

# Bottling success

The case of Eagle Lager in Uganda and Zambia

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The farmers of Nangoma village, 100 kilometres west of Zambia’s capital Lusaka, are understandably enthusiastic. It is not every day that they are presented with a ready market for a drought- and flood-resistant crop with the potential to dramatically improve their standard of living. “We are willing to go for it”, says chairman of the district farmers association, Mr Munakomwe when we meet him and thirty local farmers. He is referring to the planting of sorghum – a cereal crop that is the main ingredient of a new beer in Zambia called Eagle Lager.

And as they weigh the potential benefits and risks of entering the value chain of one of the world’s largest breweries – SABMiller, the farmers find themselves, unknowingly, at the heart of an international debate about the role of business in international development. Their story is instructive in a number of ways. First, it demonstrates the powerful poverty-reducing impact that a company can have through its core business operations. Second, it provides an opportunity to gain a better understanding of how to scale up and replicate such initiatives.

Drawing on recent literature, project documents, stakeholder interviews and a field trip to Zambia, this paper aims to distil the critical success factors, lessons and implications from the Eagle Lager experience in Zambia and Uganda.

## Setting the Scene

A distracting, but heated, debate is currently taking place about whether the private sector is part of the solution to poverty reduction in the developing world, or part of the problem. Statements such as those of Paul Wolfowitz, President of the World Bank (WBI, 2006), that “the private sector is the most important engine of development” remain controversial.

The debate is distracting for two reasons. First, for the large part, the private sector is actually made up of small-scale entrepreneurs and family farms – much like those in Zambia. Nine out of ten jobs in developing countries are in the private sector (DFID, 2005). In short, the poor are the private sector: so eliminating poverty is inextricably linked to boosting local private sector development and entrepreneurship (WBI, 2006). A number of recent reports have focused their attention on the indigenous private sector, helpfully counterbalancing the popular focus on foreign multinationals – among them the World Bank’s 2005 World Development Report (World Bank, 2004) and the Reports of the UN Commission of Private Sector Development (UN, 2004) and the Commission for Africa (CFA, 2005).

Second, in the midst of the noise of NGO campaigning and defensive corporate communications, the most important linkages between larger businesses and poverty reduction are seldom studied and often missed. The focus – within the framework of “corporate social responsibility” – is often either on large companies doing good (in the form of philanthropy) or avoiding doing bad (in the form of signing up to one or another of the

myriad of international codes). In fact, the most important and sustainable impact business can have is simply by doing what it does best: doing business.

Aside from their contribution to economic growth and tax revenues, large businesses can directly contribute to poverty reduction through their core business in three important ways: by involving and supporting small enterprises in their value chains, either as suppliers or distributors of their products (UNIDO, 2002), by generating quality employment opportunities (DFID, 2004), and by producing goods and services that meet the needs of low-income consumers at the so-called “bottom of the pyramid” (Prahalad, 2005). Case study evidence is mounting that demonstrates the power of these relationships (USAID, 2006; Clay, 2005; IBLF, 2002; Forstater *et al.*, 2002).

This paper explores, from the perspective on one product, the impacts of core business activities on poverty, as the basis for understanding how these impacts can be magnified.

## The Project

In 2000, the spark of an idea was born that would result, less than five years later, in an innovative, top-selling product with market shares of 50 and 15 per cent in Uganda and Zambia, respectively, and with direct financial benefits for over 10,000 farming families. Launched in Uganda in 2002 and Zambia in 2005, the award-winning Eagle Lager is now set to expand to other African countries, India and South America.

Importantly, the idea was driven by a business imperative, not philanthropy. Ian Mackintosh, the then Technical Director at Nile Breweries (the Ugandan subsidiary of SABMiller), had set himself the challenge of bringing down the cost of beer. With 60 per cent of Ugandans living on less than US\$1 a day, quality commercial lager beer had been out of reach for most consumers.

As Ian notes, “The imperative for growth and profitability drove Nile Breweries to seek mechanisms for lowering the financial barriers to entry into the clear beer market, thereby attracting new consumers to the category” (Mackintosh and Higgins, 2004).



*Ian MacKintosh, Technical Director, Zambia Breweries*

One factor behind the relatively high price of beer in Africa is its reliance on imported inputs. Yet this accounts for only around 15 per cent of the final retail price. By far the larger factor is taxation: reducing the price meant finding a way of reducing the level of excise and passing the savings on to the consumer. The solution lay in an innovative approach to manufacturing and sourcing. By switching to an indigenous raw material – sorghum – and using small-scale farmers to supply it, the brewery was able to simultaneously replace expensive imported ingredients, and convince the Ugandan and Zambian Governments to cut excise duties by at least half. While sorghum lager is slightly more expensive to produce than other beers, its retail price is still around a third less than the price of lagers that use imported barley, thanks to the favourable excise structure.

### **The Benefits**

For a product less than 4 years old in Uganda, and only 1 in Zambia, the benefits of Eagle Lager have been striking: for the business, for the farmers in the value chain, for consumers and for the national economies of the two countries.

### *The business*

Simply put, the project has met its primary objective – to reduce the costs and price of beer and thereby attract new consumers and grow market share. Strong market shares have translated into significant bottom-line results for the business. In Uganda, where Eagle Lager is Nile Breweries’ top-selling Ugandan brand, the company has already recouped its initial investment. Beyond the financial benefits, the business has also received positive coverage in the national media and enhanced relationships with government.

Perhaps most importantly, Eagle has challenged the existing business paradigm. Ian Mackintosh, Technical Director at Zambia Breweries, sees it as a model for the future development of the brewing industry in the developing world: “We can and indeed must think outside the box to find opportunities for use of locally derived ingredients”.

### *The farmers*

The messages we received from the farmers in Zambia’s Mumbwa District were clear and consistent. Most striking is the fact that Eagle Lager has single-handedly created a new and credible, long-term market for sorghum as a cash crop (Mackintosh and Higgins, 2004). Purchase agreements are signed in advance that guarantee prices at levels considerably above market rates. Sorghum, itself, also has particular attractions for farmers: compared to other crops, it is more drought- and flood-resistant, higher yielding with more stable prices, and easier, cheaper and so more profitable to manage. As adviser to CARE International, Belmar Bayombong, puts it, “Eagle has ignited the enthusiasm of farmers”.

In total, Eagle lager has brought 8,000 small-scale farmers in Uganda and 2,500 in Zambia into its supply chain. Assuming an average of 6 dependants per household, this

translates into benefits for 63,000 people. Notably, a large proportion of farm households are headed by women – around 40 per cent in the southern province of Zambia (CARE International, 2006). In each Uganda and Zambia, the company is spending US\$1.4 million on the purchase of sorghum, of which approximately 75 per cent goes direct to the farmers (the balance goes to post harvest handling by third parties).

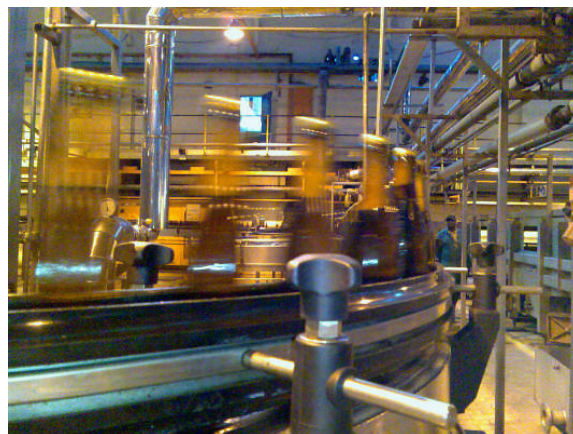
Behind these numbers are stories of people improving their quality of life. A study by charity CARE International, suggests that farmers in southern Zambia could expect to see incomes rise by 50% (CARE International, 2005), with similar benefits reported by farmers in Uganda (Nile Breweries, 2005). A recent evaluation of the Eagle Lager project in the Soroti District in Uganda, conducted with the local government, reports a range of benefits identified by farmers (Nile Breweries Limited, 2005). This includes the fact that an assured income allows farmers to plan for their futures, and has enabled them to send their children to school, buy more land and oxen for ploughing, eat better, afford improved health care, and employ other people to help them with planting. Care International has observed similar impacts in southern Zambia (CARE International, 2005).

Importantly, the project has contributed to the development and strengthening of the small-scale private sector – the family farms that represent by far the largest share of the private sector in most African countries. As Chris Hawke, director of the commodity brokers for Zambia Breweries, puts it: “farmers don’t want handouts. Our aim is to develop them into commercially viable entities – into our equal partners”. Belmar Bayombong describes CARE International’s objective as helping farmers “to become a business”. In Uganda, through a relationship with the Serere Animal and Agricultural Research Institute, farmers have received training in agronomy. In

Zambia, while there has not been any formal company-led training programme, CARE International has been working with around 700 farmers (for whom Eagle Lager is a key purchaser: buying two-thirds of their sorghum produce) through local farming co-operatives to enhance their farming and business skills.

### *The consumers*

Over 60 per cent of Ugandans and Zambians have incomes of less than one US Dollar a day (World Bank, 2005). For most low-income communities, the only alcoholic beverage available is an illicit and unrefined local brew, usually produced through unhygienic processes with weak quality control. Eagle Lager has given people a healthy and affordable alcoholic alternative.



*Zambia Breweries*

### *The economy*

Growth in agriculture is central to growth in the rest of the economy (Commission for Africa, 2005); agriculture accounts for around 32 per cent of GDP in Uganda and 23 per cent in Zambia (FAO, 2005a; FAO, 2005b)<sup>1</sup>. And significantly, most people working in the agriculture sector – 79 per cent in Uganda and 68 per cent in Zambia (FAO, 2005a; FAO, 2005b)<sup>2</sup>. So by targeting the small-scale agriculture sector, Eagle Lager is contributing in an important

<sup>1</sup> Agricultural GDP as share of total GDP, 2003.

<sup>2</sup> Agricultural Labour Force/Total Labour Force, 2003.

way to the countries' efforts to accelerate growth and poverty reduction.

Another potentially large, though as yet unquantified, benefit of Eagle Lager is its employment generation on the distribution side of the value chain – among distributors and retailers. A number of studies of other companies have demonstrated the powerful multiplier effects this can have. Notably, in a study of Unilever Indonesia, over half of the very significant number of jobs created were on the distribution side, highlighting the importance of looking at the whole value chain when assessing the full impact of a business on poverty reduction (Clay, 2005).

There have been wider benefits for the economies too. By using domestically sourced produce, Eagle Lager has reduced foreign exchange expenditure. And on the back of the products growth, it has also resulted in an increase in tax remittances.

## The Lessons

Eagle's success raises one central question: how can the model be scaled up and replicated in other countries in a way that is sustainable? This leads to two further questions. First, what factors made it a success, and can these be replicated in other contexts? And second, what constraints have been overcome, and what others if addressed could make Eagle and similar initiatives even more successful? In short, what lessons can we learn?

There are five lessons that can be drawn from looking at the critical success factors that have underpinned the project's progress, and five from understanding the constraints it has overcome or continues to face.

## *Learning from the Critical Success Factors*

### 1. Clear business focus

Chris Hawke, Zambia Breweries' commodity broker put Eagle Lager's principle success factor very succinctly: "Zambia Breweries identified a product for which there is a market demand". By far the most important lesson of the Eagle Lager case is the importance of a clear business focus. "Charity is not what it is about" underlines Ian Mackintosh. ***A clear business case ensures long-term commitment by the business, and has a far greater chance of being sustainable than philanthropy-driven initiatives.***

### 2. Government partnership

The viability of Eagle Lager has hinged on the partnership that was forged early on with the national governments, and the resulting enabling tax environment that was put in place. Fundamentally, this reflected a shared understanding by the government of the importance of a product that utilises local inputs and supports small-scale agriculture. On-going communication with government stakeholders has helped maintain government buy-in. The Eagle Lager project raises the question of whether governments should extend such partnerships to other products that have similar benefits for small-scale farmers. ***A broader lesson is the need for governments and business to work in partnership to explore the scope for synergies with the businesses' core business and the country's development objectives.***

### 3. Effective intermediaries

Three intermediaries have played a critical role in the Eagle Lager project: the farmer co-operatives, the non-government organisations and the commodity brokers. Farmer co-operatives in Zambia have simplified the process of communicating with, buying from and supporting farmers, and have demonstrated strong leadership on

behalf of farmers. Non-government organisations, notably CARE International in Zambia, have been providing financial and non-financial support to farmers, including training and provision of inputs. CARE is actively helping farmers to improve the quality of their produce and to find new market opportunities beyond Eagle Lager, including export markets in Botswana (CARE International, 2005).

Commodity brokers have also played an important role – not only in terms of simplifying the logistical process of purchasing raw materials, but also in terms of contributing important agricultural technical knowledge to the project team and helping identify new markets for farmers. Importantly, the commodity brokers have helped minimise post-harvest losses through the provision of effective storage. *In short, effective intermediaries are central to success of supply chain projects, from both the farmers' and businesses' perspective.*

#### **4. Engagement with suppliers**

Farmer interest in supplying the project has grown sharply since its inception. In Uganda, within the first year, applications to participate were oversubscribed by 600 per cent. This enthusiasm among farmers to supply has been a bedrock of Eagle Lager's success. *Effort put into understanding the specific socio-economic and cultural factors driving the farmers, and into communication with them, helps built trust and ultimately a more reliable supply chain.*

#### **5. Multidisciplinary technical approach with clear leadership**

The multi-disciplinary nature of the team, combined with effective project management, also “ensured that all the key elements of the project were identified early in the process and that outputs, quality requirements, indicators and accountabilities were clearly established from the outset” (Mackintosh and Higgins, 2004). In

Uganda, the team brought together expertise in marketing, finance, brewing and other technical disciplines, agriculture and process engineering. The team has also successfully secured the interest and commitment of SABMiller Chief Executive, Graham Mackay, who singles out Eagle Lager in the company's recent Africa report as one of the company's “biggest successes in Africa” (SABMiller, 2005). *As with many success stories, this one has been driven by a group of committed individuals, with strong leadership and a clear allocation of responsibilities.*



*Sorghum*

#### *Learning from the Constraints*

##### **1. Supplier technical knowledge and business skills**

The key concern raised by the farmers of Nangoma and Nachilumbi who we visited in Zambia, concerned damage to their crops from pests and disease. According to the CARE International expert who accompanied us, much of what they had experienced could have been avoided with a number of simple measures (such as by planting earlier and spacing the crops correctly). He also reported that the level of knowledge on planting sorghum was significantly higher in those areas receiving CARE International technical assistance. The impact has been a higher and more consistent level of produce quality (and therefore prices attained in the market).

Aside from weaknesses in relevant agronomy skills, farmers lack sufficient agribusiness and marketing skills. There is also a lack of understanding about the quality requirements of the market (CARE International, 2005). In one case, farmers mixed different varieties and colours of sorghum and as a result obtained 40 per cent less from a local brewery. CARE International has seen marked improvements in the skills among the farmers it works with.

*The message is that technical support for farmers – covering both agronomic and commercial skills – is critical to ensure they are able to take advantage of market opportunities, as well as to building higher quality and more reliable supply chains.* In the Eagle Lager context, a practical first step would be to finance the distribution of CARE International’s guidance material on sorghum across the Eagle Lager supply chain.

## **2. Access to finance**

The top constraint, identified by farmers themselves, to increasing sorghum production has been having enough labour to prepare and farm the fields. Land preparation is done manually, given the lack of resources to buy oxen or machinery. Last year, the availability of seeds was an additional issue: the Mumbwa District Farmers Association – covering the areas we visited – was unable to purchase sufficient seeds for the farmers due to a lack of funds. It appears that the financial constraints are particularly problematic in the first year; in subsequent years the situation is eased somewhat by the additional cash flow and the fact that seeds can be replanted from the first harvest.

Nile Breweries experimented with giving farmers credit in Uganda, but after difficulties in recovering loans due to the lack of effective farmer co-operatives, they decided to discontinue this. However, *there is a wealth of experience now in*

*microfinance and rural outreach banking. Partnerships with NGOs and Micro-Finance Institutions can play an important role in enabling poor people to access new market opportunities, and should be explored further in the Eagle Lager context.*

## **3. Scale and effectiveness of intermediaries operations**

The absence of effective co-operatives in Uganda has added a layer of complexity to the project. Co-operatives in Zambia also face leadership and organisational weaknesses (CARE International, 2005). *Particular efforts to strengthen farmer co-operatives have been important to enhancing the capacity of farmers to operate effectively, and with greater collective voice, in the market.*

Despite CARE International’s work in Zambia, it only covers around 30 per cent of the farmers supplying sorghum for Eagle Lager. There is no other focused support for farmers in the Eagle supply chain in the rest of Zambia or in Uganda. Given the direct benefit that their activities are having for the breweries, the breweries should consider contributing to the costs of scaling up CARE’s activities. *By building partnerships with NGOs, companies can enhance the reliability of supply chains and the scale of the benefits for suppliers within them.*

## **4. Initial mistrust**

We asked the farmers we met in Zambia if they had planted sorghum this year, and whether they planned to plant it next year. Around twice as many said they plan to plant next year. This initial caution is likely explained, at least in part, by their previous experiences of unfulfilled expectations around new products and markets. In convincing farmers to supply Eagle Lager (and in so doing shift production away from other crops), Nile Breweries and Zambia Breweries had to invest in building trust, including by signing purchase agreements

guaranteeing fixed farm-gate prices, and in case of Zambia protecting farmers from a recent exchange rate appreciation. *The case illustrates the importance of building and maintaining trust among suppliers.*

## **5. Quality of Governance, Investment and Policy Climate**

The Eagle Lager experience has also shone a light on the various systemic factors that can constrain business, and projects of this sort. Factors range from the quality of governance to weakness in transport and agricultural infrastructure. *There is a clear business case for promoting enabling business environments – with effective governance, investment and policy climates, particularly for small-scale enterprises.* Companies can also play an important role in engaging in policy dialogue on infrastructure – a key constraint for small-scale farmers – and where appropriate, in helping finance and/or deliver specific projects. SABMiller should explore new partnerships for supporting low-cost irrigation solutions across its supplier bases, a strategy that has worked well in other cases (IBLF, 2002).

### **Conclusion: Implications and Next Steps**

Eagle lager has been a clear success – particularly for the more than 60,000 poor people who have benefited from being brought into its supply chain. It has also been a success for the business – critical to

the brand’s long term sustainability. The real challenge lies in both scaling up the project up within Uganda and Zambia (which will clearly need to follow market demand for Eagle Lager) and replicating it in other relevant markets.

For Ian Macintosh the potential is enormous: “I believe the model can be successfully applied in any developing country where small scale agriculture is important and where the cultivation of barley is difficult”. Significantly, the approach has already sparked a new project on the possibility of using cassava in the brewing process.

Eagle Lager is one of an emerging set of exciting, path-breaking initiatives – initiatives that demonstrate the power of business to do good, by doing good business. They are shaping the debate and challenging the old divides that have prevented the private sector, government and NGOs working together on a common agenda. And if we are to achieve the scale of impact needed, the debate must move on urgently – from *whether* these groups should work together to *how*. From questioning the relevance of the private sector to poverty reduction, to having a shared understanding that the poor people we are seeking to support *are* the private sector. The Eagle Lager project has brought into sharp relief the flaws in these old ways of thinking. Importantly, it has also shown us some important ways forward.

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