

**UGANDA DAIRY  
PROCESSORS  
ASSISTANCE PROJECT  
10th Interim Report**

**December 2004 – February 2005**

**Prepared for  
USAID 2001 DAIRY  
ENTERPRISE INITIATIVE**

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**UGANDA DAIRY PROCESSORS ASSISTANCE PROGRAM**  
**10th Interim Report**

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# UGANDA DAIRY PROCESSORS ASSISTANCE PROGRAM

## 10th Interim Report

### 1.0 INTRODUCTION

With this report, the Uganda Dairy Processors project remains on track to substantially meet its goals 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.”***

Over the last ten months of the project, UHT demand has increased by approximately 200% and, since project inception, an effective, inflation-adjusted reduction of 20% - 22% in the price of 250ml UHT brick packs has been achieved. Capacity utilization (of the increased UHT production capacity) remain at low levels. Key factors explaining this are presented in this report. MEDA has extended the matching grant facility in a modified competitive format to eligible processors to further support their individual brand-focused UHT product promotion efforts until project completion at the end of project (EOP) in August 2005. MEDA expects that the US\$ 32,000 balance it held on hand in this fund at the beginning of 2005 will be fully utilized by EOP. The Uganda Dairy Processors Association continued to be very active in promoting UHT industry interests and in administering very small grant funds provided by other donors for UHT demand creation activities during the period covered by this report. Except continuing administration of the matching grant facility and monitoring UDPA and individual dairy activities, project activities have been completed.

### 2.0 PROJECT GOALS AND ACCOMPLISHMENTS

The main goals of the project are

- a) to increase production of long-life (UHT) milk products in Uganda from 25,000 litres per day (lpd) to 37,500 lpd (e.g.: by 50%); and,
- b) to increase consumer demand (for UHT products)

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.

Over the ten months of the project ending 28<sup>th</sup> February 2005, aggregate production of UHT<sup>1</sup> has averaged 447,000 litres per month (lpm) [14,900 litres per day]. Monthly production has ranged from a low of 322,000 lpm in May 2004 to a high of 1,185,000 lpm [39,500 litres per day] in December 2004.

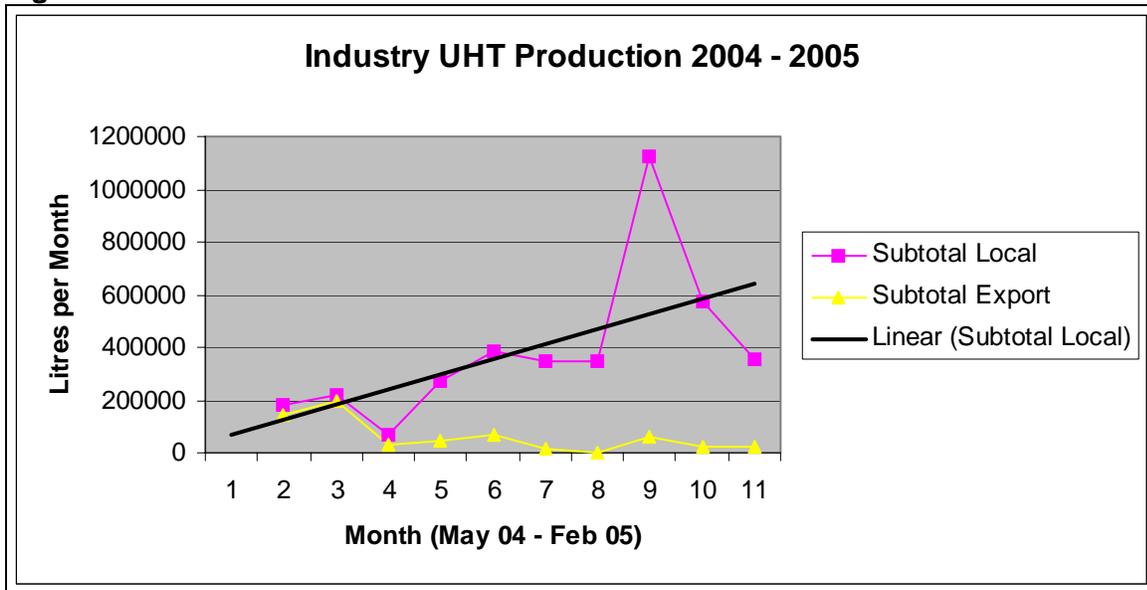
Figure 1 below shows consolidated monthly UHT production and trend lines for all three dairy processors combined dating from May 2004 when UHT production by Alpha and GBK commenced. Figure 2 shows monthly UHT production from the same date for each of the three

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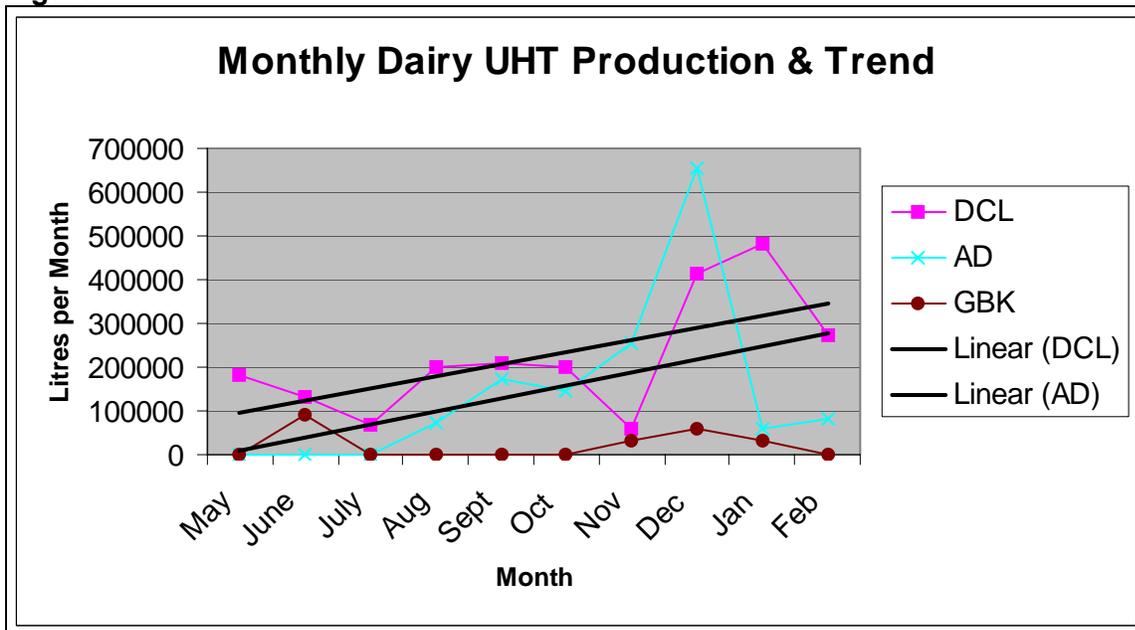
<sup>1</sup> DCL, Alpha and GBK.

dairies participating in this project. As can be seen the trend lines indicate a steady increase in production.

**Figure 1**

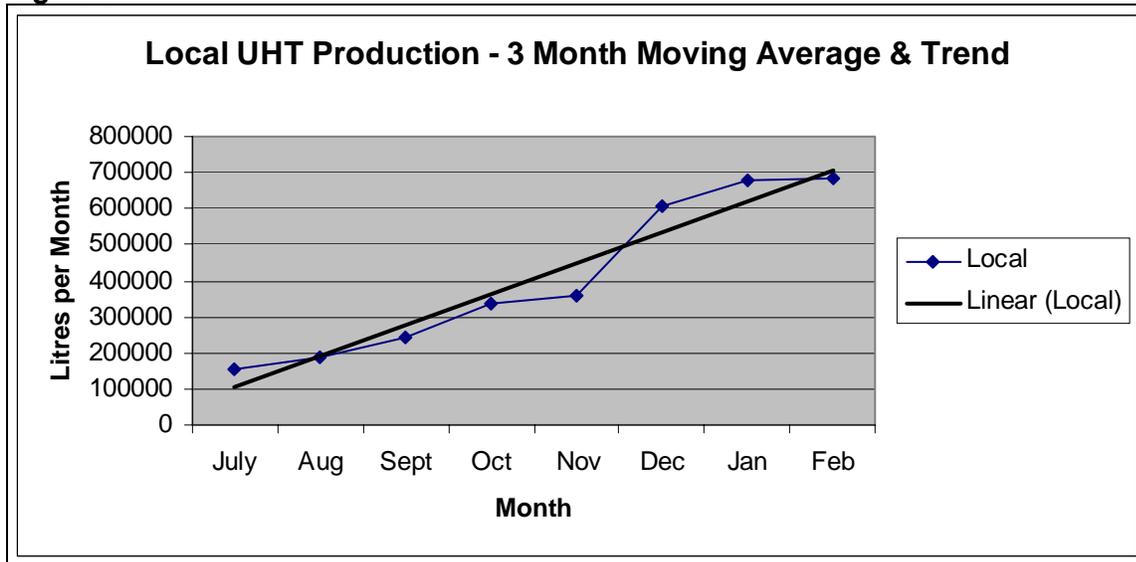


**Figure 2**



Applying a three month moving average (TMA) to data for monthly aggregate UHT production shipped into the domestic market also reveals (Figure 3) that aggregate UHT production is increasing steadily: the TMAs for May to July 2004 and December 2004 to February 2005 are 156,667 and 683,167 respectively. Although, the latter figure does include significant production to inventory (in December) by Alpha Dairy, discounting the data for this still results in a robust TMA of over 480,000 for the most recent three month period. These data are portrayed in Figure 3 below.

Figure 3



Notwithstanding the influence of inventorized UHT production by Alpha Dairy, UHT production is a proxy for UHT demand. It is reasonable to assert that demand for UHT has increased more than 200% in the last ten months, comparing favourably with the goal of 50% over the life of the project.

Processors participating in this project continue to run UHT product promotion campaigns supported by this project aimed at stimulating demand for UHT. 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. Alpha Dairies in particular ramped up its' production of UHT late in December 2004 in anticipation of higher UHT order volumes. It overestimated short run demand and, as a result, sent much of its' increased UHT production to inventory which it has since been running down to fill orders.

UHT pricing has remained unchanged from the November 2004 level of US \$ 0.29 per 250ml brick pack. As explained in the 9<sup>th</sup> Interim Report, this current price point represents a substantial gain (effective price reduction after accounting for inflation) over the US \$ 0.30 per 250ml price at project commencement (November 2002). Adjusted for inflation during the life of this project, this start price of US \$ 0.30 would now be approximately US \$ 0.36. In essence, an inflation-adjusted price reduction of roughly 20% - 22% has been achieved to date compared to a project objective of 33%.

Over the last six months, Alpha's utilization of installed UHT production capacity has averaged just 20%. DCL has fared a little better: 24.6%. This is explained by two factors. Substantial increases in UHT production capacity have been put into place (supported by this project) in anticipation of future UHT demand growth, the effect of this being to reduce capacity utilization for given demand. And, the challenges associated with launching and establishing a new category of milk product (UHT) are considerable. The 9<sup>th</sup> Interim Report discussed these difficulties and a corresponding need for a "large and sustained marketing and promotional effort is needed to make significant inroads into UHT demand creation" at an industry level and supported, ideally, by government. Government leadership has not materialized. Processors

were - in December 2004 - anticipating an opportunity to bid in January/February 2005 on a WFP tender to supply UHT to schools in war ravaged northern areas of the country. This tendering process has been delayed by WFP as a result of government's attempts to have the tender sole sourced to its' preferred processor. This has, at least temporarily least, delayed an anticipated boost to UHT production and, therefore, capacity utilization.

With respect to UHT processing equipment upgrades at Alpha supported under this project, Alpha's Elecster pouch making equipment operated a capacity utilization of 16% in February 2005. Alpha expects capacity utilization to steadily increase in response to on-going promotional activities, a sub-contract UHT production agreement reached with Farm Fresh Dairies (formerly White Nile Dairies) and hoped for participation in the WFP tender to supply UHT to schools in Northern Uganda. Technical problems requiring importation of new fittings have delayed commissioning of Alpha's Combi-bloc packaging machine until mid-2005.

The 9<sup>th</sup> Interim Report also explained that UHT processors find it difficult to apply sufficient working capital to demand creation given low demand (pressures processors to keep introductory prices low), price inflation on factor inputs and high cost of debt finance for working capital.

Despite rising input costs pressures faced by UHT producers, the retail price of UHT continues to remain stable (see Table 1), averaging US\$0.27 over the last 15 months of the project. The February 2005 retail price of DCL's UHT remained from November's price of US \$ 0.29 per 250ml brick pack. Alpha's current selling price of UHT is Ush 1200, equivalent to US \$0.69 per litre pouch (or, US \$0.17 per 250mls).

**Table 1**

<b>Period; supplier</b>	<b>Retail price per 250ml brick UHT, US\$</b>
Nov 04 – Feb 05; DCL	0.29
Oct 04; DCL	0.26
June – Sept 04; DCL	0.28
March – May 04; DCL	0.26
Dec 03 – Feb 04; DCL	0.26

Processors are aware of the need to ensure that retail pricing of UHT products is affordable and attractive enough to induce consumers to adopt the product and processors have, in practice, shown restraint in product pricing policy.

It seems unlikely that retail prices (not adjusted for inflation) will decrease significantly from current levels towards the original project goal of US \$ 0.20 per 250ml brick pack. Determining factors are (a) marketing strategies employed by individual processors (margin maintenance versus market share gain/preservation) and (b) business financial objectives. Rising volumes of UHT production and shipment to market can be expected lead to improved production and marketing efficiencies. This would give processors 'margin room' to consider reductions in wholesale price points (that would ordinarily be passed on to consumers in the form of lower retail prices). Even if processors use aggressive product pricing as a promotional tool, price reductions are likely be temporary localized short-term incentives rather than across the board permanent reductions. Other business objectives, continuing inflationary pressures and limited competition (under conditions of quickly growing consumer demand) mitigate against sustained price reductions in the near term.

That said, 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). Table 2 below presents the impact of inflation (had UHT prices been increased in line with inflation)

**Table 2**

<b>Period</b>	<b>Impact on 250ml UHT brick retail pricing, US\$</b>
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 – 28 Feb 05; 2.9%	0.357

Comparing the inflation adjusted price of US\$0.36 with the average real price of US\$0.27 over the last 15 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%.

The balance of this report relates progress towards achievement of other project 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:

- On 27<sup>th</sup> January, a meeting held of Eastern and Southern Dairy Processors.
- On 9<sup>th</sup> February, a meeting considered SCOPE's draft business plan. The UDPA formed a sub-committee to consider and comment on SCOPE's recommendations.
- On 25<sup>th</sup> February, a meeting reviewed a short-term member training proposal by RATES/USAID.

2. *Regularly scheduled meetings.* Executive Committee meetings continue to be held.

The executive committee holds monthly meetings. Since its formation in May 2004, it has met nine times up to the end of January 2005.

Current members of executive committee include Mr. John Anglin (Chairman), Mr. Tom Opio (Deputy Chairman), Mr. Fred Tumwesigye (Treasurer), Mr. Amos Ruhongore (Secretary), and general members Messrs. Taj Kassum and George Mulwana and Ms. Mama Watoto.

3. *Association has a manual.*

The UDPA has adopted a number of regulations, rules, and policies (both explicit and

tacitly) to guide its' operations but these have yet to be pulled together into a formal operating manual.

4. *Active industry leadership role.* New indicator of goal achievement. As it has won legitimacy as a voice of dairy processors, the UDPA has begun playing an increasingly proactive and prominent industry leadership role. Recent evidence of this includes:
  - With funding obtained from Agence France Development (AFD), the UDPA launched a two month general processed milk promotion campaign in December consisting of radio, newspaper and TV placements. The campaign focuses in educating consumers about milk safety and health hazard issues (raw milk versus processed milk).
  - The UDPA presented a formal letter of protest to government in December concerning a recently proposed 20% 'cess' (levy) on milk processors to finance DDA activities.<sup>2</sup>
  - Meeting on the 24<sup>th</sup> January with the DDA concerning the proposed levy. A satisfactory compromise arrangement was reached. A modified levy proposal now awaits adoption as a statutory measure by Parliament.
  - Alluded to above, the UDPA, with the assistance of SCOPE, a USAID funded agency, is formulating a strategic plan for the dairy sector. A draft plan is being reviewed and will be finalized shortly.

## **2.2 Goal: Increase Quality Standards**

The HACCP quality assurance activities of this project have been completed. Alpha Dairies is HACCP certified. Assisted by the Land O Lakes project, other dairies continue to pursue 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”.* No new progress to report since the November 15<sup>th</sup> meeting convened by UDPA on this matter.
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.* As reported above, UHT production volumes are steadily rising. Three processors are involved in UHT production, up from two at project commencement.
5. *Increased volumes of milk in smaller (250 ml) packages.* DCL remains the sole supplier of UHT in 250ml bricks to the domestic market. Alpha's expected introduction of its' own 250ml brick pack has been delayed by WFP putting its' schools milk program tender on

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<sup>2</sup> A cost that processors have little choice but to pass on to consumers, which undermines what DDA is trying to achieve – to persuade consumers to buy processed milk and to stop consuming raw milk.

hold (for reasons explained above). Alpha began supplying a 500ml pouch UHT product to the local market in August 2004 and GBK resumed production of 500ml pouches in November 2004 after a four month absence from the market.

Table 3 presents UHT processing capacity utilization for last three months.

**Table 3**

Company	Installed Capacity (litres per month)	Production during the month			Capacity Utilization		
		Dec	Jan	Feb	Dec	Jan	Feb
Alpha	1,200,000	675,000	60,000	80,000	56%	5%	8%
DCL	1,200,000	450,000	500,000	300,000	38%	42%	25%
GBK	1,200,000	60,000	30,000	60,000	5%	3%	5%
<b>Total</b>	<b>3,600,000</b>	<b>1,185,000</b>	<b>590,000</b>	<b>440,000</b>	<b>33%</b>	<b>17%</b>	<b>12%</b>

Table 4 breaks down UHT milk production by package size over the last three months.

**Table 4**

Package Size (ml)	lpm			Percentage
	December	January	February	
<b>DC:</b>				
Brick 250 Local	165,000	250,000	137,000	46%
Brick 500 Local	247,000	230,000	138,000	46%
Brick 250 export	-----	-----	-----	--
Brick 500 Export	38,000	20,000	25,000	8%
<b>Sub-total</b>	<b>450,000</b>	<b>500,000</b>	<b>300,000</b>	100%
<b>GBK:</b>				
(Brick 250 (Champ)	----	----	-----	--
Brick 500 (Champ)	----	----	60,000	100%
Pouch 500 Classic)	60,000	30,000	-----	---
<b>Sub-total</b>	60,000	30,000	60,000	100%
<b>Alpha:</b>				
Pouch 250 local	-----	----	-----	0%
Pouch 500 local	652,500	60,000	80,000	100%
Pouch 500 Export	22,500	----	-----	--
Sub-total	675,000	60,000	80,000	100%
<b>TOTAL</b>	<b>1,185,000</b>	<b>590,000</b>	<b>440,000</b>	

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\$2,393 in February representing 50% of eligible

promotional costs dating from September 2004 under its' joint UHT promotion campaign with Tetrapak. During 2004, DCL used just 15% of the 2004 cost share grant facility provided under this project. Management uncertainties concerning its' corporate ownership future largely explain low usage. MEDA renewed DCL's cost share facility for the balance of the project in modified form. Further reimbursement is expected as DCL's UHT consumer promotion campaign continues in 2005.

- b. Alpha has aggressively pursued UHT promotion campaign in 2004 and used up its' entire 2004 cost share grant facility. MEDA paid out US\$ 11,437 in November (previously reported). A further payment of US\$ 9,067 against the balance of Alpha's 2004 costs was pending at the end of February. MEDA renewed Alpha's cost share facility for the balance of the project in modified form. Further reimbursement is expected as Alpha's UHT consumer promotion campaign continues in 2005.
  - c. Financial assistance agreements with DCL and Alpha have been extended to 30<sup>th</sup> April 2005. To encourage DCL to more aggressively promote UHT, these agreements have been modified from last year to introduce a competitive pressure between Alpha and DCL. The dairy that best utilizes its' 50% share of the matching grant facility (indicator: usage rate) to 30<sup>th</sup> April stands to be awarded 100% of any residual amount still in the facility on that date for an additional and final three month period. A copy of the current agreement with Alpha is annexured for the reader's reference.
- c) *Increased public exposure to brand name or quality approved milk advertising.* As noted above, consumer promotion campaigns 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 declared previously, 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. However, UHT processors supported by this project – DCL and Alpha – are primed to participate fully in school milk programs. That said, major school milk program initiatives (e.g: WFP) anticipated for launch in February 2005 have stalled (for reasons explained earlier in this report). In short, the project has established dairies' capacity and commitment to supplying UHT products to schools, but the dairies concerned now prefer await launch of related initiatives rather than to embark upon their own (more costly) initiatives.

### *2.4.1 Indicators of Goal*

- a) *Contact schools about putting milk into nutrition programs.* Pending launch of related initiatives (WFP).
- b) *Milk as part of school nutrition program improves the health of children.* Expect dairies participating in this project will share in UHT supply contracts to schools through WFP's tender process (initiated by delayed).
- c) *Signed Contracts ensure that schools will have a milk source.* This project is not 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 December 2004 to February 2005 period will be submitted to USAID shortly.

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

The only management issue of note relates to the modification of the cost share grant facilities extended in 2005 to DCL and Alpha under this project. These facilities are now provided on a competitive basis to help ensure full utilization of the funds available by the end of the project. This is explained above and illustrated by the annexed letter to Alpha.

### **5.0 CONCLUSION**

Although operating on a very small budget, the Association is quickly securing an industry leadership role for itself that is valued by member dairies. The UHT product promotion efforts of Alpha and DCL supported by this project are beginning to pay off. These dairies are steadily increasing their UHT production levels in response to higher product demand from retailers and have ample production capacity to satisfy up to a four-fold growth in consumer demand for UHT. However, as asserted in the previous report, a comprehensive, sustained and government-backed investment is needed if consumer demand for UHT is to be more quickly ramped up. In lieu of this, it can be expected that UHT demand will steadily, if slowly, increase in response to sustained UHT branded production promotions by the individual dairies concerned.

February 11<sup>th</sup> 2005

Tel: 256 41 345830  
Fax: 256 41 345802

Mr. Nawaz Kurji  
Managing Director  
Alpha Dairy Products  
P.O. Box 40271  
Kampala, Uganda.

Dear Mr. Kurji,

Re: Eligibility for USAID matching funding for UHT product advertising and promotion expenses

To previous correspondence and agreement on this subject, this letter refers.<sup>3</sup> Alpha Dairy Products has made strong use of the \$US 32,500 matching grant fund facility for UHT advertising and promotion purchases availed to it by MEDA in 2004 under an agreement that formally expired on the 1<sup>st</sup> of December 2004. Including your forthcoming claim<sup>4</sup>, Alpha Dairy has utilized 100% of this facility. The purpose of this letter is to offer to renew the 2004 agreement in modified form with Alpha Dairy Products for a further period in 2005.

It is my pleasure to notify you that Alpha Dairy Products is once again conditionally eligible for additional matching funds not to exceed US\$16,000 from the USAID program for eligible advertising and promotion purchases pertaining to its' continuing marketing of its' UHT products from the date of this letter to 30<sup>th</sup> April 2005.<sup>5</sup> This provision represents approximately 50% of the total matching grant fund facility still available.<sup>6</sup> Please provide a timely letter of acceptance of this offer and submit an updated UHT advertising and promotional plan and budget to MEDA.

Please refer to MEDA copies of all media placements (print media visuals, radio transcripts, TV visuals/transcripts) jointly-funded under this facility.

All other conditions of the above-referenced prior agreement also apply to the new facility. Please refer to the prior agreement for specific terms, conditions and guidance. The matching fund will be provided to you in accordance with the policies stated in the policy document that you received previously relating to this project and in accordance with USAID procurement regulations. Please be advised that expenditures not made in accordance with these approved policies and regulations are not eligible for reimbursement.

On 1<sup>st</sup> May 2005, any significant residual portion of this new facility will revert back to MEDA for reallocation at MEDA's discretion. At that point, MEDA will exercise one of three options:

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<sup>3</sup> MEDA letter, dated 3<sup>rd</sup> December 2003, issued to you.

<sup>4</sup> MEDA's cost share on this claim is limited to \$US 9,067, the residual portion of the 2004 \$US 32,500 facility remaining after prior disbursements to Alpha Dairy in respect of earlier cost share claims in 2004.

<sup>5</sup> This new facility is in addition to the US\$ 9,067 provision to cover the awaited claim for 2004 expenses.

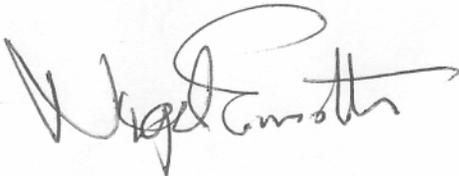
<sup>6</sup> MEDA has extended a similar offer of agreement to Dairy Corporation Ltd.

**Annexure (continued)**

- a) if one dairy firm's rate of use of its' matching grant facility is substantially higher than that of other participating dairy firm, the entire residual amount of both dairies' facilities will be reallocated to the dairy firm with the higher usage rate for a further and final three month period ending on 31<sup>st</sup> July 2005;
- b) if the rates of use by each dairy of its' matching grant facility is comparable (approximately equivalent)<sup>7</sup>, each dairy's facility will - if warranted - be extended to 31<sup>st</sup> July 2005; or,
- c) residual amounts at 30<sup>th</sup> April 2005 will revert to MEDA with no further allocation.

We wish you every success in your marketing plans and look forward to soon receiving your advertising and promotional plan and budget for the current agreement period. Please contact me if you have any questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to read 'Nigel Motts', with a large, stylized flourish at the end.

Nigel Motts  
Program Manager, USAID Uganda Dairy Processors Association Project.

c. Daniel Rutabingwa

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<sup>7</sup> MEDA will solely determine what is 'substantially higher' or 'approximately equivalent'.