



Impact of Local Sourcing Initiatives: A case of Nile Breweries Ltd (SABMiller) Sorghum and Malting barley programmes in Uganda

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Nile Breweries Ltd (NBL) is a beverage company operating in Uganda and is a subsidiary of SABMiller, which is the second biggest brewing company in the world.

Its Local Enterprise & Agriculture (local sourcing) programme currently covers Sorghum, Maize, Barley development and the Maltings plant operations in Uganda 2



Background

Nile Breweries Ltd (NBL) launched a broad based local enterprise development initiative, with the primary aim of securing continuity of supply and economic benefits through localisation of Sorghum and Barley Malt for brewing. This started in 2002 with the introduction of the first clear beer brewed from sorghum and then malting barley growing started in 2008.

This has turned out as one of the most successful local initiative run by a multi - national company increasing the percentage of locally sourced raw materials for brewing from zero per cent 10yrs ago to over 70% to date. This has delivered a number of socio-economic benefits to the local community and driven many business benefits to NBL.

The branded beer market in Uganda is still small (4%)and there is great potential for growth others include other non-branded alcoholic beverages such as fermented beverages from sorghum, maize millet, rice, fruit wine, fortified wine etc.

With over 94% of the alcohol market in Uganda non branded it was imperative that NBL takes up the challenge to provide a brand that would attract customers from this segment to take up branded beer. The low value brands market is growing at a rate of 20 – 30% per annum and this is not cannabilsing on the main stream or premium market share.

[Figure 1 – Alcohol market in East Africa]

Brand Portfolio

The Eagle lager brands are brewed majorly out of Local Sorghum and the rest of the brands are brewed out of local Malt made from locally grown barley or imported barley. Raw barley is also used as a direct raw material in Eagle lager brands as an adjunct.

[Figure 2 - Nile Breweries Ltd brands].

Sorghum and Barley Foot print in Uganda

Regions growing Sorghum

Uganda has a tropical climate and Sorghum is grown virtually in all regions in the country. The key varieties in use are locally bred white sorghum varieties.

Sorghum can be grown in all districts in Uganda however areas at altitude >1,500Meters above sea level are not advised because the sorghum takes far longer to mature.

Regions growing barley

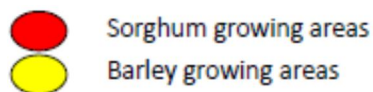


The areas for growing of malting barley are limited to only regions of the country that are above 1,500 meters above sea level so barley production is restricted mainly to the mountainous regions in the East, South western, Western and some parts in the North of the country.

The total potential annual acreage for barley growing is over 100,000 acres (Arable land in areas at >1,500 Meters above sea level) and the target is to use only 25 – 30% of this land to grow barley.

The average yield on the model farms is 1.5 tons per acre and for small farmers is 0.8 tons per acre

[Figure 3 – Map of Uganda showing barley and sorghum growing areas]



Raw material usage trends

NBL's use of local raw materials has grown from 13% in 2002 after the Eagle project was launched to the 64% in 2012. As the malting barley programme is being ramped up the target is to reach 93% of all raw materials to be locally sourced in Uganda by the year 2016.

[Figure 4 – Raw material Usage and value trends]

[Figure 5 – Breakdown of different raw material Usages]

[Figure 6 – Percentage of raw material usage (Local Versus Imported)]

Supply chain models

Nile Breweries has over the years developed a sustainable sorghum supply chain model and in some cases this varies from region to region dictated by local conditions and demand, this supply chain model is being replicated for the barley supply.

A hybrid model of small holders and commercial farmers is in use and targets to achieve the brewing demand supplied by a mix of 50% smallholder and 50% commercial farmers, it also relies on other specially selected and developed independent partners.

Two options are being developed: Commercial farming (large scale) option (also called Hub and spoke) and small holder option.

Two regions in the country is using the commercial farming model (Hub and spoke) – North West and Eastern region. The other regions will continue to run purely on the smallholder model.

Over 95% of the farmers are small holder farmers farming on less than 5 acres of land. 4



Technical centres have been established and being developed to offer logistical planning support in all areas – coordination & services – skills, inputs etc. and the role of technical centres will be re-focused to agronomy & skills development when the unions and associations have developed their capacity.

[Figure 7 – Barley Supply chain model]

The only difference between the barley supply chain above and the sorghum supply chain is that instead of the Maltings plant that processes barley, there are regional processing centres to dry and clean sorghum before it is delivered to NBL

NBL uses a hybrid model where some activities or roles are in house and others are out sourced. NBL has worked with private companies, government agencies, donors, banks etc. to set up the structures including group formation, farmer training in business & financial management programs.

Subsistence and Traditional farming practices still dominant in Uganda due to high level of land fragmentation.

NBL is doing promotion, seed distribution, farmer institutional development and technical skills training development

With the NBL interventions the yields of small farmers growing sorghum have increased from an average of 0.6 tons per acres previously to the current average of 0.8tons per acre with the model farmers achieving 1.0 – 1.4 tons per acre with best practices.

Whereas the yields for small farmers growing barley have increased from 0.5 tons per acre to the current 0.9 tons per acre with the model farmers achieving 1.4 – 1.6 tons per acre.

The major drive is to change from traditional methods of farming to mechanized farming using both large scale equipment and small scale equipment to ensure proper land preparation and reduce harvest and post - harvest losses.

[Figure 8 - Hand hoe is still a major tool]

[Figure 9 – Tractor operations on a large scale farm]

[Figure 10 - Yellow patches showing small farmer barley gardens]

[Figure 11 - Barley nucleus farm]

Financing:

Unlike many programmes that are sponsored by donors or NGOs, NBL promotes all local sourcing initiatives as business enterprise. 5



NBL has partnered with banks to provide necessary financing for farming inputs and operational capital to large scale farmers and farmers associations however the process is usually very slow not tailor made to the farmers timely needs..

Malting plant

In 2011 NBL commissioned a USD 20Million Maltings plant to process locally grown malting barley to replace directly import barley Malt with a 5year payback period. Local sourcing saving of USD 14.4 million over 5 years with the malting plant at maximum utilization

This concept was based on Eagle Project and a new 40% excise category for local malt giving a 20% excise break for using local malt which represents a potential average USD 4.3 million gain in EBITA per annum.

The Maltings Plant employees 24 permanent employees and +/- 11,000 farmers.

In the first phase the malting plant will produce 15,000tons of Malt per year requiring approximately 20,000tons of Malting barley a year with potential for expansion subject to the availability of barley to supply sister companies in the region.

[Figure 12 – New Maltings Plant]

[Figure 13 – Artistic Impression of NBL Maltings Plant]:

Socio – economic impact of the initiatives

With the introduction of the local sourcing initiatives, NBL has contributed to the growth and prosperity of the Uganda's economy.

Tax contribution

[Figure 14 – Tax contribution to the economy]

NBL contributed approximately 180Billion UGX to the local economy through indirect taxation (VAT and Excise) in 2010. Uganda currently operates a 60%/40%/20% excise regime, 60% for malt beer, 40% for local malt beer and 20% for non-malt beer.

The concept used here is that the lower excise on the products made from local raw material is a more efficient mechanism for alleviating rural poverty than higher taxes, because money paid for cash crops goes directly to smallholder farmers and others who are directly involved in the supply chain.

[Figure 15 – Value added related directly to NBL's operations].

Out of the total NBL revenues of USD 126.1 million in 2010, the brewery's overall value added is USD 49.5 million for the Ugandan economy and the government receives USD 37.0 million in taxes. 6



It should be emphasized that NBL has been ploughing back most of the profits into the country resulting in high investments in recent years and this supports the economy therefore from a national economic perspective NBL's direct value added accounts for 0.3% of GDP.

Beyond its direct effects, NBL's indirect impact ripples throughout the economy due to the suppliers it uses and the distribution channels that spread its products throughout the country to consumers. The total impact of NBL on value-added throughout the Ugandan economy, some USD 201.5 million in value-added is generated by NBL, equal to 1.2% of Uganda's GDP.

In terms of Job creation, NBL operations has created 90,000 jobs within the local economy

[Figure 16 – Jobs created by NBL's operations]

Local Enterprises development

From the launch of the Eagle project NBL had outsourced its operations to one company. In 2009 NBL introduced contract farming and started signing forward contracts with farmers associations and commercial farmers. This meant that now the farmers had guaranteed market for their produce and also NBL started guaranteeing fixed base price for the sorghum and barley grown locally under contract.

In partnership with local consultant companies NBL embarked on the process of facilitating farmers' group formation and training. Currently there are five major Farmers associations that have grown and have established the necessary infrastructure - storage facilities, land preparation machinery, processing (cleaning) equipment and grown into self-sustaining business enterprises handling and supplying stocks worth greater than 3.0 billion Uganda shillings each per year.

As a result of formation of farmers associations the supply of the grains has increased by over 40% and supply is more reliable than it was in the previous years when NBL was dealing with grain traders.

Advantages of contract farming:

- Guarantees Market for the farmers produce. The farmer grows knowing well in advance the buyer of his produce.
- Stipulates the price so the farmer is guarded against falling prices due to over supply
- The farmer or association may use the contract to secure funding from banks – operation capital or asset lease financing.
- Gets direct technical support from NBL extension staff – training of farmers and sensitisation etc.
- Gets access to certified good quality farming inputs from NBL



- Other services that may be accessed are crop insurance
- NBL supports Enterprise development – assist associations or suppliers to grow into a self-sustaining business enterprise.

Requirements to qualify for a contract:

- Farmers groups should be legally registered
- Have formal structures on the ground (farmers associations) – traders are discouraged
- Proof of land ownership or lease (Commercial farmers only)
- Show capacity to run the programme – infrastructure/ financial resources

Limitations of contract farming:

- When prices of other crops go up farmers feel that the contracted price should be revised upwards
- Small holder farmers don't honour the contract – they are not loyal so they can sell to other buyers.
- Reports/ Projections of most contracted farmers are very inaccurate hence sometimes very un reliable to multi-national companies like NBL.

Corporate social responsibility

To leverage on the synergies of Corporate affairs programmes. The following programmes are running in farming communities in Uganda and goes out to benefit local communities that supply NBL with its local raw materials.

1. Water provision: NBL has provided boreholes, rain water harvesting and build Protected springs in farming communities.
2. Health: HIV/AIDS training, Voluntary counselling and testing (VCT), provision of anti-retroviral therapy.
3. Orphans & Vulnerable children (OVCs) & Bursaries programmes for best pupils and students in primary and secondary schools through to University
4. Environment: supports tree planting and good farming practices to conserve the environment
5. Enterprise development (helping other business units to grow) etc.



Key Challenges encountered:

The programme is faced with several agronomic and quality challenges that affect both sorghum and malting barley production and the key ones include the following:

Fluctuating Weather (Little or too much rains)

- Introducing crop insurance – infrastructure to be put in place – AON has given a proposal.
- Big farmers have been advised to put in place irrigation facilities but the capital required is high
- Encouraging block farming amongst small holder farmers to enable micro irrigation schemes.

Low Yields

- Model farms where proper practices and inputs are used) register improved yields
- Improve the extension staff coverage and hence farmer training in agronomic practices
- Seed quality improvement through research and introduction of more adaptable barley varieties in tropical climate.
- Demonstration farms are being using to promote good malting barley varieties and the transition from old varieties to new ones is being managed through sensitization
- Engaging consultants and Input suppliers such as Bayer to offer training to the extension staff.

Lack of capacity to open up land/ Lack of financing

- Banks have been approached to finance operation capital.
- Some banks have started to finance farmers, however progress is slow
- Banks requirements are stringent, not tailor made for farming – most farmers don't qualify

Sorghum Seed quality and availability:

- Delays in seed supply and poor quality of seed by the seed companies is still not good
- It is reported that some seed companies are looking for grain to treat as seed without any form of quality assurance.

Food safety standards:

- All the processing plants – need to adhere to food safety standards and 5S standards and need support to be in place good manufacturing systems.

Recovery of grain from farmers:

- All suppliers and farmers associations have very few royal members hence cannot guarantee recovery of the crop from the farmers.



- Some of the NBL agents are not royal and have been infiltrated by other external buyers and they are the ones giving away sorghum to external buyers
- There is internal competition and this is one of the factors sparking off price wars.

Conclusion

Nile Breweries has operated in Uganda for over 50 years, and it produces some of the country's favourite brands of beer. Since 2001, it has been a member of the SABMiller family of companies, bringing global standards to its operations in management, marketing, and technology.

As has been demonstrated, NBL has made a significant impact on the Ugandan economy, and one that has grown over time, with the launch of the Eagle Lager project, based on indigenous sorghum production. Looking ahead, ramping up local barley production in Uganda to supply the local malting facility at NBL, suggests that this impact will only increase.

Indeed, NBL provides, in important respects, a model of how the subsidiary of a multinational firm can operate in such a way as to promote the development prospects of the economy in which it is embedded which can be emulated and replicated in all developing markets.

References:

1. Ethan B. Kapstein, INSEAD, René Kim and Willem Ruster, Triple Value, December 2008: The Socio-Economic Impact of Nile Breweries in Uganda