



“Highlights”

Sector Policy for Tea

Training BPR Agribusiness Team

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BPR – Tea Sector Training



Rabobank



Tea Sector – Warm-Up Quiz 1

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 – 100years

- 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?

Different brands – Different techniques – Different varieties

- 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



Tea Sector in Rwanda – Key Figures


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

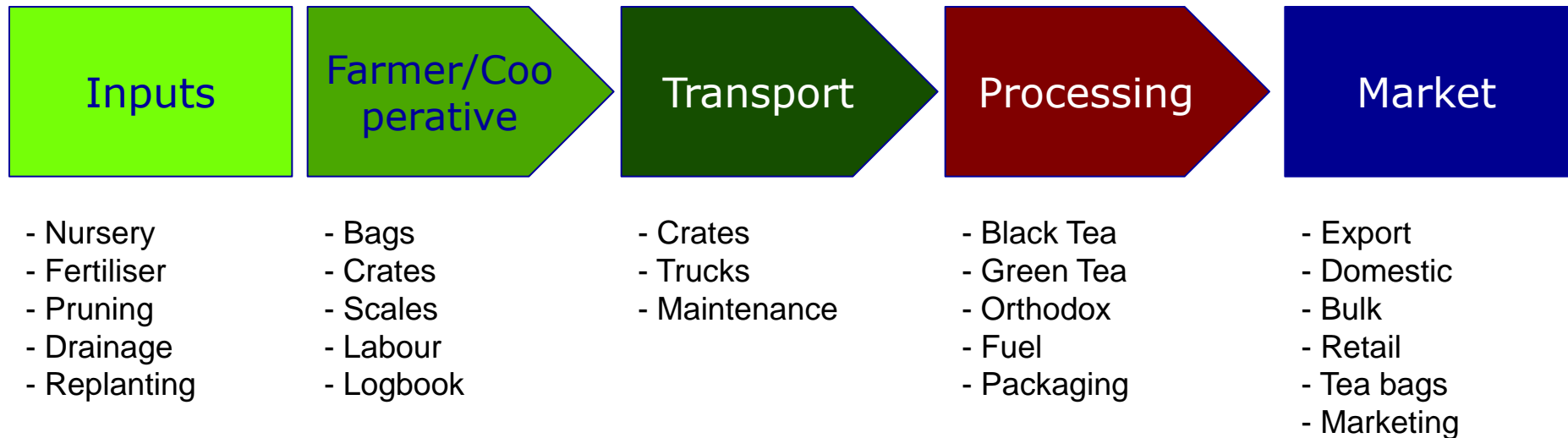


Tea Sector – Key Figures

- 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





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



Tea Value Chain – Transport

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)





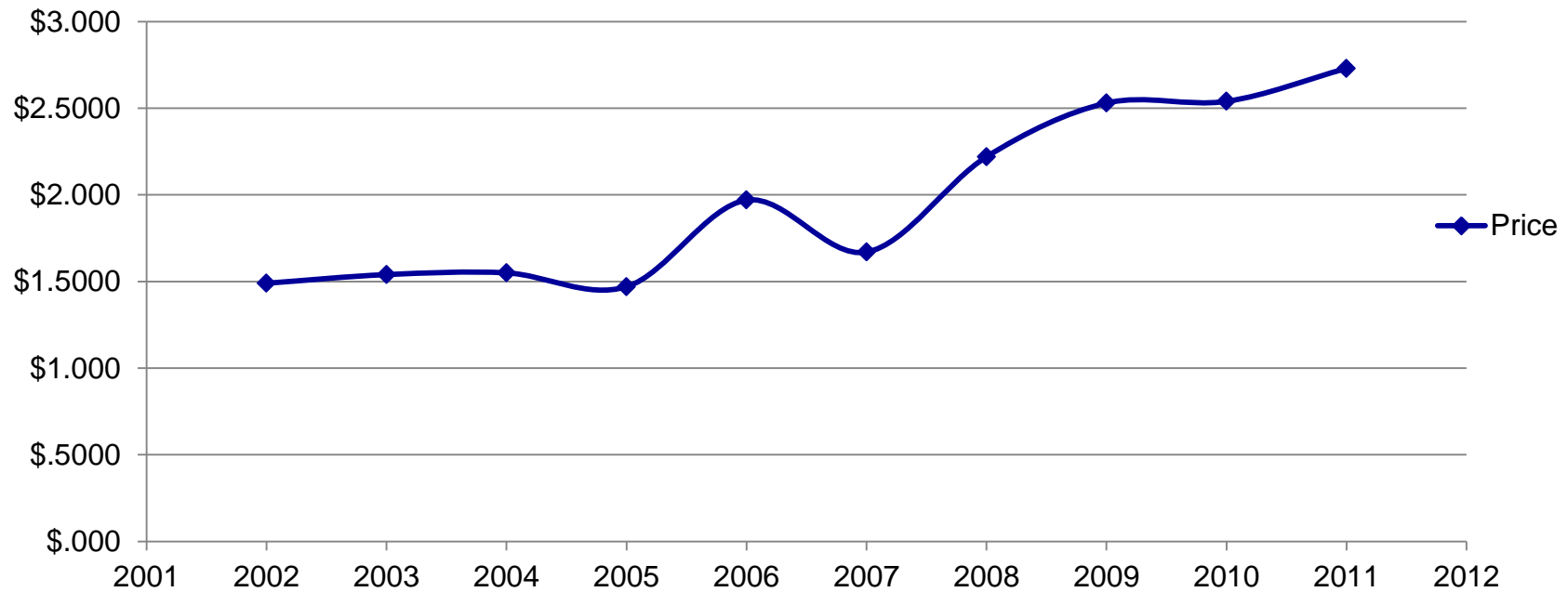
Tea Value Chain – Market

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





Tea Sector – Financing Needs


	Input finance	Raw material collection finance	Inventory finance	Asset Finance
Farmers				
Cooperatives	X			X
Processor				X



Tea Sector – SWOT

<p><u>Strengths</u></p> <ul style="list-style-type: none">- Suitable soil & climate (western half of Rwanda) for tea production- All-year production- Recognised and stable quality- Consistent good prices in world market- Cost competitive	<p><u>Weaknesses</u></p> <ul style="list-style-type: none">- Small producer on world market- Land-locked, dependence on neighbouring countries and infrastructure for market access- High dependence on Mombasa tea auction- Lack of “cooperative” experience and management skills
<p><u>Opportunities</u></p> <ul style="list-style-type: none">- Large areas of land available for tea garden expansion- Develop direct customer base for quality teas- Potential for organic and special teas with increased value-added	<p><u>Threats</u></p> <ul style="list-style-type: none">- Shortage of labour in some areas- (Longer-term) transport costs to market- Competition from Kenya and Uganda





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!)



Tea Sector – Risks Input Finance

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



Tea Sector – Case Study

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?