

**UGANDA DAIRY  
PROCESSORS  
ASSISTANCE PROJECT  
8th Interim Report**

**June 2004 – August 2004**

**PREPARED FOR  
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# UGANDA DAIRY PROCESSORS ASSISTANCE PROGRAM

## 8th Interim Report

### 1.0 INTRODUCTION

With this report, the Uganda Dairy Processors project has completed its second year and is on track to substantially meet its objectives by the end of the project term (end August 2005). Progress to date against specific objectives includes:

***“To increase demand of UHT (long-life) milk by 50% at the expense of raw milk and to decrease the price of UHT (long-life) milk from 30 cents US to 20 cents US per 250 ml., thereby improving accessibility of milk in order to positively affect the health of children and better utilize idle dairy capacity in Uganda.”***

The 7<sup>th</sup> progress report stated “[d]airy consumption in Uganda remains very low compared to neighbouring countries. So low in fact, that much of the additional production that is coming from the capital investments made by this project are to be exported to Kenya and Rwanda. MEDA believes that a significantly increased effort in demand creation for [UHT] milk should be considered by USAID.” Even with the cost sharing support provided by this project, it appears that UHT processors (i.e.: individually or at the Association level) lack sufficient means to achieve this unaided. A large and sustained marketing and promotional effort appears to be required to make significant inroads into UHT demand creation. Demand creation has also been complicated by two factors. Drought-induced milk shortages appear to have forced processors to scale back UHT production over the short term: it does not make commercial sense to invest in UHT promotion when supply shortages prevail. It is also appears that centralized processing and packaging of milk products (including UHT) may increase product cost to the point where it leaves little room for covering the costs of product redistribution and price discounting to rural markets (i.e.: schools milk supply to Kabale). If true, this makes it more difficult to create rural demand for UHT. This problem has been recognised and USAID is being approached to consider financing establishment of min-dairy processing capacities in key rural markets (i.e.: where local raw milk supply is strong, reliable and demand for affordably priced, processed milk products can be anticipated).

A severe shortage of rain throughout much of Uganda occurred from mid-May to early August. It reduced the national supply of raw milk coming on to the market by over 40% in July, the lowest monthly milk production level in the last 10 years. In addition to pushing up farm gate prices paid for raw milk by, on average, roughly 70% (July prices compared to April/May prices), production of UHT fell sharply as processors endeavoured to meet their commitments to supply fresh pasteurized milk products in the face of dwindling raw milk supply. Although this is a temporary condition (the rains arrived in August and broke the drought), it has clearly disrupted milk producers’ capacity to supply UHT products to the local market. The ripple effect of this shortage has been to further slow the rate at which producers proceed with their UHT product promotion activities and consequently the rate at which they apply to the project fund for cost sharing on advertising.

On the milk processing supply side:

The equipment upgrade, quality control and certification aspects of the project have been successfully implemented. In particular, the entry of Alpha Dairy into the UHT market is likely to

significantly increase competition (it was quickly, and first off the mark to launch its UHT milk program at schools – see below) and drive the price of UHT milk lower. The equipment upgrade (Elecster pouch making and the combi-bloc packaging machines) at Alpha Dairy, financed by the project and installed in May, were tested and commissioned during the reporting period. Alpha Dairy commenced production of UHT products on both lines in August. It is anticipated that Alpha Dairy will sell long life milk products for 20% less than Dairy Corp.

National government is courting several foreign investors to establish up to several milk powder processing factories, the first of these – by a Thai investor – expected to go ahead as early as the beginning of 2005. It is not clear what the medium term impact of such investment may be on the average price of raw milk paid by UHT milk processors. However, the potential for this to translate indirectly into upward price pressure over the medium term on the retail price of UHT cannot be ignored.

On the other hand, the DDA projects that the dairy industry will grow from the current 1.3 billion to 2 billion litres per annum by 2007. The increase will be due to the expected entrance of three milk processing investors who will be joining the existing 8 processors. The new investors are: the Dairiboard of Zimbabwe which visited the country on 23-25 August; Thailand investors currently negotiating with government on school milk program; and a South African company, Magallies Distillers, who were also in the country for an investment assessment tour during the month. It is reasonable to anticipate that the added competitive pressures arising from new entrants into the sector will spur and intensify the market development efforts of all players: the UHT segment benefit significantly from these developments.

It is expected that all of these investments will indeed increase the capacity and demand for long-life milk products and create a more competitive environment. This project's investment and new prospective investments in UHT production capacity should ultimately translate into lower prices for Ugandan consumers, school children included.

## **2.0 PROJECT GOALS AND ACCOMPLISHMENTS**

The main goal of the project is to increase production of long-life (UHT) milk products in Uganda from 25,000 litres per day (lpd) to 37,500 lpd and to increase consumer demand so that the dairy sector in Uganda becomes more efficient and prices of UHT long life milk fall from around 28 cents (USD) per 250 ml pack to about 20 cents (USD) per 250 ml pack.

The equipment capital cost-sharing aspects of this project have increased installed UHT production capacity by 40,000 lpd to a total of 120,000 lpd nationally. At project commencement, only two dairies in Uganda had installed capacity for long life milk production. The project has assisted a third producer, Alpha Dairy, to also acquire long life milk production capacity.<sup>1</sup> Utilization of this capacity is low (for reasons identified above). With UHT promotional activities now getting underway (Dairy Corp and Alpha Dairies), it is expected that UHT production levels will improve in the near term. Several dairies now plan to further upgrade their UHT productive capacity in anticipation of the impending schools milk programme.<sup>2</sup>

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<sup>1</sup> As noted in earlier reports, Alpha Dairy has now completed implementation of the HACCP quality program at their plant in Mbarara and gained HACCP certification. It is also registered with Land O' Lakes to also implement the ISO 9001 quality standard with financial assistance from that project.

<sup>2</sup> Expected to initially require a 200,000lpd supply of UHT.

The current retail price of UHT milk is about 28 cents (USD) per 250 ml brick pack, 2 cents higher than prices in the previous quarter due to drought-induced supply raw milk shortages (since ended). Prices ought to fall over the near and medium term as utilization of installed national UHT production capacity increases in response to rising demand. Whilst UHT export demand to neighbouring countries is strong, it is taking longer than expected for the marketing efforts of dairy firms to get underway and translate into expanding domestic consumer demand for UHT products. The strategy among UHT milk processors is to enhance product visual attractiveness and product awareness amongst children through aggressive marketing campaigns. Uganda Dairy Corporation in conjunction with DDA/Land O Lakes is designing a product awareness campaign together with Tetrapak to enhance demand of the 250ml packs among school children. Alpha Dairies is pursuing a similar strategy.

Following is a report on the stated goals of the project and of the progress towards these goals.

## **2.1 Goal: Mobilization of a Dairy Processors Association**

Membership of the Uganda Dairy Processors Association (UPDA) stands at 30.

### **2.1.1 Indicators of Goal**

#### **1. *Processors that have attended meetings are actively involved.***

Building on its successful membership recruitment workshops (Jina and Masaka in May), the UDPA:

- assisted by Land O Lakes, held a 'milk consumption' workshop on June 17<sup>th</sup> in Kampala. This workshop brought together key dairy sector players: dairy processors, traders and producers, industry facilitators and experts. Workshop activities included: product promotion, exploration of market opportunities, discussion of business development strategies for UHT and milk powder generally and the school milk program (now government sponsored);
- assisted by Land O Lakes, held a public 'milk consumption' awareness day on June 26<sup>th</sup> at Kabale in Western Uganda (this is also where Alpha Dairy is introducing its UHT milk for schools program and, as part of this, striking agreements to buy the raw milk needed for this from local farmers). This event, which targeted school going children, parents and other 'decision influencers', was marked by speeches by local community leaders;
- and, held a members only milk producers workshop on 20<sup>th</sup> July in Kampala. The USAID-funded SCOPE project was introduced during this event (SCOPE is contributing to the implementation of a sector analysis of the national milk production/dairy industry in support of the formulation of a sector development strategy;
- A workshop was organized at Rubaga, in Kampala on 16<sup>th</sup> August 2004 for the milk processors on capacity building. In that workshop a progress review on the strategic plan being carried out by SCOPE was presented. The plan will be used to solicit financial assistance for the dairy industry in the areas of: promotion, capacity building and equipment upgrade; and,
- A dairy farmers' and key stakeholders' workshop was organized by the Association at Regency Hotel, Mbarara on 28 August 2004. It was addressed by Makerere University Professor C. Rubaire who advised farmers to adopt modern farming methods to maximize profits as they guarantee the quality and safety of milk.

#### **2. *Regularly scheduled meetings.* Yes. Executive Committee meetings.**

#### **3. *Association has a manual.* In progress.**

## 2.2 Goal: Increase Quality Standards

The HACCP quality assurance activities of this project have been completed. Alpha Dairies is now HACCP certified. With the assistance of the Land O Lakes project, three other dairy processing companies are working towards additional certification. These include: Jessa Dairy - 1SO 9001, HACCP and CMP (all in process); Dairy Corp – ISO 9001 (acquired 21<sup>st</sup> June) and HACCP and UNBS (both in process); and White Nile – ISO 9001, HACCP and CMP (also all in process).

### 2.2.1 Indicators of Goal

1. *A guide defines approved dairy processing methods and criteria.* HACCP guidelines adopted.
2. *Processors that meet QS criteria receive “seal of approval”.* Method agreed to in principle, but mechanics of how this will work remain to be worked out.
3. *Processors receive (quality) technical assistance and training organized through the processors association.* Goal accomplished – see earlier reports for further details.
4. *Increased volume of UHT (long-life) milk is processed and more processors involved in production.* Drought during the reporting period substantially reduced the volume of UHT processed. As noted above, national processing capacity has been increased with the completion and commissioning in August of Alpha Dairies new processing line. As reported previously, the bottleneck is now low domestic demand for UHT products.
5. *Increased volumes of milk in smaller (250 ml) packages.*
  - a. *Alpha Dairies.* It commenced production of UHT in mid-August. It initially sent 6,000 litres to Rwanda for market testing. Following good response, the company sends 4,000 litres of UHT per week to Kigali. In addition, Alpha started production of about 5000l of UHT in 500ml sachets for the local market. The official launching of the factory is expected in Mid-September 2004 when production will have increased to 10,000 lpd. The production level will gradually be built up in tandem with expected growth in market demand to 20,000 lpd. The commissioning of the combi-bloc packaging machine in October 2004 will be followed by production of UHT milk in 500 ml brick packages earmarked for export to Kenya and Rwanda initially planned at 10,000 lpd. The 250 ml brick packages will be introduced in the local and export markets in November 2004.
  - b. *DCL* did not produce any UHT in August 2004. However it offloaded 230,000 litres of UHT from the old stocks. Of these, 30,000 litres were exported to Rwanda through Nyabisindu Dairies in 500ml packs. The balance of 200,000 was sold on the local market. Demand for 250ml is growing and threatens to overtake the 500ml. Sales in 250mls and 500mls are at 1:1 on the local market compared to previous 1:3 in favour of 500ml packs, some 6 months ago. It should be noted Rwanda and Burundi remains 100% committed to 500ml packs whilst Tanzania favours 250ml packs.
  - c. The table below summarizes the breakdown of existing UHT milk production by packaging sizes during the last three months.

Package Size (ml)	Production (lpm)	lpm		Percentage
	June	July	August	
<b>DC:</b>				
Brick 250 Local	65,000	35,000	100,000*	43%
Brick 500 Local	65,000	35,000	100,000*	43%
Brick 250 export	100,000	--	----	0%
Brick 500 Export	100,000	30,000	30,000	14%
<b>Sub-total</b>	<b>330,000</b>	<b>100,000</b>	<b>230,000</b>	<b>100%</b>
<b>GBK:</b>				
(Brick 250 (Champ)	---	---	---	--
Brick 500 (Champ)	---	---	---	--
Pouch 500 Classic)	90,000	---	---	--
<b>Sub-total</b>	<b>90,000</b>	<b>0</b>	<b>0</b>	<b>--</b>
<b>*Alpha:</b>				
Pouch 250 local	----	--	---	0%
Pouch 500 local	----	--	75,000	84%
Pouch 500 Export	----	--	14,000	16%
Sub-total		--	89,000	100%
<b>TOTAL</b>	<b>420,000</b>	<b>100,000</b>	<b>319,000</b>	

It will be observed that DCL's 250ml UHT packs sold increased from 35% to 43% of its UHT milk sales. Industry sources believe that its' demand will increase but is now curtailed by low milk supplies and lack of exports to Tanzania. The strategy among UHT milk processors is to enhance product attractiveness and awareness among the children through aggressive marketing campaigns. UDC in conjunction with DDA/Land O Lakes is designing a product awareness campaign together with Tetrapak to enhance demand of the 250ml packs among school children.

6. *Project funds help processors meet quality standards and improve UHT long-life processing and packaging in smaller containers.* This activity is complete.

## 2.3 Goal: Brand Name or "Quality Approved" Advertising

### 2.3.1 Indicators of Goal

- a) *Market research report is a basis for brand name or quality approved milk-advertising initiatives.* As reported earlier, no new market research is planned.
- b) *Financial Assistance given to increase producer participation in advertising.* Although neither Dairy Corp nor Alpha Dairy have yet submitted claims for expenses, during the period reported upon, the project has:
- Confirmed that Alpha Dairy plans to begin advertising in mid-September and intends to submit claims for 50% cost sharing of approved expenditure later this year; and,
  - Approved a request by Dairy Corp for 50% cost sharing support on its UHT advertising activities, now underway in partnership with Tetrapak. The project expects to make an initial grant payment to Dairy Corp in September.
- c) *Increased public exposure to brand name or quality approved milk advertising.* As noted above, Dairy Corp's promotional advertising for its UHT products in the New Vision newspaper and on Uganda TV is underway. Further detail will be conveyed in the next quarterly report.

## 2.4 Goal: Increase Supply of Milk for the School Nutrition Program

The project over-estimated the level of direct impact that could be achieved by the project in terms of attracting new milk drinkers among school age children. As mentioned in earlier reports, achieving real impact among school children is a big undertaking that will take significant additional resources. For example, efforts by Alpha Dairy to set up UHT milk supply to Kabale area schools ran into pricing difficulties attributable to the cost inefficiencies stemming from the long distances over which raw milk inputs and processed UHT finished products currently need to be transported in order to supply the Kabale market at a price that is affordable to consumers yet still profitable for the dairy. In short, low margins leave little room for price discounting to the degree needed.<sup>3</sup> In light of these insights, the new thinking is for individual investors (Alpha included) to establish mini-dairies in Kabale (and elsewhere) and to supply willing schools with milk at competitive but commercial prices. USAID has been approached with a request of providing grant funds for the mini-dairies on a cost-sharing basis.

As reported previously, several parties in Uganda, including the dairy Development Authority and Land O' Lakes are also preparing strategies for school nutrition programs. In addition, Land O' Lakes is pursuing a focused promotion aimed at schools in Uganda. The Land O' Lakes program invites individual processing companies to follow the Land O' Lakes generic school campaigns with brand specific initiatives to promote consumption of their own brands.

Broader school milk programmes are being planned by government which promises to 'get the ball rolling', at least in terms of sowing the seeds for sustainable school-based demand for UHT in the medium term. Schools in two areas of the country would be targeted: free UHT milk supply program (three 250 mls packs per week per student) in the war ravaged, northern areas financed by donor funds; and, urban schools (close to dairy processors) would receive UHT at prices subsidized by government. Although the subsidy amount is yet to be set, it is understood that government has earmarked US\$10 million for the program in the year 2004/2005 budget. Roll out of these initiatives to other rural areas of the country would depend on availability of funds. Clearly, if donor and government funding comes into play, it will give strong impetus to UHT demand creation and give individual dairies the incentive needed to make short term investments in decentralized mini-processing facilities serving local markets to trim product costs (needed to make UHT products more affordable and to ensure long term viability of markets once subsidies come to an end).

### 2.4.1 Indicators of Goal

- a) *Contact schools about putting milk into nutrition programs.* Being pursued directly by individual dairies both independently and in conjunction with the Land O' Lakes school initiative.
- b) *Milk as part of school nutrition program improves the health of children.* Pricing of UHT products, partially determined by spatial distribution of milk supply, processing and re-distribution in relation to the location of final demand, is a critical determinant of whether UHT milk at schools will prove affordable. Questions and issues pertaining to this include:
  - a. Is it really necessary for dairies to discount UHT prices to schools (affordability concerns)?
  - b. If UHT is sold at schools at full retail prices, what proportion of school children

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<sup>3</sup> Subsidies on the price of UHT supplied to schools are not available.

- will benefit?
- c. Are UHT milk subsidies needed? Should a distinction be made between urban schools and rural schools? Schools situated nearby UHT processing facilities versus schools distantly situated?
  - d. Can dairies sell at full price on retail markets all the UHT they can produce? If so, dairies will have little incentive to discount UHT prices to schools.
  - e. Would decentralization of UHT processing capacity have a significant impact on UHT prices?
- c) *Signed Contracts ensure that schools will have a milk source.* In progress, but may depend on pricing/cost issues noted above.

### **3.0 FINANCIAL**

Two main project activities are complete and the financial report shows that the budget lines for equipment upgrades and for quality assurance training have been completely expended. The awareness and advertising budget, the main programming area still under budget, will be fully utilized by the end of the project.

The quarterly financial expenditure report for the June to August 2004 period will be submitted to USAID shortly.

### **4.0 MANAGEMENT ISSUES, CONCERNS**

MEDA's new project manager, Mr Nigel Motts, has been approved by USAID.

### **5.0 CONCLUSION**

Government considers the dairy industry to be of growing importance and is soliciting new foreign direct investment into the sector. That foreign investors are showing interest and entering the sector should be seen as a firm indication of the private sector's confidence in the medium and long term commercial prospects in the sector. Increasing competition should lead to an intensification of investment by firms in market development for milk products including UHT. Despite many constraints to developing UHT product markets and supply capabilities, the project is playing a constructive role to strengthen the competitive capacities of existing UHT processors, to bring new ones into UHT production, establish a representative institutional point of contact (the Association) and draw government and sector role players' attention to sector development priorities. The project's accomplishments should be viewed as a significant but insufficient investment. Action on a broader number of fronts (than this project is mandated to address) is needed to accelerate sector growth, particularly in the area of UHT product markets development, subsidized school milk programs being an important instrument in this regard.