INVESTING IN UGANDA'S DAIRY INDUSTRY

CONTENTS

Overview Of the Dairy Industry

Between 1997/98 and 2001/02 the agricultural sector grew by 22.5 per cent that is an average of 5.2 per cent per annum. Over the same period the composition of agriculture in the total GDP reduced marginally from 42.2 to 41 per cent. The food processing industry in Uganda (comprising of soft drinks, dairy products, milling fish and meat processing) contributes approximately 4.3 % to the national GDP and the dairy industry accounts for an estimated 20 per cent of this. The output from the livestock sector has grown at an average rate of 2.8 per cent per annum since 1995, with most of the growth coming from the dairy industry[1].

The cattle population has increased steadily from 5.50 million herds in 1996 to 6.15 million herd in 2001[2]. The increase in cattle population has been attributed to general improved animal health as result of the nation wide disease control, improved breeding programmes and better management practices. The demand for milk in milk processing plants has further stimulated animal production. Milk and milk products in Uganda are mostly from cattle and about 34 per cent of the present cattle population are dairy cattle.

The cattle population in Uganda today is 6.15 million with indigenous lot accounting for 95 percent (5.85 million) while the exotic and crosses accounting for the balance (0.3 million). Because of the high productivity associated with intensive dairy farming methods such as zero grazing of improved breeds, most farmers have adopted modern farming techniques at various levels of production.

The population of goats has also increased by an average of 3.0 per cent from 5.8 million in 1997 to over 6.6 million by end of 2001. The number of the exotic dairy goats has proportionately increased with Kasese continuing to lead in this area. Most of the milk produced by these goats is, however, consumed at household level with minimal processing.

The liberalisation of the dairy industry in the mid 1990s broke the monopoly of the Dairy Corporation and opened up opportunities for private investment. Subsequently,

[1] National Bureau of Statistics and the Dairy Development Authority.
[2] According to Dairy Development Authority

the proportion of the national milk production that is processed before marketing has increased to an estimated 156 million litres in 2001 where currently, nine companies are involved in processing. Of the 900 million litres of milk produced in 2001, over a half was offered for marketing and over 70 per cent was sold unprocessed leaving the rest for processing. 10 per cent of the processed milk was exported to neighbouring countries earning the country over US$3 million.

Within the livestock industry, dairy development continues to receive the greatest attention in the development of the animal industry in Uganda. Consequently, total national milk production has grown from 365 million litres in 1991 to over 900 million by end of 2001 with per capital milk consumption growing from 16 litres in 1985 to 40 litres by end of 2001.

Developments in the Industry

Policy Regulations and Plans

Until 1994, The Dairy Corporation, a public company that monopolised the formal market for pasteurised milk and other dairy products, dominated the dairy industry. Since then, the dairy sector has undergone considerable transformation leading to substantial growth and increased private sector participation. Accordingly, the role of Government in this sector has changed from direct participation in milk production, processing and marketing to creating an enabling environment in which farmers and private investors could grow and develop the dairy industry.

Legal framework

Before 1997, the legal framework for the dairy industry was based on four instruments namely: the Dairy Industry Act of 1967, the Public Health Act of 1963, the Food and Drugs Act of 1962 and the Co-operative Societies Statute of 1991. The new Dairy Industry Act of 1998 replaced the Dairy Industry Act of 1967. This Act reformed the organisational and policy framework for the dairy industry and established the Dairy Development Authority (DDA). The act also provides for the development, promotion and control of production, processing and marketing of milk and dairy products as well as the general facilitation and development of the Dairy Industry.

The commencement period for the Dairy Industry Act, 1998 was 2000. Subsequently, the DDA, a full-time semi-autonomous regulatory body for the Dairy Industry, was inaugurated on June 1, 2000. The Dairy Corporation Ltd. (DCL), a company with limited liabilities, was incorporated from the former Dairy Corporation and is now ready for privatisation.

Development of co-operative societies

Recently, co-operative societies have developed and many of them are involved in milk collection and marketing. Some have gone into milk processing. The Uganda Dairy Industry Stakeholders' Association (UDISA), an organisation of all stakeholders in the dairy industry was recently formed. UDISA together with the Uganda National Bureau of Standards have completed the formulation of the Code of Practice for Raw Milk Handling and Marketing. The code of practice is yet to be enforced.

Trends And Performance Of The Dairy Industry

Contribution of the Dairy Sector

The dairy sector currently contributes about 20 per cent to the food processing industry. The food industry in turn contributes about 4.3 per cent to the national GDP. Though small, this contribution to the GDP is steadily increasing. Table 1 shows the index of industrial production of food processing and dairy processing for the period 1997-2001. It should be noted that the declining trend in the performance of the dairy sector is a result of the adjustment period due to the active involvement of the DDA in dairy activities, which now requires industry players to observe best practices as well as the tense competition introduced in the industry forcing some companies to edge out.

Table 1: Index of industrial production for food processing and dairy processing.

Year	Index of dairy processing	Index for food processing
1997	93.9	100
1998	109.5	110
1999	99.4	123.6
2000	95	118.2
2001	88	135.9

Source: Uganda Bureau of Statistics, Statistical Abstract 2002.

Cattle population

The national cattle population over the last ten years has experienced steady growth. The growth has been attributed to the increasing demand for milk by consumers and milk processing plants, better herd management, adoption of improved breeds and improved animal health and support services. An average growth rate of 3.1 per cent has been experienced over the last five years as shown in Table 2. In terms of milk production, it is cattle that are of economic value in this regard.

Table 2: Livestock numbers (‘000 animals): 1997-2001

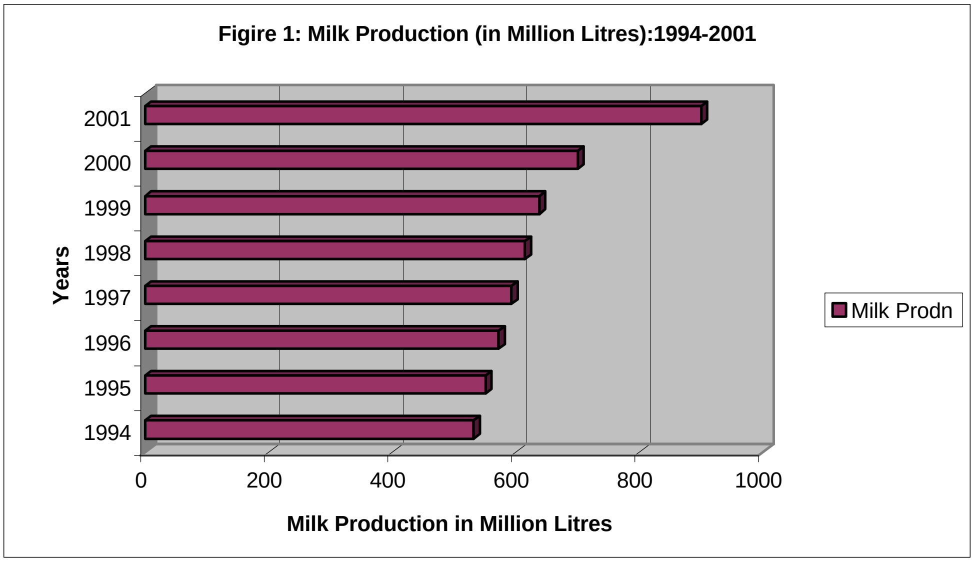
	1997	1998	1999	2000	2001
Cattle	5,460	5,651	5,820	5,966	6,148
Sheep	980	1,014	1,044	1,081	1,108
Goats	5,825	5,999	6,180	6,396	6,620

Source: Uganda Bureau of Statistics, Statistical Abstract 2002

Dairy Farming and Milk Supply

Since 1994 dairy farming has grown with many farmers adopting high milk producing exotic and crossbred cattle, and better farming methods. The exotics and crossbreeds proportion of the dairy herd countrywide increased to about 300,000 in 2002 from an estimated 220,000 in 1995, representing 5% of the total dairy herd. The exotic breeds include the Jersey, Holstein, Friesians, Guernsey, Ashyire and the Brown Swiss.

Consequently, the national milk production levels have increased as shown in figure 1 from less than 600 million litres in 1994 to over 900 million litres by end of 2001.



Source: Dairy Development Authority 2001/02 Annual Report

The leading districts in dairy production are Mbarara, Moroto, Bushenyi, Kotido, Masaka, Mbale, Kabarole, Mukono, Ntungamo, Kamuli, in that order. Table 4 gives a complete list of these districts with their respective milk production estimate levels. Milk production countrywide has steadily increased since 1994 with the western Uganda districts accounted for the biggest proportion.

The DDA has thus far registered 1,002 raw milk dealers and processors, 239 coolers and categorised 763. The sources and transport routes for milk have been clearly identified whereby seven (7) milk grids have been identified as follows: South-western (300,000 litres/day); Western (100,000 litres/day); Central (200,000 litres/day); Eastern (100,000 litres/day); Mid-western (50,000 litres/day); Northern (10,000 litres/day); and North-eastern (300,000 litres/day), altogether totalling 1,060,000 litres/day. Figure 2 gives a pictorial presentation of the grid demarcation.

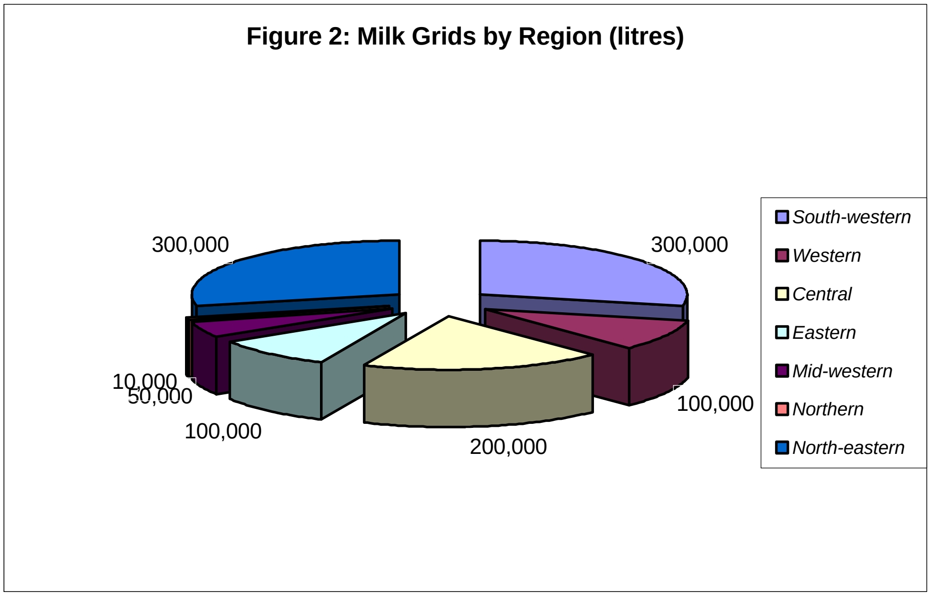


Table 4: Milk Production per district (2001 estimates)

District	'000 Litres	District	'000 Litres
Apac	5,562	**Kotido**	49,663
Arua	17,900	**Kumi**	1,718
Bundibugyo	8,603	**Lira**	3,919
Bushenyi	90,378	**Luwero**	13,460
Gulu	1,682	**Masaka**	45,694
Hoima	12,750	**Masindi**	9,983
Iganga	17,042	**Mbale**	42,406
Jinja	3,438	**Mbarara**	144,085
Kabarole	14,537	**Moroto**	94,243
Kalangala	2,164	**Moyo**	3,558
Kampala	3,545	**Mpigi**	30,462
Kamuli	30,156	**Mubende**	29,453
Kapchorwa	5,912	**Mukono**	34,563
Kasese	6,458	**Nebbi**	16,400
Kibaale	6,014	**Ntungamo**	27,839
Kiboga	4.070	**Pallisa**	12,921
Kisoro	1,291	**Rakai**	34,191
Kitgum	1,688	**Rukungiri**	14,263
Soroti	2,380	**Tororo**	21,186
Total Production		**900,703**	

Source: Dairy Development Authority, Annual Report 2001/02

Demand for milk and milk products

The per capita consumption of milk has increased over the last five years from a low of 30 litres per year to a level of 40 litres as of 2001. However, this is still below the World Health Organisation recommended level of 200 litres/person/year. In urban areas, the per capita consumption is higher and estimated at 48 litres/year while in rural areas it is estimated at 22 litres/year. Table 5 shows the per capita consumption of milk since 1997.

Table 5: Per capita consumption of fluid milk over the last three years

Year	Per capita consumption (litres/person/year)
1997	28.5
1998	29.5
1999	30.0
2000	38.1
2001[3]	40.0

Source: Ministry of Agriculture, Animal Industry and Fisheries

The demand for milk in Uganda comes from households, schools, hospitals, catering institutions, food and dairy processing plants. The demand for processed milk is estimated at 400 million litres per year. The demand for milk from processing plants and other consumers is expected to increase. Table 6 shows the production of processed fluid milk since 1994.

Table 6: Production of processed fluid milk (1994 - 2001)

	1994	1995	1996	1997	1998	1999	2000	2001
‘000 litres	138,355	118,005	134,470	137,340	162,025	132,470	385,000	400,100

Source: Uganda Bureau of Statistics, Statistical Abstract 2002.

Milk Products

Uganda produces a variety of milk products. A substantial amount of milk and milk products is also imported indicating that the domestic production is not sufficient to meet market demands. Uganda also exports dairy products[4] mainly to the regional market. The exported dairy products are mainly composed of pasteurised and UHT milk. The capacity to handle quantity and quality of milk exports has been established by the DDA and found to be 278,100 litres per day with 43% capacity utilisation. Despite the low capacity utilisation, there is need to expand the volume of the cold chain to handle clean milk. Currently, only UHT milk is being exported from two Ugandan companies whose combined installed capacity for this product is 150,000 litres a day representing 30% of installed capacity. Table 7 gives the current milk processors in the country with Dairy Corporation Limited (DCL) and GBK Dairies (U) Limited in the lead. See Appendix 1 for a more detailed list of dairy processors.

Table 7: Major Dairy Processing Companies in Uganda

	Dairy Company	Location	Installed Capacity (‘000 litres)
1	Alpha Dairies	Mbarara	50

[3] **Figure for 2001 was supplied by the Dairy Development Authority**

[4] Uganda Bureau of Statistics, Statistical Abstract 2002.

2	Country Taste	Mbarara	30
3	DCL	Kampala	130
4	GBK Dairies	Mbarara	90
5	Jesa Dairies	Busunju	10
6	Kaisa Dairies	Kamuli	10
7	Sunshine Dairies	Kampala	10
8	Teso Dairies	Soroti	03
9	White Nile Dairies	Jinja	10

Source: Dairy Development Authority, 2001/02 Annual Report

Pasteurised milk

Production of pasteurised milk is the largest processing activity in the dairy Industry. About 80 per cent of processed milk goes into the production of pasteurised milk. Currently all the nine (9) firms are involved in the production of pasteurised milk.

UHT Milk

Until 1995, all the UHT milk in Uganda was imported mainly from Kenya. However, today, two (2) firms in the country produce UHT milk with a combined capacity of an estimated 150,000 litres/day. The two companies DCL and GBK currently handle about 30% of their installed capacity and 10% of this is exported to neighbouring countries.

Cheese

Although cheese is produced locally, Uganda still continues to import this product. The DCL produces 3.0 metric tonnes/year, which mainly is Cheddar, Gouda and Maribou cheeses. Other private firms like Paramount Dairies Ltd in Mbarara have exploited the increasing cheese market and started production of cheese mainly Cheddar and Gouda types.

Cream and Ice cream

A few firms produce cream but this is mainly an input product. The DCL produces substantial amounts of cream, which it uses in the production of ice cream. A few other private dairy processors produce cream for sale on the market.

Many firms in urban areas including multi-national fast food chains produce and market ice cream. Since the late 1980s, the demand for ice cream has increased tremendously.

Yoghurt

The yoghurt produced in the country is mainly the set and drinking type. Led by the DCL, the production of yoghurt has continued to increase due to the growing market for this product. Since 1995, a number of small and medium scale dairy processors have started producing and marketing yoghurt.

Cultured Milk

Commercial cultured milk is newly developed from indigenous cultured milks. Several small-scale dairy processors do production and marketing of cultured milk. The market for cultured milk is growing steadily.

Butter and Ghee

A few firms produce salted and unsalted butter. Production is lead by the Dairy Corporation Ltd with a capacity of 1.5 metric tonnes/year. Jesa Dairy Farm Ltd. and other private companies have started producing butter. The butter demand and production is expected to increase.

Farmers produce ghee mainly on a small scale which for domestic consumption and sale. The DCL produces ghee and its production has increased to over 20,000 Kgs by 2001 up from 11,350 kg in 1996. A number of small-scale dairy processors have started production and sale of ghee. Other firms producing ghee include GBK Dairies (U) Ltd. based in Mbarara.

Marketing Structure Of Dairy Products

There are groups and associations that have organised themselves to influence the supply and demand of the dairy industry sector and these are: the Uganda National Dairy Farmers' Association, the Uganda National Dairy Traders' Association, and the Uganda Dairy Processors' Association/groups. These groups influence standards as well as market conditions in terms of supply and demand for the products. However, the milk and dairy products market in Uganda has been liberalised since early 1990s whereby the prices of both raw milk and its products are determined by market forces to a larger extend. This has led to free participation of the private sector and also increased informal marketing of milk. The new Dairy Industry Act of 1998, however, provides for the processing and marketing standards and regulations for dairy products.

Currently the milk market is mainly in two categories namely: the formal and informal sector. The formal sector markets pasteurised milk and other dairy products. The informal sector mainly markets un-pasteurised milk because the Public Health Act that prohibits its sale is not enforced. However, the enforcement of the Act is expected to begin in 2003 and this will prohibit the sale of un-pasteurised milk, thus boosting sales of pasteurised milk.

The formal sector distributes and markets dairy products through vendors or direct delivery to groceries, supermarkets, hotels, restaurants, schools and hospitals. Some dairy co-operative societies and agents are also involved in marketing of fluid milk while farmers and/or agents market mainly un-pasteurised milk.

Pricing Of Milk And Milk Products

Table 8 provides an overview of pricing in the milk formal market. The results follow a study conducted by Land O'Lakes in September 2001 in selected regions of Uganda. It should be noted that some of these prices have since changed either upwards or downwards while others have remained stable. The western region of Uganda continues to remain a low cost-producing region of the country reflected in relatively low prices of the final products. In terms of input costs, the cost of packaging material for UHT milk is seen to be a significant cost factor.

Table 8: Products, Prices and Costs of Milk Products

	Western	Eastern	Central Urban	Central Rural
Raw milk average Price in wet season (shs.)	150	242	367	312
Raw milk average price in dry season (shs)	346	338	433	400
UHT milk per litre (shs)	600	650	700	-
Pasteurised milk per litre (shs)	350	550	600	550
Ghee per kg (shs)	2,000	4,500	3,50	4,000
Yoghurt per litre (shs)	700	900	700	800
Milk cream per kg (shs)	890	-	1,000	-
Flavoured milk per litre (shs)	-	-	650	-
Butter per kg (shs)	5,500	-	6,000	-
Cheese per kg (shs)	6,000	-	7,000	-
Packaging cost UHT per litre (shs)	260	260	260	260
Packaging cost paste per litre (shs)	45	45	45	45

Source: Land O'Lakes – Dairy Sector Report, September 2001

NB: Exchange Rate is 1US$=Ushs.1,950 (approximately)

Pastures, Water And Animal Feeds

Pastures

Forage resources in Uganda range from extensive natural grasslands supporting semi-nomadic pastoralism and unfenced communal grazing to perimeter fenced farms with paddocks of natural or planted grasses. Government through its Plan for Modernisation of Agriculture (PMA) will support better pasture development and management practices through introduction and production of better pasture seed. This will improve pasture quality.

Water

Uganda has enough natural water bodies and receives enough rainfall (750 - 2000 mm/year) to cater for its livestock. However, water shortages may occur in some range lands and could be widespread in cases of long droughts. Under the PMA Government will construct more valley dams and tanks countrywide.

Feed mills

There are over 55 feed mills in Uganda producing high quality feed. Most of the feed mills are located in the central and eastern regions of Uganda. Farmers around urban areas use concentrates from such mills as feed supplements. Some commercial farmers however, prepare their own feed concentrates to supplement the forage supplies. See Appendix 1 for players in the feed mills industry.

Support Services

Research and Breeding

The National Agricultural Research Organisation (NARO) is responsible for research and development in the livestock sector. Different NARO divisions do research and development in animal health, breeding and nutrition of livestock. The Animal Breeding Centre (ABC) also produces semen and offers artificial insemination (AI) services to private farmers. Veterinary services in the country are now privatised and are easily available.

Manpower development and training facilities

Uganda has a well-established skilled manpower, which is ably participating in the development and shaping of the Dairy Industry. The work force is composed of over 100 professionals in the field of Food/Dairy Science and Technology and over 600 Veterinarians and Animal Scientists.

Marketing and Standardisation

The main educational and training institutions for the Dairy Industry development are the Veterinary Training Institute, Bukalasa; ABC, Entebbe; and Makerere University's Faculty of Veterinary Medicine, Department of Food Science and Technology and Department of Animal Science. The institutions offer both long and short professional courses.

The DDA on the other hand has also put in place the following: promotion of milk consumption in schools (School Milk Programme); establishment of quality standards; registration & licensing of milk dealers, generic promotion of milk consumption; and the identification of export markets in the region and beyond. In 2002 alone, the DDA conducted some demonstrations and training seminars for milk outlets in quality control for 711 participants.

INVESTMENT OPPORTUNITIES IN THE DAIRY INDUSTRY

Immediate Opportunities

A Core Investor for the DCL

With the commencement of the Dairy Act of 1998, the Dairy Corporation was incorporated into the Dairy Corporation Ltd (DCL). The DCL is a limited liabilities company that is currently owned 100 per cent by government. Government is re-capitalising this company and its preparations for privatisation have been finalised in which a core investor is being sought while some of the DCL shares will be floated on the Stock Exchange. The DCL currently produces a range of products including pasteurised and UHT milk, butter, ghee, yoghurt, cheese and ice cream.

The DCL's other milk processing and cooling plants in various parts of the country will also be divested. All these provide the private sector with immediate opportunities of investment in the dairy industry.

Joint Ventures

Small scale and medium processors

A number of existing small and medium scale dairy processors want to expand their operations but are limited by financial capital, equipment, technology and/or expertise. Such firms are interested in joint ventures with other private investors. The firms that are interested include, Umoja Farmers Ltd. Located in Kampala; Ramilk Ltd ram@imul.com located in Mbarara; and Bushenyi Dairy Co-operative Society Ltd fkyamanywa@landolakes.co.ug located in Mbarara. Some of the existing companies are also seeking for equity participation from foreign companies and individuals while others are considering outright purchase.

Opportunities In Dairy Support Services

Establishment of Dairy Industry support services

With the fast growth registered in the dairy industry, there is need to establish firms that provide dairy related support services. Such services include artificial insemination; farm input supplies and market information. The artificial insemination business alone has grown from 10,000 inseminations in 1994 to over 25,000 inseminations in 1999. Individuals whose availability is limited to a few localities are currently providing these services and government is now keen to allow the private sector to take a key role in providing these services.

Establishment of collection centres and distribution facilities

Post-harvest milk losses are still high especially during the peak seasons when production is high. This is due to limited access to milk collection centres (MCCs). While the Mbarara milk shed has a number of MCCs set up by private firms and the DCL, the Kampala-Jinja milk shed still lacks collection facilities. The Kampala-Jinja milk shed includes the districts of Jinja, Kampala, Mukono, Mpigi, Kalangala, Kamuli and Iganga all of which have registered increased milk production.

In addition, substantial amounts of milk spoil in transit. This is due to the containers and mode of transport used which lead to delays and high temperature build up in the milk. Thus, investment opportunities exist in establishing more and better managed MCCs as well as reliable milk distribution facilities.

Dairy breeding and farming

Dairy farms are another investment opportunity that is not yet fully exploited. Uganda has adequate land for dairy farming and the climatic conditions are favourable this venture. A well-established dairy farm would produce milk and also breed in-calf heifers for sale. With the growth registered in the dairy industry, the demand for in-calf heifers is expected to increase. On the domestic market, an in-calf heifer costs not less than US $ 1,000. Currently most of the heifers on sale are imported.

Opportunities In Milk Processing

Powdered Milk production

Uganda imports powdered milk that is used in the food industry and for domestic consumption. Annual consumption of powdered milk is currently estimated at 3,000 MT and the ruling prices range from US $ 2.8 to 4.0 per kilogram. Processing surplus milk into powdered milk would reduce post-harvest losses and add value to a product for both the domestic and regional market.

The ideal location for the powdered milk plant is the Western milk shed/grid. This location would take advantage of the milk surplus in this production area, largely reduce transport costs for the raw milk and has proximity to the regional market of Rwanda, Burundi, Tanzania and the DR Congo.

Processing of Sweetened-Condensed milk

Sweetened-condensed milk offers a product that has a longer shelf life with out refrigeration and can be easily transported over distances. Refrigeration in Uganda is relatively expensive. Although sweetened-condensed milk is not very popular, it can easily find acceptance on the domestic market if it is well promoted.

Flavoured and UHT Milk
The production of UHT milk has steadily increased since 1995. Two other dairy plants besides DCL produce UHT milk. The total UHT milk production in the country is currently estimated at over 46 million litres per year. Only the DCL has been producing flavoured UHT milk. The production of flavoured milk by the DCL has shown growth mainly due to the demand from schools and other educational institutions. Although there are three plants producing UHT milk in the country, there remain considerable investment opportunities in this market.

Production of Butter and Ghee
Although it produces butter, Uganda also imports considerable amounts mainly from Kenya, Zimbabwe and Europe. The DCL and some private firms produce butter. The sales price of butter is between US $ 2.5 to 3.0 per kilogram.

Ghee is a popular product on the local market. Although farmers mainly produce it on a small scale, the DCL and GBK Dairies Ltd. produce and market considerable amounts of ghee. The current price of ghee is between US $ 1.5 and 2.5 per kilogram.

Cheese production
Few private firms produce cheeses as their principle products. The DCL also produces substantial amounts of cheese. However, Uganda still imports cheese. The market price of cheese is between US $ 3 and 4 per kilogram. Cheese production provides yet another investment opportunity.

Yoghurt and Cultured milk production
The DCL is the leading yoghurt producing firm. However, other private firms produce and market yoghurt. Yoghurt quality has improved and sales have increased by an estimated 10 per cent since 1997. The number of companies processing yoghurt has increased.

Cultured milk is very popular countrywide and its demand is expected to grow. However, its production is by small-scale processors and the informal sector. Investment by the formal sector is required in order to exploit this market and develop it further.

Cream and ice cream
The DCL produces cream that it uses in production of ice cream. Some private companies produce cream for the open market. Production of cream can be profitable because most of the ice-cream (a product made from cream) is imported to meet the demand for the local market.

The number of firms producing ice cream has increased in the last six years to over eight in Kampala alone. Although most of the ice-cream producing firms are concentrated around Kampala, there is an untapped market upcountry.

Small-scale milk processing

Small-scale processing plants in relatively low milk producing areas provide investment opportunities. These areas include the north, northeast and the northwest parts. Such small processing plants would exploit and develop the respective markets in those parts.

UGANDA'S COMPETITIVE ADVANTAGE

Compared to its neighbours, Uganda enjoys the following advantages:

Good natural resource base

- A natural resource base for dairy farming, a favourable climate and good soils in most parts of the country ensure good production of pastures for dairy herds.
- Less pressure on its land. This implies that more land can be available for dairy farming at a relatively lower cost of establishment.

Stable and attractive macro-economic and investment environment

- Macro-economic stability, which is characterised by low inflation, stable exchange rates and steady economic growth. These give the investors confidence
- A liberalised economic environment where market forces determine prices. Almost all Uganda's economic activities are unrestricted.
- Abundant skilled and unskilled labour for cheap production. Labour rates per hour in Uganda are US $ 0.6 compared to 1.1 for Kenya, 0.7 for Zambia and 2.8 for Zimbabwe.
- A package of investment guarantees which insure private investments in Uganda. These include the Multi-lateral Investment Guarantee Agency, Overseas Investment Insurance Scheme and the Overseas Private Investment Corporation to mention a few.
- Strategic location in the heart of sub-Saharan Africa gives Uganda a commanding position as a base for regional trade and investment.

Good infrastructure

- Improved infrastructure. About half of the total national major road network in the country is surfaced (tarmac) which eases transportation. All the other roads are easily motorable.
- Uganda's telecommunications sector has been fully liberalised which has greatly improved the availability of telecommunication services. There are three cellular phone service providers including MTN Uganda, CelTel and TeleCel. The Uganda Telecoms Ltd and MTN Uganda provide over 150,000 fixed telephone and fax lines. Private companies including AfricaOnline and Infocom provide Internet and related multimedia services.
- The energy sector has also been liberalised which has improved energy service provision. Hydroelectric power has increased from 180 MW to 317 MW between

1994 and 2002, which has reduced power shortages. Power production is expected to increase with the construction of more generation stations.

INVESTMENT INCENTIVES

Investment incentives are covered under the Income Tax Act 1997. The Uganda Revenue Authority as part of the taxation system administers these incentives. The investment incentives are indicated in the following tables:

Table 9: Capital Allowances

• Initial allowances on plant and machinery located in Kampala, Entebbe, Namanve, Jinja and Njeru	50%
• Initial allowances on plant and machinery located outside Kampala, Entebbe, Namanve, Jinja and Njeru	75%
• Start up costs spread over the first 4 years	25%
• Scientific research expenditure	100%
• Training expenditure	100%
• mineral exploration expenditure	100%

Table 10. Deductible annual allowances

Depreciable assets specified in 4 classes under declining balance method		
Class 1	Computers and data handing equipment	40%
Class 2	Automobiles, construction and earth moving equipment	35%
Class 3	Buses, goods vehicles, tractors trailers, plant & Machinery for farming, Manufacturing and Mining	30%
Class 4	Railroad cars locomotives, vessels, office furniture, fixtures etc.	20%

Table 11. Other annual depreciation allowances

• Industrial buildings, hotels and hospitals	5%
• Farming general farm works (declining balance depreciation)	20%

Uganda has a priority investment areas list. Investments into priority areas indicated in table 9 are accorded additional benefits.

Table 12: Priority Investment Areas

• Crop processing	• Storage
• Education	• Forestry and processing of forest

	products
• Fish processing	• Steal industry
• Electronics	• Cotton and textiles
• Floriculture	• Edible oil
• Metal and Metal products	• Mining industry
• Construction and building industry	• Ceramics industry
• Energy	• Manufacture of industrial spare-parts
• Tourism industry	• Meat processing
• Manufacture of building materials industry	• Iron and steel
• Transport and communications	• Real estate development industry
• Pharmaceutical industry	• Packaging industry
• Dairy and Dairy products	• Financial services
• High-technology industry	• Health care
	• Fruits and vegetables

Other incentives

In addition to the incentives listed in tables 6-8, Uganda offers the following:

- *Import Duty Exemptions***.** Apply to motor vehicles, personal effects and plant and machinery.
- *Duty drawback facilities***.** Allows exporters to claim taxes on inputs used to manufacture exportable products.
- *Corporation tax***.** With the exception of mining there is a uniform corporation tax rate of 30%, which allows the "carry forward of losses". Practically, this means, profits are not taxable until, previous years' losses are fully covered.

Investment protection

- *Investment guarantees*-Uganda is a member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank and VAT deferred payment agreements.
- *Externalisation of funds*-Foreign investors are allowed to externalise funds for:
    - Loan repayment in a foreign country
    - Payment of financial earnings to foreign personnel
    - Payment of royalties or fees
    - Payment of profits or proceeds on disposal of assets.
- *Protection against compulsory acquisition*. Compulsory acquisition can only be made in accordance with the Constitution of Uganda. Should compulsory acquisition take place, the investor must be compensated within 12 months from the date of acquisition, based on fair market value of the enterprise .

MARKET AND MARKET POTENTIAL

Ugandan Market

Uganda itself has a market of about 24 million people. The greater market potential, however, lies within the regional market. The dairy industry in neighbouring countries of Rwanda, Burundi and the DR Congo are not well developed. The export of milk and dairy products to these countries is therefore expected to continue. While Kenya is an important exporter of dairy products to these countries, Uganda has a competitive edge of lower transport and production costs.

The East African Market

- This is a market of about 85 million people covered under the East African Community (EAC).
- There is a list of goods still being worked on to be subjected to a surcharge without reciprocity when imported from Kenya to Uganda or Tanzania.
- A list of manufactures that will attract a zero tariff rate for the tripartite trade is also being worked out.
- There has been an agreement in principle on establishing a Common External Tariff (CET) but its rate is not yet agreed upon. However at present, Uganda has the lowest customs tariff among the three countries.
- Rules of origin are not yet worked out, but it is proposed to use COMESA rules of origin.
- Unlike the defunct EAC, the current arrangement is market oriented and private sector driven.
- It has been agreed that the region has a comparative advantage in the agricultural sector and a study on the “Strategy on Agricultural Development” for the region is on going. The EAC and its focus on agricultural development, presents enormous chances for Uganda, because of the three countries, Uganda offers better avenues for agricultural development and agricultural related trade.

The COMESA Market

The Common Market for Eastern and Southern Africa (COMESA), is a regional economic co-operation group of 20 African countries with an estimated population of 367 million people (Appendix 1).

The overall objective of COMESA is to promote regional integration through development of trade, natural and human resources. COMESA is one of the more successful regional economic groups in Africa. It has financial specialized institutions to support its activities namely:

- The Trade and Development Bank for Eastern and Southern Africa (PTA)
- The Leather and Leather Product Institute (LLPI).
- The Clearing House.
- The Re-insurance Company.

Most of the co-operation progress has been made in trade liberalization.

- Intra-COMESA trade has grown from US $ 1,624 million in 1991 to US $ 4,200 million in 1998.
- An Automated System for Customs Data and Management (ASYCUDA) is used in all COMESA member states.
- There have been tremendous tariff reductions as indicated in appendix 2.
- Agreement has been reached to implement a Common External Tariff (CET) by the year 2004 with a proposed CET of 0%, 5%, 15% and 30% on capital goods, raw materials, intermediate goods and final goods respectively.
- Agreement has been reached to transform COMESA into a Free Trade Area (FTA) based on reciprocity and some countries are already implementing 100% tariff reduction (Appendix 2).

Market developments in the region

The establishment of the East African Co-operation (EAC) is complete. This has paved way to the formation of a single market and investment area.

Some developments in the implementation of the EAC Treaty Programmes include, the member states adopting a single customs entry document in 1999. Forty-two (42) standards have been harmonised and adopted as East African Standards - three of the adopted East African Standards deal with milk and milk products. The East African Dairy Business Association (EADBA) regional interim committee was formed in 1999. The EADBA seeks to enhance developments and trade in the dairy industry within the region.

Success stories

Uganda’s Dairy Industry has already benefited from the EAC regional programmes. The East African Dairy Business Project was implemented in 1998. Some of the achievements under this project include, the DCL increased its milk sales by 15 per cent through new trade links with Brookside Dairies (Kenya). New packaging for yoghurt was introduced through trade links with Tech-Pack Industries (Kenya) subsequently, package imports from Kenya have increased by 50 per cent implying increased production and sales of yoghurt. Brookside Dairies (Kenya) purchased shares in Western Highland Creameries (U)Ltd. BUDICO a co-operative society (Uganda) is linking up with a foreign company to set up a UHT milk plant.

USEFUL CONTACTS

Useful Contacts

Name	Address	Tel/Fax	E-mail/web site
Uganda Export Promotion Board	Konrad Plaza Entebbe Road P O Box 5045 Kampala	Tel: 230233 Fax: 259779	uepc@mukla.gn.apc.org
Uganda National Bureau of Standards	Plot M217 Nakawa Industrial Area P O Box 6329 Kampala	Tel: 222367/9 Fax: 236606	unbs@starcom.co.ug
Uganda National Chamber of Commerce and Industry	P O Box 3809 Kampala	Tel: 258791/3 Fax: 258793	uncci@uol.co.ug
Uganda Manufacturer's Association	Lugogo Show Grounds P O Box 6966 Kampala	Tel: 221034 Fax: 220285	uma@starcom.co.ug
Private Sector Foundation	P O Box 7683 Kampala	Tel: 342163 Fax: 259109	prisf@starcom.co.ug
Privatisation Unit	Ministry of Finance P O Box 10944 Kampala	Fax: 259997	
Uganda National Farmers Association	27 Nakasero Road P O Box 6213 Kampala	Tel: 230705/255250 Fax: 230748	
National Environment Management Authority	P O Box 22255 Kampala	Tel: 236817	nema@imul.com
Dairy Development Authority	Plot 1 Kimathi Avenue P O Box 34006 Kampala	Tel: 343901/343883 Fax:250270	dda@afsat.com
Uganda Small Scale Industries Association	P O Box 7725 Kampala	Tel: 221785	ussia@starcom.co.ug
Uganda oilseeds Processors Association (UOSPA)	P O Box 2215 Kampala	Tel: 342504 Fax: 342504	oilseeds@starcom.co.ug
Uganda Dairy Stakeholders' Association	P.O. Box 29273, Kampala	C/o Tel: 259134	lol@africaonline.co.ug

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Dairy Development Authority, Annual Performance Report 2001/2002

Land O'Lakes, Dairy Sector Report, September 2001

Appendix 1: Players In The Industry

Major Feed mills

Name	Location	Capacity (metric tonnes/day)
Maganjo Grain Miller Ltd	Kampala	10
Prisons Feed Mill	Kampala	3
Kwenzi Enterprises	Kabarole	3
Quality Animal Feeds	Kamuli	10
Uganda Feeds (NUVITA)	Jinja	10
Kenana Traders	Bushenyi	4
Liberty Trading Co.	Kampala	5

Dairy processing enterprises as of 2003

Company	Location	Products	Operational capacity (litres)	Status
Countrytaste (U) Ltd	Mbarara	pasteurised milk, ghee, butter	30,000	Operational
Dairy Corporation Ltd	Kampala, Entebbe, Mbale	Yoghurt, pasteurised milk, UHT milk, ice-cream, butter, ghee, cheese cream	210,000	Operational
GBK Dairy products (U) Ltd	Mbarara	UHT Milk, Pasteurised milk	90,000	Operational
Kaisa Bamulengeyo & Sons Ltd	Jinja	Milk production and processing	10,000	Operational
Masaka United Dairy Farmers Ltd	Masaka	Pasteurised milk and cultured milk	2,500	Operational
Nerika Traders Ltd	Mbarara	Ghee	2,500	Operational
Nshwere Ghee	Kampala	Ghee	4,000	Operational
Paramount Dairies Ltd	Mbarara	Cheese	1,000	Operational
Ramilk Ltd	Mbarara	pasteurised milk	20,000	Suspended operations
Western Highland Creameries Ltd	Mbarara	pasteurised milk, ghee	20,000	Suspended operational
White Nile Diaries (U) Ltd	Jinja	pasteurised milk, ghee, yoghurt	6,000	Operational
Jesa Dairy Farm Ltd	Kampala	pasteurised milk, butter	4,000	Operational
Liberty Dairies Ltd	Entebbe	Cheese	1,000	Operational
Farm Foods	Kampala	Yoghurt, cream	2,000	Operational

Management				
Anifarm Ltd	Kampala	Yoghurt	1,000	Operational
Umoja Farmers Ltd	Kampala	Yoghurt	1,000	Operational
Mityana Mwera	Mubende	Yoghurt, ghee	3,000	Operational
Negico Yoghurt Ltd	Mbarara	Yoghurt	1,000	Operational
White Nile Dairies	Jinja	Pasteurised milk	10,000	Operational
Teso Dairies	Soroti	Pasteurised milk	3,000	Operational
Sunshine Dairies	Kampala	Pasteurised milk	10,000	Operational
Dairy Bell	Fortportal	Pasteurised milk	2,500	Operational

Appendix 2. Tariff Position Towards COMESA FTA (March 2003)

Country	Tariff Position
Djibouti Egypt Kenya Madagascar Malawi Mauritius Sudan Zambia Zimbabwe	Duty-free trade. No duties or charges of equivalent effect on all goods originating from these countries.
Burundi Rwanda Ethiopia	Burundi, Rwanda and Ethiopia to join by end of January, 2004. Rwanda reduced tariff by 90% since January 2003 while Ethiopia reduced by same rate since October 2002. Burundi reduced by 60%.
Comoros Eritrea Uganda	Had reduced tariffs by 80%, so 20% of the general (MFN[5]) duty rates
Angola, Congo (DR), Seychelles	Full MFN rates.
Namibia Swaziland	Full MFN rates until the derogation lapses

Source: COMESA web site and Report of Finance Ministers' Meeting in Khartoum March, 2003

[5] MFN means Most Favoured Nations