Rationale

Fractured supply chains have been identified as a barrier to growth for the agricultural sector. In this regard, African agriculture is particularly handicapped. Hence, the purpose of this project is to address some of the key challenges through an assessment of the current and potential contribution of the dairy sector to economic growth and food security in Malawi.

Dairy is considered a key investment sector for the Government of Malawi and donors such as USAID, JICA, FICA, DFID have focused part of their development aid on the sector. Despite this, domestic production response has been unimpressive.

This situation is not surprising since the dairy sector in Malawi is complex and a number of factors have been hampering its development. These include (based on the literature):

1. A processing sector of four major firms using only a limited part of their full capacity;
2. Part of the milk domestically transformed into processed products has been, in the past, made from imported reconstituted milk powder;
3. The processing sector makes profits, despite its high costs, by targeting the affluent part of the urban population;
4. A high percentage of the milk sent to the processing companies is rejected due to quality (estimated at 17%);
5. Only a relatively small percentage of the milk produced domestically is sent to formal channels (i.e., the domestic supply of milk to processors is limited), the rest is sold unpasteurised through informal channels to the rural population and less affluent urban segment;
6. Malawi has the lowest consumption of milk per capita in Africa (estimated at 4.7 kg/capita/year compared to an Africa average of 15 kg/capita/year).

Objectives

The main objective of this research project is to assess the current and potential contribution of the entire dairy sector to Malawi's economic growth and food security. A number of objectives by project stage provide the questions explored in the project.

Objectives of the first stage of the project are:

- Dairy processors: (1) whether there are elements of imperfect competition (i.e., oligopoly and/or oligopsony) in their operation, or alternatively, reasons explaining large unutilised capacity in the dairy plants; (2) their willingness to fully substitute imported powder milk by domestic supplies if the latter become available in sufficient quantity.
- Consumers: (1) the main products consumed by different population segments (e.g., rural/urban and by socioeconomic group); (2) consumers accessibility and affordability towards dairy products by different population segments; (3) consumers willingness to pay for safe dairy products.
- International donors: (1) the purpose of donor investment in the supply chain and potential impact in terms of income generation, economic growth and food security; (2) whether aid operations are consistent with investments in international development; (3) whether there are other areas of the supply chain where donors should focus their investment.

The objectives of the second stage are:

- Modelling: to integrate the different parts of the supply chain into a supply chain model.
- Simulation: to quantify the impact of alternative measures applied to different stages of the supply chain.
- Assessment: to assess impact in terms of growth and food security of the different strategies for the sector.

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