

**UGANDA DAIRY
PROCESSORS
ASSISTANCE PROJECT
9th Interim Report**

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1.0 INTRODUCTION

With this report, the Uganda Dairy Processors project remains on track to substantially meet its objectives by the end of the project term (end August 2005). The overall goal of the project is:

“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. [a price reduction target of 33%], thereby improving accessibility of milk in order to positively affect the health of children and better utilize idle dairy capacity in Uganda.”

Progress reports 7 and 8 asserted that dairy consumption in Uganda remains very low relative to domestic production capacity when compared against neighbouring countries. Low domestic demand continues to push domestic producers in Uganda to seek export markets for their products. A substantial share of the additional production capacity brought on stream with the support of this project is expected to end up being used to supply regional markets for UHT. For example, in November Alpha Dairies entered into formal agreements with 2 agent companies in Rwanda and Burundi through which it will be exporting its UHT milk. Exports will start in the first quarter of 2005 after getting final import approvals from local authorities.

Processors supported by this project launched UHT product promotion campaigns – still underway – during the period covered by this report. Dairy Corporation Limited (DCL) and Alpha Dairies Ltd (Alpha) are both running road shows and purchasing radio and print media advertising for their UHT products, in DCL's case in a joint promotion with Tetrapak. This must be regarded as a modest beginning. A large and sustained marketing and promotional effort is needed to make significant inroads into UHT demand creation. 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. The Government of Uganda is beginning to respond. Its' school milk program, now expected to be launched in February 2005, is an encouraging albeit modest step in this direction. For its' part, the new Uganda Dairy Processors Association (UPDA) has recognized this as an industry priority. In September, it met to plan how best to utilize modest funding from Irish Aid for UHT product promotion support and in November met to map out a UHT marketing plan to support introduction of UHT to schools in war ravaged Northern Uganda. These efforts are a good beginning but far more support is needed from government and donors to assist the UPDA and its' member to develop, finance and implement a more comprehensive approach to consumer demand creation for UHT products.

Complicating matters, UHT processors are caught in a price squeeze. Low domestic consumer demand for UHT pressures processors to absorb cost increases in an effort to keep retail product prices attractive. At the same time, the effect (raw milk supply scarcity) of the unseasonal drought (June – August) and poor feeding conditions for milk cows combined with the onset of the usual dry season (forthcoming raw milk supply shortages being anticipated) are translating into upward price pressure on the cost of raw milk. Despite this, UHT processors have largely resisted increasing retail pricing of UHT products, a position which attest to the growing importance producers now attach to growing retail demand for UHT.

Alpha's recent experience is a good illustration of this. Its' UHT consumer promotion campaign has quickly translated into UHT sales. Beginning from zero sales of UHT several months ago (July), Alpha sold UHT in November equivalent to over 12,000 litres per day. It expects that this figure will rise to between 20,000 and 25,000 litres per day by the end of its' current road show promotional campaign (February 2005). This does not begin to include additional future sales attributable to the forthcoming school milk program.

Overall, UHT processors are beginning to ramp up UHT production levels in concert with their UHT consumer demand creation activities now running. The school milk program activities scheduled to begin in February or March 2005 will provide additional impetus to demand creation and will drive up UHT production levels further. The emerging efforts of the industry association towards an industry-wide approach to UHT demand creation further bodes well for the future of the UHT market in the country.

2.0 PROJECT GOALS AND ACCOMPLISHMENTS

The main objectives of the project are 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.

Despite significant increases in UHT processing capacity, daily UHT production levels have persisted at lower than target levels. Over the September to November period, the average daily production collectively achieved by the three main dairies was approximately 18,333 litres per day, up from the 13,000 litres per day average recorded during the drought in the June to August period but still well short of the 37,500 litres per day average target of this project. Note that total UHT production would have been significantly higher were it not for DCL which took its' UHT processing equipment off line for servicing for three weeks in November. Installed UHT production capacity is not a constraint. The project assisted Alpha Dairy to acquire long life milk production capacity that has increased its' UHT production capacity by 50% to 1,200,000 litres per month (total industry capacity of 3,600,000 litres monthly).

For reasons noted above, utilization of this capacity remains low. Average UHT capacity utilization for Alpha and DCL hovered around the 20% mark during the September to November period (see table below). With UHT promotional activities underway (DCL, Alpha and the school milk program), new export agreements secured (Alpha) and the forthcoming school milk program, UHT production capacity utilization levels should gain ground in the near term.

With respect to UHT processing equipment upgrades at Alpha supported under this project, Alpha's Elecster pouch making equipment operated at 8,500 litres per day in November. This reflects a capacity utilization of 20% in November compared to 15% utilization in October. This is expected to increase in the coming months as a result of on-going promotional activities and imminent school milk program. Alpha expects to bring its' Combi-bloc packaging machine on stream in February 2005 by which time the capacity of it's elecster pouch-making machine is expected to be fully utilized.

The retail price of UHT has remained essentially stable despite rising input cost pressures faced by UHT producers (explained above), averaging US\$0.27 over the last 12 months.

Period; supplier	Retail price per 250ml brick UHT, US\$
November 04; DCL	0.29
October 04; DCL	0.26
September 04; DCL	0.28
June – August 04; DCL	0.28
March – May 04; DCL	0.26
Dec 03 – Feb 04; DCL	0.26

The November retail price of DCL's UHT remained at US \$ 0.29 per 250ml brick pack. Alpha's current selling price of UHT is shs 1200 equivalent of US \$0.69 per litre pouch. These prices should come down towards the project's goal of US\$0.20 per 250ml as more production gets realized as a result of product promotion activities now beginning to unfold.

It is worth noting that UHT pricing has not increased in line with broader price inflation experienced in Uganda during the project period. The retail price of a DCL 250ml UHT brick was US\$0.30 at project commencement (01 September 2002). The table below presents the impact of inflation (had UHT prices been increased in line with inflation)

Period	Impact on 250ml UHT brick retail pricing, US\$
Project start, 01 September 2002	0.30
01 Sept 02 – 30 Aug 03; 10.5%	0.332
01 Sept 03 – 30 Aug 04; 4.7%	0.347
01 Sept 04 – 30 Oct 04; 1.03%	0.35

Comparing the inflation adjusted price of US\$0.35 with the average real price of US\$0.27 over the last 12 months, it can be seen that the project's interventions have enabled UHT producers to avoid or absorb inflationary effects on UHT production cost and to keep increases in retail pricing of UHT to levels substantially lower than general inflation rates. The effective price gain reflected in these figures (the difference between expected inflation-adjusted price and actual average price) is roughly 23%. This compares favourably with the pricing goal of the project – a decrease in average 250ml UHT prices of 33%.

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) remains unchanged at 30.

2.1.1 Indicators of Goal

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

The UDPA organized a number of meetings in the last three months:

- A UDPA/DDA workshop was organized on 10th September for association members on how to utilize a 120 million Uganda Shilling grant from the Dutch Government. Qualifying processors will be given a maximum of 20 million shillings (US\$ 11,400). Identified processors so far include: Dairy Corporation, Gauda Gold and White Nile Dairies;

- also in September, the UDPA's discussions with SCOPE continued on how to utilize the final strategy paper to mobilize funds for the association. The Irish Embassy has pledged an offer of US \$15,000 to assist financing the association's activities that are focused on product awareness campaigns;
 - in October, the Chair and Vice-Chair of the UDPA attended a two-day regional (COMESA) conference, organized by Regional Agricultural Trade Support Program, was held at Windsor Hotel, Nairobi Kenya. It looked closely at private sector issues in the dairy industry that affects inter-regional trade. Problems facing the dairy sector were discussed. These included: Low consumption rates, high infiltration of dairy imports thus suffocating the little available market leading to lower capacity utilization (average 40%). Close cooperation was agreed upon to be effected among regional players including introducing a regional "Seal of Quality" Standard;
 - a one-day dairy processors' seminar in Mbarara on 15th November 2005. It was attended by over 20 dairy processors. The main theme of the seminar was attaining and sustaining quality in milk production for export markets. Resource persons included: Dr. Eva Elemu – Kasirye, Quality Assurance Consultant; and Dr. Chris Burns an international marketing expert; and,
 - UDPA organized a meeting for its' members at DDA's boardroom on 22nd November 2004. The major topic was to map out a milk marketing strategy for the Northern Uganda in the wake of the incoming peace and stability in the region. This market presents good opportunities especially for UHT processors. Alpha confirmed they were targeting this area with newly designed packs of UHT milk.
2. *Regularly scheduled meetings.* Executive Committee meetings continue to be held.
 3. *Association has a manual.* Under development.

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 continue to work towards additional certification: Jessa Dairy - HACCP and CMP; Dairy Corp – HACCP and UNBS); and White Nile – ISO 9001, HACCP and CMP.

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".* The November 15th meeting convened by UDPA continued to consider how to address this need from the point of view of a regional approach to quality assurance.
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.* With consumer demand creation activities underway and the forthcoming launch of the national school milk program, UHT production volumes are expected to continue to grow over the near term. Three processors are involved in UHT production, up from two at project commencement.

5. *Increased volumes of milk in smaller (250 ml) packages.* Until mid-2004, DCL was the main supplier of UHT in 250ml bricks. Alpha began supplying a 500ml pouch UHT product to the local market in August. It expects to introduce its' own 250ml UHT brick product to the local market in February 2005 (using the school milk program as the launch vehicle). Accordingly, the combined volume of 250ml UHT brick product supplied to the market by these two companies should begin to rise beginning in February 2005.

UHT processing capacity utilization was as follows in the last three months:

Company	Installed Capacity (Litres per month)	Production during the month			Capacity Utilization		
		Sept.	Oct	Nov	Sept.	Oct.	Nov
Alpha	1,200,000	200,000	150,000	255,000	17%	13%	21%
DCL	1,200,000	250,000	210,000	60,000	20%	18%	5%
GBK	1,200,000	--	---	30,000	0%	0%	2.5%
Total	3,600,000	450,000	360,000	345,000	13%	10%	10%

The table below summarizes the breakdown of existing UHT milk production by packaging sizes during the last three months:

Package Size (ml)	Production (litres per month)			Percentage
	September	October	November	
DCL:				
Brick 250 Local	110,000	100,000	30,000	50%
Brick 500 Local	100,000	100,000	30,000	50%
Brick 250 export	----	----	----	0%
Brick 500 Export	40,000	10,000	----	0%
Sub-total	250,000	210,000	60,000 ¹	100%
GBK:				
(Brick 250 Champ)	---	----	----	--
Brick 500 Champ)	---	----	----	--
Pouch 500 Classic)	---	----	30,000	100%
Sub-total	0	0	30,000	100%
*Alpha:				
Pouch 250 local	----	----	----	0%
Pouch 500 local	175,000	144,000	255,000	100%
Pouch 500 Export	25,000	6,000	----	0%
Sub-total	200,000	150,000	255,000	100%
TOTAL	450,000	360,000	345,000	
Average these three months			385,000	
Average previous three months			280,000	

1 DCL November figures reflect production of last week of the month, which started on 24/11/04. UHT equipment was being serviced earlier in the month.

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.* DCL and Alpha both carried out UHT product promotion campaigns aimed at consumers during this reporting period:
 - a. MEDA reimbursed DCL US\$3,471 in October representing 50% of eligible promotional costs dating from April 2004 under its' joint UHT promotion campaign with Tetrapak. Further reimbursement is expected as DCL's UHT consumer promotion campaign continues.
 - b. Alpha launched its' UHT promotion campaign in mid-August 2004. Activities include road shows, TV and radio adverts and distribution of mementos such as calendars, placards, caps and T-shirts. MEDA reimbursed Alpha in November for US \$11,371 representing 50% of eligible promotional expenses up to October. The major event of the project during November was Alpha's continuing road shows. These are well organized and have continued to attract a lot of consumer enthusiasm especially in up-country urban centres. A second reimbursement request is imminent.
- c) *Increased public exposure to brand name or quality approved milk advertising.* As noted above, consumer promotion campaigns being implemented by DCL and Alpha include media placements (radio and news print media) increasing public exposure to branded UHT products.

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

As stated in the previous report, 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. The project's resources (e.g.: lack of capacity to provide subsidies) were not commensurate with the complexities and scale of the challenge of reaching this potential market effectively. In addition, the cost inefficiencies of the UHT supply chain were not appreciated and this has proven a significant obstacle in relation to bringing UHT to school children at an affordable price. That said, UHT processors assisted by this project are poised to participate in the new schools-focused UHT milk programs being developed by others. The government-sponsored school milk program due to be launched in February 2005 will provide the UHT industry with a good (subsidized) opportunity to develop brand awareness and demand amongst school children. Details of this were related in the previous report. Also reported previously, a 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.

It is clear that UHT processors supported by this project – DCL and Alpha – are gearing themselves up both technically and financially to participate fully in school milk programs. DCL, in particular, has been upgrading and refurbishing its equipment (November) for this purpose. For its' part, Alpha continues its product awareness campaigns throughout the country with surplus UHT production capacity waiting to be utilized.

2.4.1 Indicators of Goal

- a) *Contact schools about putting milk into nutrition programs.* Being pursued directly by individual dairies in conjunction with other initiatives.
- b) *Milk as part of school nutrition program improves the health of children.* Expect dairies participating in this project to begin supplying UHT to schools in February 2005.

- c) *Signed Contracts ensure that schools will have a milk source.* This project is not directly involved in negotiating dairies' participation in school milk programs.

3.0 FINANCIAL

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 September to November 2004 period will be submitted to USAID shortly.

4.0 MANAGEMENT ISSUES, CONCERNS

Mr. Jerry Quigley and Mr. Gerald Morrison of MEDA visited the project between the 11th to 16th October 2004. The delegation visited Alpha Dairies on 13th October; and DCL on 15 October. It also met USAID (Mr. Paul Crawford and Sudi Bumulesewa); on 12 October; DDA's Ms Agnes Baguma and UDPA steering Committee on 12th October. The meetings reviewed progress and impact of the UHT processors assistance project. The consensus of the meetings was that although the project had successfully met most of its objectives, more work needed to be done in raising product awareness and assisting promotional activities. The expectation of these key stakeholders is that consumption of UHT milk in Uganda will surpass the target level of 37,500 litres per day by October 2005, the last month of the project.

5.0 CONCLUSION

Investments made by this project to develop the UHT industry are beginning to pay off. Through the assistance of this project, individual dairies now recognize the need to diversify their product offerings to include UHT milk products and are actively rising to the challenge of developing consumer demand for UHT milk. The Association has quickly established a productive role in representing the interests of the dairy industry and in organizing dialogues and exchanges of perspective aimed at promoting the industry's development and in winning the support of government and donors in this regard. UHT producers are poised to satisfy the emerging consumer demand for UHT. That said, at the present rate of development, it will take a long time for UHT sales to account for a significant share of total processed milk sales in the country. A comprehensive, sustained and government – backed investment in consumer demand creation for UHT milk is needed to achieve large scale UHT demand countrywide in the near term. School milk subsidy schemes could form the backbone of such a campaign targeting the general population.