

**UGANDA DAIRY
PROCESSORS
ASSISTANCE PROJECT
13th Interim Report**

September 2005 – November 2005

**Prepared for
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UGANDA DAIRY PROCESSORS ASSISTANCE PROGRAM
13th Interim Report

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UGANDA DAIRY PROCESSORS ASSISTANCE PROGRAM

13th and Last Interim Report¹

1.0 INTRODUCTION

With this report, the Uganda Dairy Processors project remains on track to substantially meet its' goals by the 31st December 2005 completion date of the project.

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 20 months of the project, UHT demand has increased by 337% and, since project inception, an effective, inflation-adjusted 35% reduction in the price of 250ml UHT brick packs has been achieved, satisfying the project goal.² UHT production capacity utilization (of the increased capacity established with the assistance of this project) remains low. During the last three months, UHT capacity utilization at Alpha and DCL has averaged slightly below 25%, a marginal improvement over historical trends. Reasons for this were provided in prior reports. Industry wide, overall UHT production capacity utilization improved on the back of increased UHT production, to 21% of installed capacity up from an historical average of 6%, by GBK dairy in October and November. GBK is reacting to inroads being made by Alpha (supported by this project) to establish its' own UHT products in the growing domestic market for UHT milk. Alpha continued to utilize the matching grant facility and MEDA expects that this fund will be 95% utilized by EOP. MEDA also expects that current project activities, namely, the administration of the matching grant facility and monitoring UDPA and individual dairy activities, will be completed on schedule in December.

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 30 cents (USD) per 250 ml pack to about 20 cents (USD) per 250 ml pack.

¹ Project field activities end on 8th December so no new UHT production related data will be obtained beyond that reflected in this Interim Report. A Final Report, summarizing the project and its' accomplishments, is forthcoming.

² Note that the formula on which this indicator was based in prior Interim Reports was predicated on the baseline price of US\$0.30 per 250ml brick pack but should have used the current actual price. The formula has been amended and the figure cited in this Interim Report now fully captures the total, inflation-adjusted price reduction achieved.

UHT Production Volume Trends

Over the last 12 months of the project ending 30th November 2005, aggregate production of UHT³ has averaged 685,000 litres per month (lpm) reflecting average production of 22,909 litres per day (lpd) over the same period, up, respectively, from an average 586,250 lpm (and 19,617 lpd) over the 12 months ended 30th August 2005.

Aggregate production of UHT in October (855,000 ltrs) and November (810,000 ltrs) reached 28,500lpd and 27,000 lpd respectively, not quite reaching the 33,000 and 36,000 lpd volumes seen in June and July, but still indicating solid progress towards achieving the project target of 37,500 lpd (or 1,125,000 lpm). **November's 810,000 ltr aggregate UHT production level reflects 72% achievement of the 37,500 lpd project target.** If the current rate of increase in aggregate UHT production continues (an additional 25,790 ltrs of new output each month), the 37,500 lpd project target will be achieved in approximately 12 months' time.

Note that the lpd calculations assume a continuous 30 days per month production cycle and do not include provision for potential production downtime (eg: Sundays, national holidays). Actual lpd levels may be somewhat higher than reported here.

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. December 2004's spike in UHT reflects stockpiling by processors ahead of the then anticipated start of the schools milk program (still yet to begin). The drop in UHT production in August 2005 reflects raw milk shortages, producers anticipating this with above-trend production in June and July.

Figure 1

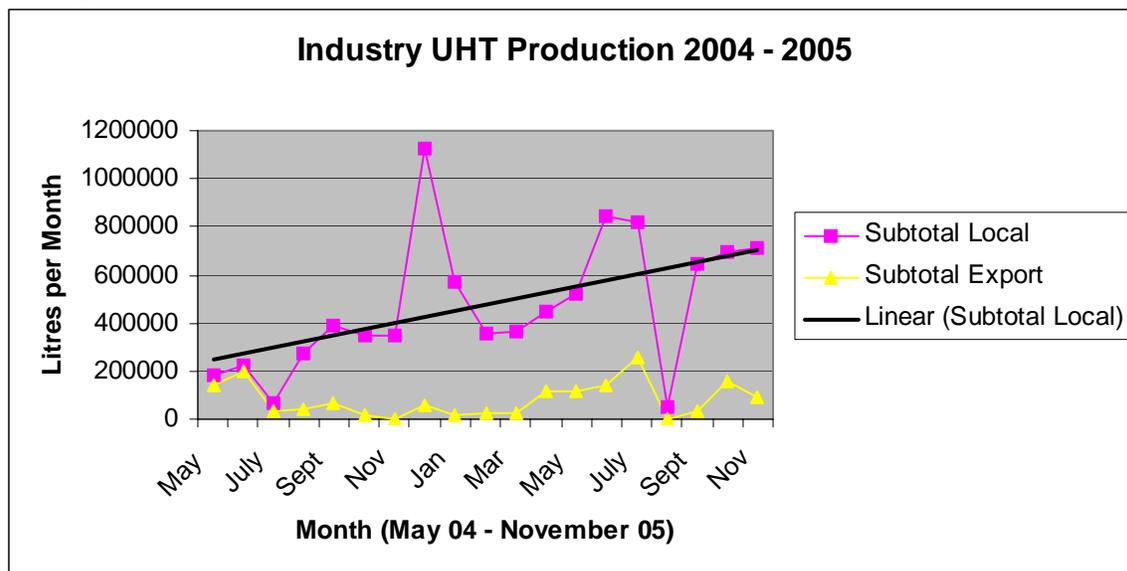


Figure 2 shows monthly UHT production from the same date for each of the three dairies participating in this project. Trend lines for Alpha and GBK reveal steady increases in their UHT production. As noted above, GBK dairy is now ramping up its' UHT production to benefit from Alpha's UHT promotion activities and capture a share of the growing UHT market. DCL's UHT

³ DCL, Alpha and GBK.

production, whilst on the rise, is scaling up at a substantially slower rate, this perhaps reflecting management's reluctance to making firm commitments to new business development due to continuing delays to DCL's privatization.

Figure 2

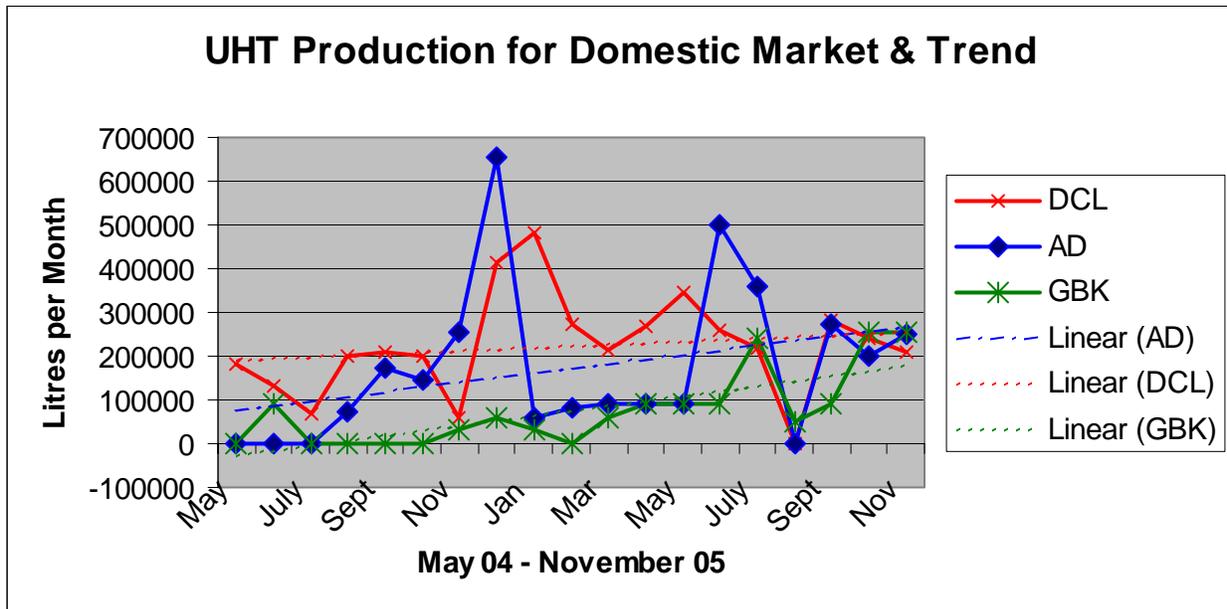
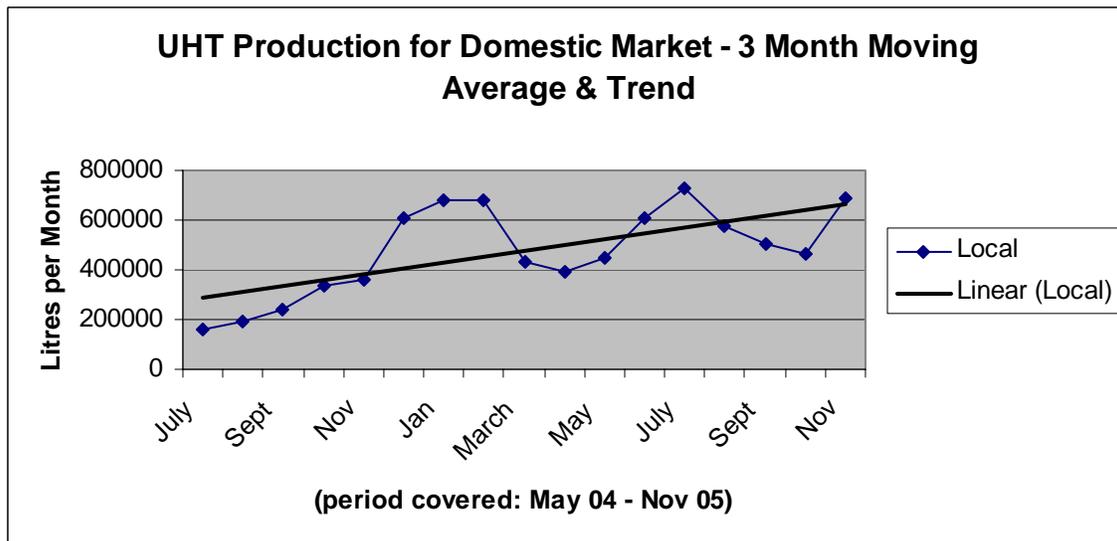


Figure 3 approximates the rate of growth of domestic market demand for UHT. A three-month moving average (TMA) is applied to the share of monthly aggregate UHT production data (litres per month) shipped into the domestic market (eg: excludes UHT production attributable to exports). **The TMAs for May to July 2004 and September 2005 to November 2005 are, respectively, 156,667 and 685,000, reflecting accumulative 337% increase in domestic UHT demand during the project period, substantially exceeding the project goal of 50%.**

Figure 3

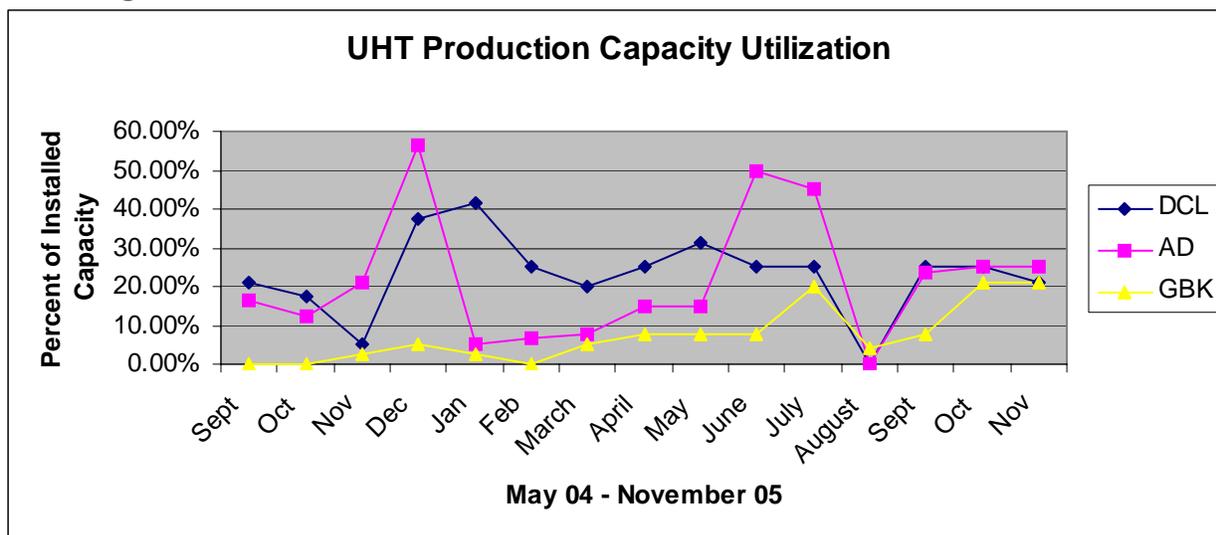


Clearly, the UHT promotion efforts of processors supported by this project are working.

Utilization Of UHT Processing Capacity

Figure 4 reveals that UHT processing capacity utilization remains quite low. Prior Interim Reports has explained why this is the case.

Figure 4



During the period now reported upon, final adjustments to Alpha’s Combi-bloc UHT packaging line have been made and this line is now ready to be put into use. The strong consumer response to Alpha’s UHT promotion campaign has given Alpha confidence that it will be able to put this new line into use in January and introduce the new 250ml brick pack to the market at that time irrespective of the status of the still suspended WFP tender. In summary, although capacity utilization levels are now low, solid and continuing growth in UHT demand can be expected to quickly translate into higher capacity utilization levels as dairies ramp up production to supply the market.

UHT Retail Pricing Trends

UHT prices (in Uganda shilling equivalent) dropped slightly from US\$ 0.28 to US\$ 0.27 per 250ml brick during the reporting period. This price point represents a continuing 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\$ 0.375. In essence, a total, inflation-adjusted price reduction of 35% has been achieved to date compared to a price reduction goal of 33% for the project.

Although the consumer price index rose by 2% over September to November, the retail price of UHT declined somewhat (Table 1 below), averaging US\$ 0.275 over the last 24 months of the project. The retail price of DCL’s UHT fell by 1 cent to US\$ 0.27 per 250ml brick pack. Alpha’s August selling price of UHT remained Ush 1300, equivalent to US \$0.70 per litre pouch (or, US \$0.175 per 250mls).

Table 1

Period; supplier	Retail price per 250ml brick UHT, US\$
Oct 05 - Nov 05; DCL	0.27
Sept 05; DCL	0.28
May 05 - Aug 05; DCL	0.28
Apr 05; DCL	0.28
Nov 04 – Mar 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

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 risen in line with inflation)

Table 2

Period	Impact on 250ml UHT brick retail pricing, US\$
Project start, 01 September 2002	0.3
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
01 Mar 05 - 30 April 05; 4.8%	0.374
01 May 05 - 31 Aug 05; -0.9%	0.368
01 Sept 05 - 30 Nov 05; 2.0%	0.375

Based on the baseline price of US\$ 0.30, the inflation adjusted price of US\$0.375 and the actual retail price of US\$ 0.27 in November 2005, the effective price reduction achieved (eg: the difference between expected inflation-adjusted price and actual current price) during the project is approximately 35%, exceeding the project's price reduction target – 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

Goal achieved. UDPA membership stands at 30.

2.1.1 Indicators of Goal

1. *Processors that have attended meetings are actively involved.* The UDPA convened the following meetings in the last three months:
 - Two meetings in November convened to discuss the CESS tax issue. DDA had decided to reduce this tax from 10% to 4% applying to traders of raw milk. UDPA objected to this decision on the grounds that it amounted to legalizing the activities of

raw milk traders whose activities the UDPA seeks to curtail.

- Domestic Dairy Industry 8th Steering Committee meeting, November 3rd focusing on review of the USAID-funded Private Sector Dairy Industry Development Program.
2. *Regularly scheduled meetings.* Continuing, as noted above.
 3. *Association has a manual.* Members abide by accepted operating policies and procedures although a formal manual as such has not been issued.
 4. *Active industry leadership role.* New indicator of goal achievement. The UDPA continues to play leading role to advance industry interests. Recent evidence of this includes:
 - Two-day workshop in November to train supermarket owners in marketing and promotion of UHT and other milk products.
 - Organized a three-day conference (28th September – 2nd October) for East African dairy processors on the subject of school milk programs. Conference objective was to win support for a regional scale approach to promoting school milk programs.

2.2 Goal: Increase Quality Standards

The HACCP quality assurance activities of this project have been completed.

2.2.1 Indicators of Goal

1. *A guide defines approved dairy processing methods and criteria.* Goal accomplished.
2. *Processors that meet QS criteria receive “seal of approval”.* Activity completed.
3. *Processors receive (quality) technical assistance and training organized through the processors association.* Goal accomplished.
4. *Increased volume of UHT (long-life) milk is processed and more processors involved in production.* UHT production volumes continue to rise. 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 now intends to launch its’ 250ml brick pack UHT product in January 2006 in addition to the 500ml pouch UHT product it has supplied to the local market since August 2004. GBK is supplying a 500ml pouch UHT product to the local market.
6. Table 3 below presents UHT processing capacity utilization for last three months.

Table 3

Company	Installed Capacity lpm	Production in litres during the month			Capacity Utilization		
		September	October	November	Sept	Oct	Nov
Alpha	1,200,000	375,000	300,000	300,000	31%	25%	25%
DCL	1,200,000	300,000	300,000	255,000	25%	25%	21%
GBK	1,200,000	90,000	255,000	255,000	8%	21%	21%
Total	3,600,000	765,000	855,000	810,000	21%	24%	23%

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

Table 4

Package Size (ml)	lpm	lpm	Lpm	Percentage
	September	October	November	
DCL:				
Brick 250 Local	140,000	120,000	105,000	40%
Brick 500 Local	140,000	120,000	105,000	40%
Brick 250 export	---	---	---	- %
Brick 500 Export	20,000	60,000	45,000	20%
Sub-total	300,000	300,000	255,000	100%
GBK:				
(Brick 250 (Champ)	--	---	---	---
Brick 500 (Champ)	30,000	75,000	75,000	30%
Pouch 500 (Classic)	60,000	180,000	180,000	70%
Sub-total	90,000	255,000	255,000	100%
Alpha:				
Pouch 250 local	--	---	---	0%
Pouch 500 local	275,000	200,000	250,000	83%
Pouch 500 Export	100,000	100,000	50,000	17%
Sub-total	375,000	300,000	300,000	100%
TOTAL	765,000	855,000	180,000	

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.* Activity completed.
- b) *Financial Assistance given to increase producer participation in advertising.* MEDA continued to defray 50% of eligible expenses of Alpha’s UHT promotion campaign under the project’s matching cost share facility. When it became clear in mid-November that Alpha would not fully utilize the residual amount (5%) of this facility, MEDA invited DCL to submit a claim pertaining to its’ recent UHT promotion activities. Although DCL has incurred eligible expenses, it failed to provide acceptable supporting source documentation and its submission was turned down.

During the last three months:

- a. MEDA settled an interim claim from Alpha for eligible expenses on 14th November. The payment amount was US\$ 13,287.64 and covered eligible expenses up to 31st October 2005.

At 30th November, approximately US\$ 5,000 remained available to Alpha in the UHT promotion matching grant facility. A further and final payment of US\$ 1,356.05 is to be paid to Alpha in early December.

- c) *Increased public exposure to brand name or quality approved milk advertising.* Alpha's promotion campaign of its' branded UHT products includes media placements and a road show taken to dozens of smaller urban centres around the country. GBK, whilst not accessing the matching grant facility, appears to be 'free riding' on Alpha's UHT campaign to increase its' own UHT sales and capture a share of the growing market. Stemming from the project's earlier support, DCL has also been running a modestly successful radio and TV promotional campaign for the last nine months in Kampala targeting school children with their 250 ml brick pack. Overall, the project has stimulated and supported successful promotional interventions by key dairies in the domestic UHT market.

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

Notwithstanding DCL's UHT promotion campaign targeting school children in Kampala and the UDPA's new initiative to win industry support for a regional (multi-country) UHT school milk initiative, the project itself has lacked the resources needed to directly effect positive change in this area. The WFP tender in Uganda continues to be held up by political considerations. Until government or donors step in to subsidize the cost of supplying UHT milk to schools, processors are unlikely to venture far into this 'market' and will limit their interventions to schools in the commercially viable urban centres where family income levels are high enough to sustain UHT consumption by school children without public subsidy.

3.0 FINANCIAL

No issues to report. Project field activities are due to end on 8th December to enable financial and administrative operations to wind down and be completed by 31st December 2005.

4.0 MANAGEMENT ISSUES, CONCERNS

The Final Report will be submitted in January 2006 ahead of the submission deadline.

5.0 CONCLUSION

The 250ml price reduction target of 33% has been exceeded by 2 percentage points. The 337% increase in demand for UHT achieved during the project far exceeds the project target of a 50% increase. Although MEDA had expected that Alpha would commission its' new Combi-bloc production line in September and bring its' new 250 ml brick pack UHT product to the market during the three-month project extension period obtained from USAID, the increased production arising from which could reasonably be expected to push aggregate monthly UHT production above the 37,500 lpd goal of the project, this did not occur. MEDA has no control over Alpha's business decisions. Nonetheless, November's UHT production levels reflect 72% of this target and if Alpha does bring its' 250ml brick pack to market in January 2006 (its' current intention), achievement of this project goal is now only several months away. A summation of project accomplishments and challenges will be provided in the forthcoming Final Report.