“Highlights”
Sector Policy for Tea
Training BPR Agribusiness Team
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Kigali, July 2012

BPR – Tea Sector Training
The plant
- Which parts of the tea bush are used to make tea?
Leaves – Flowers – Fruit – Bark – Roots
- How tall is a tea bush?
30cm – 50cm – 75cm – 1m – 2m – more
- How long does a tea bush stay productive?
1 – 2 – 5 – 10 – 25 – 50 – 100 years
- How often is tea harvested?
2 – 3 – 10 – 25 – 50 times a year
Tea Sector – Warm-Up Quiz 2

Making tea
- What are CTC, Orthodox, Green or Organic teas?
- Can a farmer make and drink the tea from his plants?
  Yes – No
- How is tea made?
  Drying in the sun – Cutting & fermenting – Steaming & drying
- How long can made tea be stored?
  1 week – 1 month – 6 months – 1 year – 2 years – 5 years
Tea Sector – Key Features

- Tea sector is fully integrated from garden to factory (one cannot live or produce without the other close-by)
- Tea is produced all year round
- With good care tea bushes can produce for 50 or 100 years
- Tea needs special conditions (altitude, moisture, soil) to grow well, not suitable for any location
- Most Rwanda tea is exported and sold through the Mombasa tea auction floor
What is Tea in Rwanda
- Tea growing regions in North and West of Rwanda
- Largest export crop of Rwanda
- Rwanda has reputation for consistent quality on Mombasa auction
- 19,000 hectares to be increased to 21,000 hectares in 2013 and then to 40,000 hectares in 2017
- 22,000 MT of made tea produced
- Best tea gardens in marshlands achieve up to 6 MT/ha
- National average is 1.2MT/ha
Tea Sector in Rwanda – Key Figures

- Price of fresh tea leaves = RWF 100/kg
- Cost structure:
  - 30-35% farmer
  - 22-25% fertiliser
  - 20-22% plucking
  - 12% cooperative administration
  - 7-8% transport
  - 2% fees & taxes
- Farmer revenue RWF180 – 350,000/ha
Tea Sector – Key Figures

- Price of made tea = USD 2.5/kg (RWF 1,500/kg)
- Cost structure:
  - Fresh tea leaves RWF 350-400/kg
  - Fuel (wood & electricity)
  - Labour
  - Packaging
  - Amortisation
- Processing time = 24 hours
Tea Value Chain

- Nursery
- Fertiliser
- Pruning
- Drainage
- Replanting

Farmer/Cooperative

- Bags
- Crates
- Scales
- Labour
- Logbook

Transport

- Crates
- Trucks
- Maintenance

Processing

- Black Tea
- Green Tea
- Orthodox
- Fuel
- Packaging

Market

- Export
- Domestic
- Bulk
- Retail
- Tea bags
- Marketing
Tea Value Chain - Inputs

Which inputs?
- Seeds – No significance
- Fertilisers – Yes, about 500kg / ha / year = RWF 240,000
- Pesticides – No
- Labour – Yes, Drainage, weeding, plucking, fertilising & pruning

Other?
- Sacs or crates for plucking
- Road maintenance

Input finance through Cooperative or Factory!
Tea Value Chain – Farmer/Cooperative

Role of farmer
- Field maintenance, fertilising, pruning
- Plucking?
- (Re)planting?

Role of cooperative
- Input procurement
- Road maintenance
- Transport to factory
Tea Value Chain – Farmer/Cooperative

**Key elements**

- Revenue drivers are yield and quality
  - Yield => (Re)planting, Adequate fertilising, Regular plucking, Pruning, Maintenance
  - Quality => Training and motivation of pluckers, Adequate sacks or crates, Road maintenance, Transport to factory
- Close relationship between cooperative and factory
- Cost control
- Garden & factory may be one and same entity
Why transport?

- Quality is dependent on:
  - Speed of delivery to factory after plucking
  - Limit leaf damage (crushing and bruising)
- Own or third party
- Tractor + trailers or truck
- Use of transport for other tasks (road maintenance)
Tea Value Chain – Factory

Factory is **KEY**!

- If not processed, leaves are lost
- Good quality leaves can be processed into bad tea!
- Coordination between garden and factory for leaf deliveries

- Processing of tea:
  - CTC (modern cut tea)
  - Orthodox (traditional rolled tea)
  - Green (unfermented tea)
  - Organic (only possible from organic leaves)
Tea Value Chain – Market

Vast majority of Rwanda tea is sold through Mombasa auction:

(+): Rwanda tea is considered consistent good quality
(+): Prices (for Rwanda tea) are relatively stable
(+): Demand is stable

(-): Overland transport to Mombasa
(-): Unpredictability of tea type in demand (CTC, Light, etc.)
(-): Rwanda is small player
(-): Rwanda tea is commodity instead of premium product
Rwanda Tea Price Mombasa

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## Tea Sector – Financing Needs

<table>
<thead>
<tr>
<th></th>
<th>Input finance</th>
<th>Raw material collection finance</th>
<th>Inventory finance</th>
<th>Asset Finance</th>
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</thead>
<tbody>
<tr>
<td>Farmers</td>
<td></td>
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<td></td>
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<tr>
<td>Cooperatives</td>
<td>X</td>
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<tr>
<td>Processor</td>
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Tea Sector – SWOT

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tbody>
<tr>
<td>- Suitable soil &amp; climate (western half of Rwanda) for tea production</td>
<td>- Small producer on world market</td>
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<tr>
<td>- All-year production</td>
<td>- Land-locked, dependence on neighbouring countries and infrastructure</td>
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<tr>
<td>- Recognised and stable quality</td>
<td>for market access</td>
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<tr>
<td>- Consistent good prices in world market</td>
<td>- High dependence on Mombasa tea auction</td>
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<tr>
<td>- Cost competitive</td>
<td>- Lack of “cooperative” experience and management skills</td>
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<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
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<tbody>
<tr>
<td>- Large areas of land available for tea garden expansion</td>
<td>- Shortage of labour in some areas</td>
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<tr>
<td>- Develop direct customer base for quality teas</td>
<td>- (Longer-term) transport costs to market</td>
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<tr>
<td>- Potential for organic and special teas with increased value-added</td>
<td>- Competition from Kenya and Uganda</td>
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Tea Sector – SWOT (bis)

**SWOT of sector ≠ SWOT of client!**
- Specific strengths of client
- Specific weaknesses of client (mitigate!)
- Opportunities
- Threats (mitigate!)

SWOT analysis is tool to verify strengths and opportunities and identify potential risks and threats (that must be mitigated!)
Input finance for cooperative

(+) No risk of side-selling
(+) Farmers must work through cooperative
(+) Cash flow throughout the year
(+) No price risk (price of leaves is fixed)

(-) Inputs (fertiliser) = significant portion of revenues
(-) No alternative revenue stream
(-) Repayment capacity dependent on minimum yield (price structure set by government)
Tea Sector – Risks Asset Finance

**Asset finance for cooperative**

(+) Cash flow throughout the year
(+) No price risk (revenue stream dependent on yield & quality)
(+) Transport used all year (fresh leaves, road maintenance, fertiliser)

(-) Uncertainty of running and maintenance costs
(-) Blocks (part of) the cash flow for several years
(-) May not add significantly to revenue stream
Cooperative request for working capital loan for input finance
- 1.000 hectares
- Average yield in past three years 10 MT/ha
- Average revenue in 2011 = RWF 108/kg of leaves
- Fertiliser cost = RWF 215,000 / ha
- Assets: Office building, warehouse, residential houses = RWF 280m
- Cooperative financials
  - Savings = RWF 70m
  - Profit of RWF 50m in 2010 and 2011, Loss of RWF 40m in 2009
Tea Sector – Case Analysis

Key questions
- Who are the stakeholders?
- When is financing needed (one or several draw downs)?
- How soon can it be repaid?
- Is cash flow sufficient (with safety margin)?
- What if?
- How to mitigate risks?
- How to secure the bank?