essential that due focus is given to the development of the dairy value chain, which is a critical component of the agricultural sector of the economy.

It will not be possible to meet targeted growth rates without enabling rapid growth of the agricultural sector, livestock in particular. The sector needs to be nurtured, and the pie needs to expand. If the existing taxation regime continues, the sector will not be able to contribute significantly to overall macroeconomic growth, and may drag the growth rates lower. A zero-rated regime ought to be the classic fiscal stimulus that the dairy sector requires; it can generate massive economic and social impact in the long run.

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