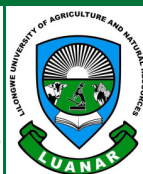


Developing the Dairy Processing Sector in Malawi



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Introduction

One route to increasing milk consumption in Malawi is the development of the milk processing sector. This research examines the nature and operation of the sector and the challenges it faces.

Dairy processing in Malawi is very limited in scale and extent. It stands between the farmers and their Milk Bulking Groups (MBGs) and the formal distribution system which ranges from street vendors to multiple retailers. There are basically three types of processor:

- **Commercial Dairies** – there are two of this type in Lilongwe, in the Central region (Lilongwe Dairies and MDI), with a further two in the Blantyre area, in the Southern region (Dairibord Malawi Ltd. and Suncrest Creameries). These enterprises primarily draw milk from MBGs.
- **Privately owned small scale dairies** - which utilise milk from their own dairy cow herds. There is one near Lilongwe (Katete Dairy Farm) and which only uses milk from its own herd; and one at Blantyre (Sable Farming) which also draws milk from a limited number of MBGs.
- **Micro processors** – which are very limited in number and process milk from smallholder farmers and are managed by the farmers themselves.

Milk Procurement

Milk is procured through a network of MBGs which enable the bulk handling, storage and collection of milk.

The milk supplied to a processor by an MBG is typically provided under an agreement or contract with the possibility of price reviews (although these are not frequent).

The relationship between MBGs and their processor is important to both parties as the processor seeks a reliable milk supply, and in addition to providing a regular market for the milk, the processor may assist farmers (through the MBGs) with loans and investments.

Table 1 shows the broad pattern of milk deliveries to processors for the period 2009 to 2012.

Table 1: MBG milk deliveries to major processors, 2009-12

	Dairibord Malawi Ltd.	Suncrest Creameries Ltd.	Sable Farming Company	Lilongwe Dairies Ltd.			MDI	Total
				South	Central	Total		
Thousand litres								
2009	4,153	1,829	–	4,734	841	5,576	417	11,973
2010	4,660	2,045	312	6,817	805	7,622	598	15,237
2011	5,987	2,121	466	7,260	1,288	8,548	416	17,538
2012	5,527	2,143	286	8,608	1,179	9,787	287	18,029
Shares (%)								
2009	34.7	15.3	–	39.5	7.0	46.6	3.5	100.0
2010	30.6	13.4	2.0	44.7	5.3	50.0	3.9	100.0
2011	34.1	12.1	2.7	41.4	7.3	48.7	2.4	100.0
2012	30.7	11.9	1.6	47.7	6.5	54.3	1.6	100.0

Source: Based on data provided by Brian Lewis (SHMPA) and Jonathan Kaphela (CREMPA).

Table 1 indicates a 50% rise in total deliveries, with all of the three major commercial processors experiencing an increase.

Lilongwe Dairies, which in 2012 represented 54.3% of the total collections, increased its intake by 75% over the 4 years, with most of that rise coming from producers in the South. Dairibord Malawi, another major operator in the Southern region, accounts for just over 30% of milk deliveries and Suncrest Creameries is also a significant milk purchaser representing over 12% of deliveries, with the other operators being far more modest in scale.

It is apparent that there is a very high level of concentration in milk purchasing, with the three top processors representing about 97% of the total collections in the two regions.



Suncrest Creameries Ltd. plant in Blantyre (Photo: C. Revoredo-Giha)

Dairy processed products

The pattern of milk usage by processors indicates that:

- 33% of milk intake goes to pasteurised milk;
- 50% goes to UHT production, of which about 9% is exported;
- 17% goes to other products, e.g., yoghurt, chambiko, butter.

Pasteurised milk primarily serves the urban market (where it is a legal requirement). **UHT** provides a much longer shelf-life and travels longer distances (e.g., to rural areas). UHT also has the potential for export which has the appeal of foreign exchange earnings and good margins. Currently only Dairibord is exporting.

Processing Capacity Utilisation

The four major milk processors operate well below their plant capacity. In the South, the plants are working at approximately 40-50% of their capacity, whilst in Central Region one of the plants is operating at 30-40% and the other at very much less. This situation has several consequences:

- It leads to higher processing costs.
- It results in a limited supply of products.
- It reduces the sector's competitiveness with respect to imports.

Challenges and Opportunities

- **The low capacity utilisation is a challenge that impacts on average costs.** It requires a solution that involves collaboration between processors, the MBGs and milk producers.
- **Shortcomings in infrastructure for milk processing, storage and collection.** For processors these include the unreliability of power supplies; for some MBGs, the absence of adequate milk cooling and storage facilities; for the entire system, the collection of milk from remoter rural areas is hampered by poor roads.
- **Low milk consumption is a challenge in terms of marketing but there is also an opportunity for market development.** This may be aided by a school milk programme, and education programmes on milk hygiene and health benefits. For processors, expansion of their vendor networks and greater use of small pack sizes might be beneficial.
- **For some processors the cost of investment in new facilities or machinery is a challenge.**
- **The export trade is an opportunity for processors** and may well develop further, but this will depend on an expanding milk supply.

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