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# DAIRY VALUE CHAIN

## Commodity Action Plan

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### Dynamics/driving forces

Global demand for dairy products is increasing worldwide as a result of increased consumer preference in China and Russia and developing countries. Rising consumer incomes will lead to increased access to and interest in Western style diets and nutrition. In these markets, self-sufficiency rates are low and increased internal production is unlikely to keep pace with demand. Regarding Serbia, CEFTA countries are also experiencing rising trend in dairy products consumption, and becoming good export destination. However, many countries are increasing requirements for Food Safety Standards, which is becoming problem to be addressed by export countries. Serbian dairy industry is transitioning towards world production and standards, relying primarily on EU regulations, as a natural step in accession process. Thereby, EU milk production quota for member countries is a serious challenge for Serbia, which has to increase % of legally produced milk (currently at 50%).

Internally, dominating position of Imlek Salford Group Dairies and major supermarket chains in totals trade effects dairy industry significantly and preventing small and medium sized dairies to compete successfully. On positive side, increasing consumers income and interest in value added products, opens new perspective for dairies which are interested to get in new markets.

- External
  - Increasing global demand
    - Russia, CEFTA/EU, Asia
  - Increased requirement for Quality and Food Safety Standards for export market (farm and plant certification, milk quality standards, food safety)
  - EU milk production quota
- Internal
  - Increased role of supermarkets in dairy product marketing
  - Consolidation of dairies-IMLEK Salford Dairy Group' as market leader
  - Increased consumers income and demand for dairy products

## Implications for Serbia

Although Serbia is granted to export dairy products to EU and transit to Russia in February 2008, the main markets remain to be ex-Yugoslav countries, accounting almost 100%. None of the Serbian dairies has export license to EU, as a result of strict procedures related to milk quality and food safety, implying that Serbian dairies will have to work hard to improve raw milk supply and processing technology. On the other side, just 50 % of 1,6 billion liters of milk is processed in dairies, which may become a problem in Serbian accession to EU and milk quota regulation. Nevertheless, by promoting exports of higher quality value specialty products to neighboring Balkan countries, and cheese to Russia, this should have a *catalytic* impact to demonstrate approaches that cause a far larger number of entrepreneurs to invest to produce better quality and higher yields of processed dairy foods. Increasing supermarkets share in overall trade along with consumer incomes will lead to increased access to and interest in Western style diets and nutrition, driving the changes in the dairy processing.

## Objectives

Referring to the Agribusiness project goals to increase (export) sales, create jobs and enhance ABDS provision, Dairy component focus is primarily on more accessible markets: CEFTA countries and Russia. At present some dozen dairy processing plants are applying for export licenses where the project can facilitate export promotion activities. However, although EU allowed Serbia to export dairy products to member countries, the food safety requirements are very high and it is unlikely to expect that significant number of dairies will be granted approval from EU inspection, until technological processes and standards are in place. Consequently, the project anticipates that EU export promotion activities will be limited in the first 2 years of the project. On the other side, domestic industry is being inefficient and lots of improvements are envisioned to create additional value for the dairies and farmers.

- Increase export sales
  - Sales to CEFTA – (\$5,000,000)
  - Sales to Russia – (\$5,000,000)
  - Sales to EU – (\$2,000,000)
- Increase sales of domestically produced dairy products
  - Import substitution (\$10,000,000)
  - Improved distribution networks
- Increased employment from beneficiary base line (dairy plants, ABDS providers, commercial farms)

## Strategy

- Focus on Medium Sized Dairies , initially
- Concentrate on 3 dairies (points of leverage), initially
  - Roll out experience to other dairies
- Use/build Local Service Provider capacity to deliver services
- Promote commercial approach in dairy farming

- Coordinate closely with donors with similar agendas (leveraging our comparative advantage)

## Activities

- Medium Sized Dairy Plants
- Service Provider Development
- Commercial Dairy Farming Promotion
- Project Marketing Activity

### Medium Sized Dairy Plants

Medium sized dairy plants are focus of intervention, being the fact that these dairies are looking for solutions to consolidate their business, diversify and obtain export licenses based on quality of raw milk and standardization of dairy plants. The criteria for selection of dairies as a project partners are: proactive manager, level of investments, competitive position. Initially, the project will work with 3 dairies and use them as a model for other. It is realistic to work with up to 20 dairies during the project lifetime, with respect to regional coverage. Each dairy has at least 500 contract farmers.

- Development/consolidation of business in 3 medium sized dairies
  - Production Economics (STTA, ABDS providers)
  - Milk Supply Logistics (STTA, ABDS providers)
  - Management training (Awareness Study tour, STTA)
  - Quality requirements for export markets (STTA, Study tours)
  - Market linkages (Marketing team)
  - Finance facilitation (Governments and EU funds/projects)
  - Identification of new processing technology
  - Build Dairy Processors Association

### Service Provider Development

ABDS Providers are important in strengthening the linkages between dairies and farmers in making dairy businesses more efficient. The project will work with selected dairies and interested municipalities to identify local experts or ABDS providers which will be included in Capacity building programs. Up to 20 ABDS providers will be trained by Taurus Agroconsulting company during the Agribusiness Project assistance.

- Enhance service supply through dairies
  - Training of Trainers/Technical Capacity (by Taurus and STTA)
  - Business skills (STTA and ABDS providers)
  - Database of service providers and networking

### Commercial Dairy Farming Promotion

The project anticipates working primarily with selected dairy farmers in cooperation with partnering dairies, which will serve as replicating models. However, the project is flexible to work directly with farmers groups interested in developing commercial dairy farming business. Being that

municipality like Zrenjanin and Kraljevo already expressed interest in cooperating on dairy projects, the Agribusiness project will consider working also with local/regional governments.

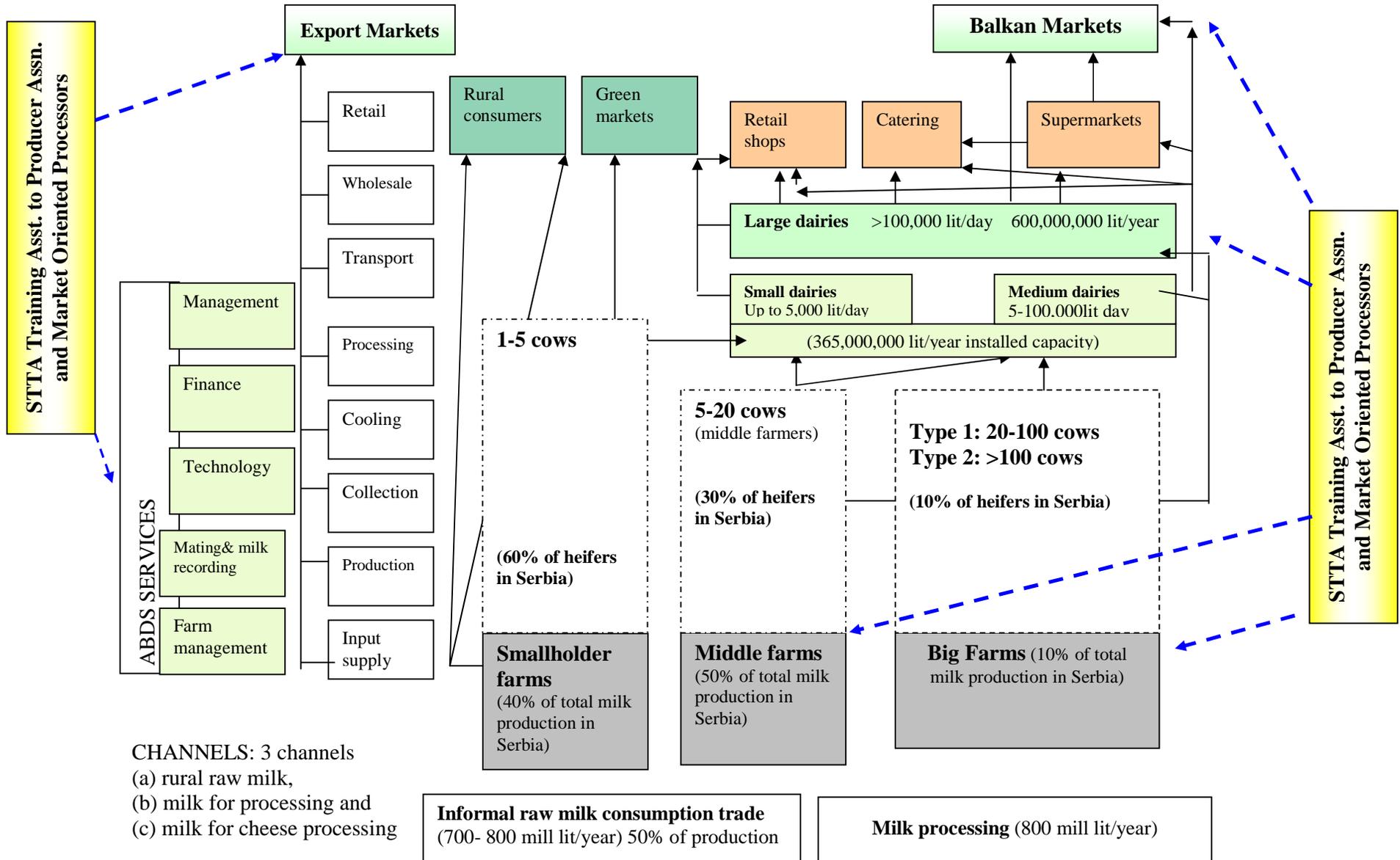
- Farm management trainings (implemented by Taurus Agroconsulting, in conjunction with 3 dairies/municipalities)
  - Train and monitor 60 farmers in cooperation with dairy plants and local ABDS providers
  - Train additional 180 farmers
- Business planning and finance facilitation ( Vojvodina Development Fund, banks, insurance companies)
  - Train 100 farmers
  - Develop 50 investment plans
- Awareness study tours in country and abroad (in cooperation with USDA, local/regional governments)
- Demo farms (in cooperation with dairies and local/regional governments)
- Global Gap on farms (work with other donors and local/regional institutions)

### Project Marketing Activity

The Agribusiness Project will use proactive dairies and farmers to replicate the success and involve potentially new beneficiary institutions. Thereby, project visibility is considered important. The project itself will work with selected media houses and specialized agricultural TV shows to have national coverage of the project activities (TV Farma, Agrolink...). Furthermore, official Agribusiness project web portal will be updated regularly for information dissemination.

- Develop media for project activity dissemination and marketing
- Work with other programs in developing dairy projects (MEGA, EU, local/regional institutions)

**Dairy Value Chain MAP – Training and Technical Assistance to “Channel 2” (See Intervention Box on Right Side with Arrows for STTA Targets)**



### COMMODITY PLAN CHART

<b>ACTIVITIES</b>	<b>STAKEHOLDERS</b>	<b>TIME TABLE</b>
<b>Medium Sized Dairy Plants</b>		
Production Economics	STTA, ABDS Providers	Year 1
Milk Supply Logistics	STTA, ABDS Providers	Year 1
Management training/study tours	STTA, ABDS Providers	Year 1
Quality requirements for export markets	STTA, ABDS Providers	Year 1,2
Market linkages	Marketing team	Year 1-5
Finance facilitation	Governments and EU funds/projects	Year 1-5
Identification of new processing technology	STTA, ABDS Providers	Year 1-5
Build Dairy Processors Association	STTA, ABDS Providers	Year 2
<b>Service Provider Development</b>		
Training of Trainers/Technical Capacity	STTA, ABDS Providers	Year 1,2
Business skills	STTA, ABDS Providers	Year 1,2
Database of service providers and networking		Year 1
<b>Commercial Dairy Farming Promotion</b>		
Farm management trainings	STTA, ABDS Providers	Year 1,2
Business planning and finance facilitation	Vojvodina Development Fund, banks, insurance companies	Year 1-5
Awareness study tours in country and abroad	USDA, local/regional governments	Year 1-2
Demo farms	Local/regional governments	Year 1-5
Global Gap on farms	Donors and local/regional institutions	Year 1-5
<b>Project Marketing Activity</b>		
Develop media for project activity dissemination and marketing	Media houses	Year 1-5
Work with other programs in developing dairy projects	MEGA, EU, local/regional institutions	Year 1-5