A Competitive Economy for National Development

ECONOMIC POLICY RESEARCH CENTRE

POLICY BRIEF

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Investing in high-end dairy products is critical for fostering Uganda's agro-industrialisation agenda

Executive Statement

Dairy products are the third-largest agricultural exports for Uganda after coffee and fish. Over time, dairy exports of milk and milk products have grown to over USD 73 million in 2018 from USD 0.31 in 2006. This has been attributed to increased compliance with both regional and international markets requirements. However, Uganda continues to export low-value products primarily. The export of high-end dairy products such as Whey, Casein, Butter and Oils, cheese and curd has been limited, implying high reliance on the export of low value-added products that fetch low prices at international markets. To boost export earnings and transform the sector as Uganda moves towards agro-industrialisation in earnest, we recommend investing in high-end products that command competitive prices in the regional and global markets.

Introduction

Dairy is one of the 10 commodities earmarked under the third National Development Plan (NDP III) to foster a sustainable agro-industrialisation agenda. According to the NDP III, dairy products are prioritised given their impact on export earnings. Dairy products are the third-largest agricultural exports for Uganda after coffee and fish (NPA, 2020). Over time, dairy exports of milk and milk products grew to over USD 73million in 2018 from USD 0.31million in 2006. This has been attributed to increased compliance with both regional and international markets requirements.

Uganda's milk production had also risen sharply over recent years to peak at 2.5 billion litres in 2018. However, value addition remains low. The country primarily exports low-value products (ITC 2020). The export of high-end products such as Whey, Butter and Oils, cheese and curd has been limited, implying high reliance on the export of low value-added products that fetch low prices in international markets. An export-oriented strategy has been proposed under the NDP III to increase Uganda's foreign exchange earnings through investment in value addition (NPA 2020). To boost dairy export earnings, Ugandan processors need to diversify their product lines to manufacture and export high-end dairy products that command high prices globally. This is critical for transforming the dairy value chain, as evidenced in this policy brief.

The brief is an excerpt of the 2020 Value Chain Status Report, a knowledge product developed by the Economic Policy Research Centre (EPRC) in collaboration with the Private Sector Development Unit of the Ministry of Finance, Planning and Economic Development (MoFPED). The report utilised secondary data, desk review of the existing documents and qualitative data from key informant interviews (KIIs) with the value chain actors at different levels.

Key Findings

High reliance on the exportation of low value-added products that fetch low prices in international markets.

Uganda primarily exports low-value products, i.e. whole and skimmed milk, whose global demand is low and fetch low foreign exchange earnings. From Table 1, in transitioning to high-end products such as whey, cheese and curd, the value of Uganda's exports keeps declining. Nonetheless, this implies that there is room for expansion in the global market. To take advantage of this market potential, Uganda needs to invest more in high-value addition and sophisticated processing technologies to match its competitors.

Table 1 Global import value Vs Value of Uganda's exports

Product	Global Import value (USD billion)	Value of Uganda's exports (USD)	Share of Uganda's exports
Milk and cream (Whole)	9.24	0.045	0.0048
Milk and cream (Skimmed)	21.30	0.16	0.00076
Butter and other fats	9.82	0.0064	0.00065
Buttermilk, Curdled milk and cream Yoghurt and Kephir	4.67	0.00064	0.00014
Whey	4.49	0.000059	0.000013
Cheese and Curd	32.63	0.000029	0.00000089

Source: EPRC's computations based on ITC Trade map (2020)

Few industries are involved in the processing of high-end dairy products. From the discussion with key informants, high-end products such as Casein, baby formulas, Whey, Cheese and curd, are either produced in small quantities or not manufactured at all, yet, these command high prices in the regional and global market. As one of the Key informants' notes, *"Casein is a highly demanded product globally but is only produced by Amos dairies. Other high-end products such as infant formulas are not manufacture..."* EPRC, KIIs 2020

This is attributed to the expensive infrastructure required to manufacture such products by the private sector, which most processors cannot afford.

Processing firms suffer from chronic underutilisation of installed capacity. The capacity for dairy processing has improved. Nonetheless, processing plants are working below installed capacity. The number of dairy processing plants has increased from 79 with a processing capacity of 1.9 million litres in FY 2016 to 102 plants with a processing capacity of 2.7 million litres per day in 2018. These processing plants only utilise 40 percent to 60 percent of their installed capacities. Both large and medium scale processors primarily operate below capacity, implying that there is room to absorb more milk from farmers to manufacture high-value dairy products that can earn the country more foreign exchange.

Penetration of high-end markets requires counter investments in high-end products. Kenya has been the major destination of Uganda's dairy products. Uganda serves 99.5 percent of the whole milk market, 77.9 percent in skimmed milk, and 87.8 percent in butter and other fats (Table 2). However, the unrelenting blockage of Uganda's milk exports by Kenya has resulted in a decline in export earnings. This is forcing Uganda to explore new markets beyond the East African Community (EAC) to wean herself off unpredictable regional markets. To penetrate such high-value formal markets, Uganda must be ready to engage in processing more of the high-end dairy products and ensure more substantial quality control and standards.

Table 2 Destination of Uganda's dairy products in 2018 (USD '000)

Destinations	Uganda's Export value (US$ 000)	Share in the destination market (%)	Main competitors in export destination
Milk and Cream (whole)			
Kenya	44,954	99.5	Rwanda (0.4%)
Burundi	65	87.5	Belgium (8.2%), Rwanda (2.8%)
Rwanda	1,570	98.1	DRC (1.5%), Kenya (0.4%)
Tanzania	265	6.5	South Africa (58.2%), Kenya (33.2%),
Milk and cream (skimmed)			
Kenya	15,629	77.9	Netherlands (16.4%), Ireland (3.3%)
Rwanda	437	1.4	Netherlands (42.1%), Germany (16.3%)
Tanzania	2,602	11.8	South Africa (48.5%), Kenya (33.2%),
Burundi	77	35.3	UAE (33.5%), Belgium (19.4.8%), DRC (9.4%)
Butter and other fats			
Kenya	840	87.8	Ukraine (3.5%), Ireland (2.6%)
Rwanda	32	26.6	Belgium (50.3%), Netherlands (13.6%)
Tanzania	259	27.7	Kenya (24.3%), Denmark (19.1%), South Africa (14.4%)
Burundi	4	4.7	India (85%), Belgium (9.3%)
Egypt	718	0.7	New Zealand (62.9%), India (25.6%)

Source: EPRC'S computations based on ITC Trade map (2020)

Conclusion and Policy Recommendations

The dairy subsector is undoubtedly one of the sectors with high potential for growth, employment, and fostering the country's agro-industrialisation agenda, given its foreign exchange earning potential. However, harnessing this potential requires investment in sophisticated processing technologies for high-end products that meet the global market demands.

The following policy recommendations need to be prioritised in a bid to transform the dairy value chain for sustainable agro-industrialisation:

1. **Strengthen the linkage between agro-processors, breeders and farmers to align the interests of different actors.** There is a need to produce high-quality milk through commercial breeding and grazing practices to fully ensure that processors get the required amount of milk to utilise their processing capacities in production of high-end products. There is a need to undertake a thorough assessment of the processors' requirements and specifications to align interventions (breeding and grazing) towards meeting these specifications.

2. **Increase and sustain Uganda's market share in new and existing markets to foster the agro-industrialisation agenda.** The government needs to take the lead in negotiating market entry for high-end dairy products in new markets such as the EU, China and the Middle East through signing bilateral agreements. Note that such negotiations are only necessary when supply has been guaranteed. Besides, the government also needs to address speedily the existing violations of regional agreements and commitments by Uganda's key trading partners to sustain existing markets (EAC, COMESA and AfCFTA).

3. **Establish a dairy development fund**. This will enable the key players to access finance for high-value addition. Manufacturing high-end products require investment in sophisticated infrastructure, which is expensive for the private players. Therefore government needs to avail funds for investment in value addition.

4. **Strengthen enforcement of quality and standards**. Quality milk is essential for the production of high-end products. The major constraint raised by processors in accessing external markets is the strict product export standards, especially in the European markets. There is a need to enhance laboratory testing for chemicals in the milk, especially at the farm level, because this is the stage where quality is made and milk products and enforcement of other standards along the value chain.

References

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