

An economic analysis of milk markets and competitiveness in Malawi's dairy industry

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Abstract

This study will analyze the current arrangements in the milk marketing structures, conduct performance as well as the competitiveness amongst these markets in Malawi. Emphasis will be on the broader analysis of market system context and incorporation of the elements in the structure, conduct and performance such as trader behavior and market dynamics to allow policy makers and all stakeholders better anticipate daily market responses.

Key words: Competitiveness, milk value chain market performance, Malawi

Résumé

Cette étude permettra d'analyser la situation actuelle dans les structures de commercialisation du lait, de mener la performance ainsi que la compétitivité entre ces marchés au Malawi. L'accent sera mis sur l'analyse plus large du contexte de marché et l'incorporation des éléments dans la structure, la conduite et la performance tels que le comportement professionnel et la dynamique du marché pour permettre aux décideurs politiques et toutes les parties prenantes à mieux anticiper les réactions du marché par jour.

Mots clés: Compétitivité, chaîne de valeur du lait, performance du marché, Malawi

Background

Malawi like many other developing countries has observed sharp increases in the demand for milk and dairy products. This demand is projected to increase further in the next decades. Delgado *et al.* (1999) estimated that between 1993 and 2020, the annual demand for milk and dairy products in developing countries will be more than double, from 168 to 391 million tones. Driven by population growth, urbanization and increased purchasing power, the estimated annual growth in the consumption of milk and dairy products is expected to rise dramatically as projected.

Despite the recent and projected increase in dairy productivity in Malawi, smallholder dairy farmers lack the requisite market competitiveness to promote their profitable participation in the emerging growth markets in the dairy industry. These market opportunities represent exciting challenges for all associated with smallholder agriculture in developing countries, and in Malawi particularly, and it's continued intensification through dairy production and marketing. The country however stands to benefit through this industry considering the sharp increase in production and support from various dairy development initiatives that target market improvement.

Studies conducted in the field of dairy industry in Malawi have concentrated more on the milk production side with little emphasis on critical issues in the marketing chain of the products. Yet it is known that proper marketing systems provide incentives to farmers and traders to earn more. At the moment there is lack of proper documentation of milk marketing structures. On the other hand, dairy competitiveness is an important factor to considering alternative market opportunities. While milk market competitiveness is a major drive in dairy production, it has not been well studied in Malawi.

This study therefore, aims at conducting a comprehensive analysis of the milk market structures, establishing the competitiveness of the milk and milk products both at domestic and international level. The study will draw implications about what determines the industry's competitiveness in the face of the trade liberalization and how it could be improved to benefit incomes of milk farmers.

Literature Summary

Msisika (2003) argued that efforts to improve dairy production should be accompanied by improvements in the marketing system to ensure that the marketing systems provide incentives schemes to producers for efficient goods and service provision. Munthali (2010) emphasized the need to explore milk marketing inefficiency and analyze the entire milk marketing value chain if the producers are to get improved incomes. In Malawi scenario, the low prices of raw milk offered by processors to small holder dairy farmers have been operating against the economic principle of demand and supply which dictates that when the demand for a commodity is high thus exceeding supply, the prices of the commodity rises.

Study Description

The specific objectives of the study are to; a) characterize the Malawi dairy milk markets in terms of its structure, conduct and performance; b) analyze market competitiveness of milk in Malawi dairy industry; c) determine market conditions that influence competitiveness of the dairy market structures in Malawi; d) assess the policy effects on milk marketing of small farmers in Malawi; and e) provide suggestions for improvements of milk marketing policies in Malawi.

The market structures, conduct and performance will be analysed using an industrial organization model. The SCP approach assures that there is a relationship between market structure and the behavior of market participants, including farmers, traders, consumers and other structures; in turn, the behavior of these participants influences market performance (Scarborough and Kydd, 1992; Scott, 1995).

The competitiveness of milk marketing in Malawi will be analysed using the policy Analysis Matrix (PAM), a method developed by Monke and Pearson (1989). The model has been used and recommended by other authors such as Akhtar (2002) and Aji (2003) to obtain the economic efficiency and competitiveness of soya bean farming and rice production systems in Jember and Pakistan, respectively. The PAM measures the profitability (actual market) and social (efficiency) prices. The method shows the actual revenues, costs, and profits that the markets are experiencing and compares them with what they would face if commodities and resources were priced at international prices or domestic opportunity costs. With PAM it is possible to examine the impact of policy by assessing the divergence between private and social valuation. This tool provides an appropriate direction for change in policy (Gonzale *et al.*, 1993).

The study will be conducted in three regions of Malawi namely; Central, Northern and Southern regions. The regions have been chosen because of presence of major milk processors. Additionally, there is high concentration of smallholder farmers in those regions who are organized in milk bulking groups and are members of cooperative societies. The study population will comprise of small holder farmers, milk processors, milk cooperatives, and market agents. Each of these populations will have a specific questionnaire with specific information regarding the marketing issues.

Research Application

The research will characterize and validate competitiveness of the Malawian dairy sector. Factors influencing the dairy market competitiveness will also be established. The results will generate a set of policy recommendations to improve the performance of the dairy market in Malawi.

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