



GATSBY
AFRICA

HIGHLIGHTS
REPORT
2019/20



INTRODUCTION



JUSTIN HIGHSTEAD,
EXECUTIVE
DIRECTOR OF
GATSBY AFRICA

How do you turn around a whole sector - such as forestry in Tanzania - and make sure not only that it grows, but that such growth benefits as many people as possible? And when you've achieved that and a sector is thriving, how do you make sure that it goes on delivering for those people in the future – that it isn't captured by interest groups; that jobs and incomes are protected; that it doesn't collapse in the face of new challenges; that it can evolve to create new opportunities? These are the central questions we're determined to find answers to at Gatsby Africa.

We're privileged to be a private foundation that has the freedom to be ambitious and seek genuine long-term change. We can test new ideas, learn from failures, overcome setbacks, and persevere over many years.

This report sets out how we are trying to use our freedoms to trigger large-scale and lasting change in sectors through five programmes across East Africa. These programmes are exceptionally ambitious – they aim to bring stakeholders together to catalyse change so a sector can survive and thrive in the long-term.

The programmes are targeting sector transformation – where a sector is competitive on the world stage, is benefiting as many people as possible, and, crucially, is resilient. A resilient sector

is one that is able to dynamically adapt to overcome challenges and take advantage of new opportunities in the future. This requires strengthening the sector's underlying health, rather than focusing on quick band-aid fixes to immediate problems.

The chapters in this report briefly set out each sector's journey towards transformation so far, with a focus on current momentum and how things have changed in the past year or so.

There are a number of success stories that make me really proud. Nine years ago we partnered with The Wood Foundation to buy two tea factories in Rwanda on behalf of smallholders. This was in many ways a high-risk undertaking, but these are precisely the sort of risks that foundations can and should take.

We are currently reaching
an estimated 620,000
people across East Africa

620,000



IT IS EXCEPTIONALLY EXCITING TO THINK ABOUT LEVERAGING INVESTMENTS INTO THE SECTORS AND THE IMPACT THIS COULD HAVE. IT'S ALSO INSPIRING TO THINK ABOUT EXPLORING REGIONAL INITIATIVES IN COMMERCIAL FORESTRY, AND THE VAST BENEFITS THESE COULD BRING TO ECONOMIES AND THE ENVIRONMENT IN EAST AFRICA.

Our partners have done a fantastic job in turning around the performance of these factories, and they're already delivering life-changing benefits to the farmers involved. Moreover, these investments and others we have made in the sector are helping to change the way stakeholders look at what might be possible. We've helped leverage in huge investment to some of the poorest parts of Rwanda, and the government is stepping up to rapidly accelerate the sector's growth and ensure that that growth benefits as many people as possible.

Similarly, the Kenyan and Tanzanian governments are now actively looking for ways to drive positive change in their commercial forestry sectors. Our

programmes have played key roles here – building evidence, sharing learning, linking local stakeholders with global experts, and testing new models to demonstrate potential and generate momentum.

On my trips to visit the programmes this year, I've been particularly fascinated to learn about innovative wood processing technologies that could be transferred to Kenya and Tanzania and massively increase returns for processors and growers. It is exceptionally exciting to think about leveraging investments into the sectors and the impact this could have. It's also inspiring to think about exploring regional initiatives in commercial forestry, and the vast benefits these could bring to economies and the environment in East Africa.

Of course, given our ambitious goals and the complex environments we operate in, there are also challenges in some of our programmes. This year the global over-supply of tea has hit our work in Tanzanian tea, while a global cotton price shock has had knock-on consequences that have undermined some substantial progress in the Tanzanian cotton industry.

These challenges only reinforce the importance of resilience; of helping stakeholders move sectors to less vulnerable states so that the livelihoods of hundreds and thousands of people can be protected when threats - such as shifts in global demand, the emergence of low-cost competitors, or political changes - emerge. Moreover, resilient sectors are not just shielded from shocks, but they also evolve to create and respond to new opportunities.

Achieving such resilience requires a long-term approach – large-scale change is difficult and progress will sometimes be slow and erratic. At Gatsby, we will always strive to overcome setbacks and do whatever we can to help sectors fulfill their potential and create jobs, raise incomes and build opportunities for people.

To close, I want to take this opportunity to thank our teams and our partners for all the hard work outlined in this report, and for their continued commitment to our common cause. I cannot wait to see what we can achieve together over the coming year.





TANZANIAN FORESTRY SECTOR

Creating a world-class commercial forestry sector that underpins downstream wood and energy industries and delivers widespread economic, social and environmental benefits to Tanzanian citizens

THE OPPORTUNITY

Commercial forestry is crucial for Tanzania's economy and environment. The sector is critical for Tanzania's industrialisation agenda and its efforts to reduce poverty and build opportunities for its citizens – particularly in rural areas. It underpins rural electrification, construction and numerous energy-intensive industries.

However, Tanzania cannot currently meet demand for timber and fuel-wood, leading to US\$150m of imports a year plus the mining of natural forests, with deforestation running at 400,000 ha per year.

But this does not have to be the case. Tanzania has among Africa's most favourable growing conditions and significant land available for planting. Opportunities exist to dramatically raise productivity, particularly through technology transfer and innovation – learning from countries such as Vietnam and Chile who have undertaken similar journeys.

The time to act is now. With a rising population, economic growth and industrialisation set to increase demand further, Tanzania needs to transform its forestry sector. By taking the right steps, the country can protect its natural forests, exploit compelling export opportunities, and ensure that hundreds of thousands of new jobs are created in a thriving sector.

POTENTIAL IMPACT

By developing the right infrastructure and investment environment, by 2035 Tanzania could:

- **Almost treble the number of jobs in wood product value chains to 400,000**
- **Increase the number of small-scale growers in the sector by 50% to 90,000**
- **More than treble government revenue from forestry to TSh 300 billion**
- **Become a net exporter of wood products, bringing in at least US\$50m per year**



IN A SHORT PERIOD OF TIME, TANZANIA MAY FIND ITSELF A POWERHOUSE OF FOREST PRODUCTS, LIKE FINLAND, WHOSE FORESTRY SHARE OF THE ECONOMY IS VERY HIGH. TANZANIA HAS EVERYTHING TO BECOME A FINLAND OF AFRICA.

DR. HAMISI KIGWANGALLA, TANZANIAN MINISTER OF NATURAL RESOURCES AND TOURISM

400,000

Transforming the sector
could lead to 400,000
people being employed in
wood value chains by 2035

THE JOURNEY SO FAR

In 2013, Gatsby established the Forestry Development Trust (FDT) to work with public and private stakeholders on a long-term programme to transform the sector and see it fulfill its huge potential.

FDT recognised the sector needed renewed investment in research and development to increase productivity. FDT developed and began to implement a comprehensive tree improvement strategy for Tanzania, including by establishing a flagship 10-hectare demonstration plot, and developing site-species trials with willing public and private sector partners in the Southern Highlands to test what would grow well in different locations.

Across the country there are now 117 different varieties of tree species, clones and hybrids being trialled across 23 sites with 13 partners across 4 climatic zones – the most substantial research infrastructure in East Africa.

Many of the trials are reaching mid-rotation, with some showing a potential tripling of productivity – results that are already influencing private sector investment decisions. Public and private actors are also partnering to establish seed orchards to produce local improved tree seed.

Growers can now also access imported improved seed through a seed supplier and selected nurseries.

In addition, FDT has helped increase access to information and contractor services for establishing and managing plantations, encouraging city-based investors to consider forestry opportunities. However, there is more work to do to both increase demand for - and quality of - service provision, especially for the medium-scale grower segment.

Processing infrastructure remains small-scale with limited value-add beyond primary processing, however the last four years have seen exciting growth in investment in Engineered Wood Product (EWP) value chains.

These developments have helped illuminate the sector's huge potential, and it is receiving increasing government attention. The Tanzanian government has created a Forestry Working Group within the Tanzania National Business Council, which brings together public and private actors around priority sectors to think through improvements to the enabling environment.



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SEEDLING
PRODUCTION,
WEEDING AND
SPACING ARE KEY
STEPS IN THE
FORESTRY VALUE
CHAIN. JUST AS YOU
CANNOT PRODUCE
BREAD WITH SPOILT
FLOUR, YOU NEED
GOOD QUALITY TREE
SEED MATERIAL.

AIDAN FITAVANGU, TREE GROWER
IN MUFINDI



CURRENT MOMENTUM

The pace of change in the sector is accelerating, with increased interest and support from government, growing stakeholder collaboration, quality tree improvement research infrastructure in place, and investors seeking out opportunities in production and processing.

Demand signals have grown stronger, helped by the continued logging ban in Kenya, the construction boom in Dodoma, and projections by the national electricity utility that its requirement for poles will double over the next 10 years to 1.2 million per year.

Interest in EWP continues to expand. While investment is dominated by Chinese operators who can import technical capability, locals have made three investments in veneer peeling in Mafinga. There is also increasing interest in new investment from current processors in the sawn timber value chain to improve efficiency and quality.

National policy is being developed through a consultative process between public and private sector players, and taking into account the needs of the commercial forestry sector. Meanwhile, private sector players are working to establish a private forestry council and forum to increase coordination.

Excitingly, government is increasingly interested in enabling concessions on public land through public-private partnerships. During a recent visit to the Southern Highlands, the Minister of Natural Resources and Tourism reaffirmed his commitment to this. The availability of large blocks of land for planting could have a significant impact on the sector's future.

FOUR FDT HIGHLIGHTS IN 2019/20

SUCCESSFULLY FACILITATING KEY PUBLIC-PRIVATE GROUP

FDT continued to play a key role in developing a well-functioning Forestry Working Group within the Tanzania National Business Council. The Group's major milestones included developing a shared sector vision, and extending government allocations of raw materials to processors from one- to three-year contracts to stimulate investment.

SUPPORTING NATIONAL FOREST POLICY DEVELOPMENT

FDT has helped ensure that commercial forestry is well-represented in the new National Forest Policy, and that the policy acknowledges the critical role of the private sector – including the potential for concessions on government land.

EXCITING PARTNERS WITH EARLY TRIAL RESULTS

While FDT-led species trials are still at an early stage, partners are already looking to fast-track high performing varieties into production. Tanzania Forest Services Agency (TFS) has requested permission to fast-track 17 species and hybrid clones from a trial in North Ruvu, and a major multinational company is fast-tracking a variety for wood-fuel.

SUPPORTING SECTOR'S LARGEST SUPPLIER

TFS is the single largest supplier of raw material to the sector. With FDT's support, TFS is starting to increase use of improved planting material and good silvicultural practices in plantation establishment.



THE FORESTRY WORKING GROUP IS GOING WELL; WE'RE CHANGING THE LANDSCAPE, THE OUTLOOK OF THE SECTOR.

OLIVA VEGULLA, FORMER ACTING SECRETARY OF THE TANZANIA NATIONAL BUSINESS COUNCIL



WHERE NEXT?

- The commercial forestry sector in Tanzania is undoubtedly on a positive trajectory. While challenges remain, the outlook is strong.
- FDT's reputation and expertise mean it is well-positioned to support the sector to deliver on its huge potential.
- In the coming year, FDT will focus on further supporting government to create the right enabling environment for commercial forestry; increasing growers' access to improved planting material; and stimulating game-changing investments in processing technologies.
- By 2021 we hope to see the National Forest Policy approved by the Cabinet, with provisions for commercial forestry further incentivising investment. We aim to see at least five new processing plants open and for public and private players to establish 3,500 hectares of quality plantations – as part of a target for an additional 32,000 hectares over the next three years.
- This will move the sector much closer to fulfilling its potential – and towards the overall goal of creating a world-class commercial forestry sector delivering widespread economic, social and environmental benefits to Tanzania's citizens.



FDT'S WORK WAS AN EYE-OPENER...IT HAS REALLY HELPED THIS COUNTRY.

EDGAR MASUNGA, DIRECTOR OF TREE SEED PRODUCTION,
TANZANIA FORESTRY SERVICE



KENYAN FORESTRY SECTOR

Introducing innovative technologies and models to transform Kenya's commercial forestry sector, protect the environment, and benefit millions of Kenyan citizens

THE OPPORTUNITY

Demand for wood is accelerating rapidly in Kenya but domestic supply is not keeping pace – with serious consequences. Alarming, even with wood imports rising dramatically, the country lost 10% of its tree cover between 2001 and 2018.

Population and economic growth will ratchet the pressure further – projections show the current supply gap will double in the next decade without action. This threatens further increases in costs for wood fuel that have already significantly hit Kenyan households and industries.

Transforming the commercial forestry sector thus holds huge potential to help protect natural forests and spur significant job and wealth creation. Kenya has clear opportunities to unlock land for planting while introducing game-changing technologies and radically upgrading models for sourcing timber, including through farm-forestry.

Crucially, these innovative technologies and models could be deployed so that the sector expands in an

inclusive way, with smallholder growers developing win-win relationships with pioneering processors. The impact on Kenya's environment and economy would be striking.

POTENTIAL IMPACT

Detailed analysis of the sector's potential across different Kenyan regions has shown that by 2035, the country could see:

- **More than 1 million households generating a collective annual income of US\$50 million from tree-growing**
- **11,000 new formal skilled jobs created in wood value chains**
- **Processing adding US\$261 million of value to finished products per year**
- **Nearly 200,000 hectares of additional commercial forestry coverage**
- **Long-term carbon sequestration of 28.7 M tCO₂ equivalent**



ENVIRONMENT IS THE FOUNDATION OF DEVELOPMENT, AND IT CAN NO LONGER CONTINUE BEING TAKEN FOR GRANTED. I CHALLENGE ALL OF US TO STEP UP AND ENSURE THAT BY 2022 THE NATION ACHIEVES AND EVEN SURPASSES 10 PER CENT FOREST COVER.

KENYAN PRESIDENT UHURU KENYATTA



WITH THE MONEY I GET FROM SELLING MY TREES, I HOPE TO SEND MY CHILDREN TO SECONDARY SCHOOL AND THEN UNIVERSITY.

JOSEPHINE MASHA, FARMER SUPPORTED BY KOMAZA IN KILIFI COUNTY, KENYA

THE JOURNEY SO FAR

In 2016, Gatsby established the Kenya Commercial Forestry Programme to analyse the opportunities within the sector; test innovative models, bring in international learning and support stakeholders to kickstart growth.

The sector is at an early stage in its journey, with the processing industry struggling to attain take-off. Coordination in the sector, productivity and quality remain at relatively low levels with room for improvement, but a few dynamic firms are becoming established and leading the way.

Most importantly, critical stakeholders are becoming convinced of the sector's potential and excited by its opportunities, with this translating into clear action towards building a shared sector vision. The government is fully considering commercial forestry within its broader forestry plans, and is working to develop a clear commercial forestry policy.

KCFP has contributed to this excitement within the sector through a series of analytical pieces to generate evidence and outline opportunities. This has included developing a tool - the first of its kind

in Africa - that uses data on soil, rainfall, altitude and species performance to help inform growers and investors about what species and varieties of trees to plant in different locations. This tool has been backed up with a comprehensive analysis of different production and processing models, offering tailored recommendations about which can deliver the biggest impact for each of Kenya's regions.

KCFP has also linked key stakeholders to international expertise, bringing in global timber processing specialists to help local companies think through how they could improve operations, and organising visits to South Africa and Swaziland to help officials and business leaders learn from world-class forestry facilities.

In addition, KCFP has developed pilot partnerships with a range of different players to build momentum and demonstrate the potential behind different ways of working. These have included working with One Acre Fund to design high impact commercial forestry services with the potential to benefit approximately 500,000 farmers it works with in Western Kenya.



FOUR PROGRAMME HIGHLIGHTS IN 2019/20

POSITIVE SIGNS TOWARDS MAJOR POLICY REFORM

KCFP has been appointed by the Ministry of Environment & Forestry onto both national forestry policy and commercial forestry policy task-forces. KCFP is also partnering with the Kenya Forestry Research Institute to develop an evidenced-based and prioritised National Commercial Tree Improvement Strategy.

SUPPORTING GLOBAL EXPERTISE TO ENTER EAST AFRICA

KCFP is working with a leading South African forestry training and consulting firm to develop a market entry strategy for East Africa.

PIONEERING SITE SPECIES MATCHING TOOL SUPPORTING HIGH-LEVEL DISCUSSIONS ON SECTOR

KCFP has collated data on altitude, rainfall, soil and species performance to develop a tool that helps inform what tree species will grow well in different areas of Kenya. This is generating high levels of excitement within the sector; and KCFP is now using the tool to aid high-level discussions, such as with the Ministry on national sector planning.

COMPLETING COMPETITIVENESS ANALYSIS

KCFP has completed a detailed analysis of the relative competitiveness of different production and processing systems in Kenya and has identified priority competitive forest models in each region of Kenya. This is helping the team to identify viable opportunities and support stakeholders to develop a more robust vision for the sector.



CURRENT MOMENTUM

The past year has been significant in the sector. A logging ban within government plantations has limited many processors' operational capacity, and several are closing shop. This is partly due to difficulties in adopting the innovative models and technologies needed to source and process the low quality wood that is available from farm forestry and small woodlots.

More positively, forestry company Komaza - which currently works with 20,000 growers - has secured US\$30m of investment for a modern saw-mill supplied with farm-forestry timber in Central Kenya.

Access to high quality inputs also continues to increase, with One Acre Fund further investing in its forestry strategy to incorporate improved technologies into its tree kit package for farmers.

In addition, a leading South African forestry training and consulting firm with additional expertise in software solutions for managing out-grower schemes is preparing to enter the Kenyan market.

Significantly, there have been major shifts in government commitment towards improving the sector, including the Cabinet Secretary forming a task-force to spearhead development of a standalone commercial forestry policy.



IN OUR INITIAL DISCUSSIONS WITH GATSBY, YOUR TEAM HAD EXPRESSED WANTING TO SUBSTANTIALLY SHORTEN THE LEARNING CURVE FOR ACTORS AIMING TO INCREASE FORESTRY IMPACT FOR SMALLHOLDER FARMERS. I CAN DEFINITELY SAY THAT YOU HAVE DONE JUST THAT. LOOKING FORWARD TO OUR CONTINUED WORK TOGETHER!

PATRICK BELL, PHD
SENIOR DIRECTOR - RESEARCH AND DEVELOPMENT, ONE ACRE FUND | KENYA

WHERE NEXT?

- The opportunity for commercial forestry in Kenya is significant. Investment in new technologies and models could radically transform the sector and bring vast numbers of small growers into wood supply chains delivering high-value products.
- Government commitment is strong, with the forthcoming development of a distinct policy for commercial forestry offering the potential to rally stakeholders around a shared vision for the sector.
- Over the coming year, KCFP will share analysis and learning - both local and global - aiming to help stakeholders set out a pathway to rapidly grow the sector in a way that benefits hundreds and thousands of Kenyan citizens.
- KCFP will also look to catalyse pioneering investments in high technology saw milling, while helping to increase the supply of improved planting material for growers of all sizes, including by working with partners on seed import regulations.
- By 2021 we hope to see shifts in attitudes and policy - particularly around concessions - that would unlock significant amounts of land for commercial forestry and trigger serious investment interest.
- If successful, the sector will have shifted through the gears, with strong prospects for fulfilling its potential and bringing positive change to Kenya's economy, environment and people.



COMMERCIAL FORESTRY NOT ONLY HAS ECONOMIC BENEFITS BUT ALSO CONTRIBUTES TO CONSERVATION BY REDUCING PRESSURE ON NATURAL FORESTS AS WELL AS ENHANCING THE INCREASE OF FOREST COVER TOWARDS ACHIEVEMENT OF THE 10 PER CENT RECOMMENDED COVER.

BENSON KANYI, SECRETARY GENERAL OF THE KENYA TREE GROWERS ASSOCIATION





TANZANIAN COTTON & TEXTILES SECTOR

Rapidly creating tens of thousands of decent textiles jobs while ensuring more than 500,000 cotton farmers can access the quality inputs and training they need to increase yields, boost quality and raise incomes

THE OPPORTUNITY

Across the world, textiles industries have repeatedly been engines for development, kickstarting periods of rapid job creation and economic growth.

Wages in textiles sectors across Asia are rising – particularly in China, which is predicted to shed millions of labour-intensive manufacturing jobs in the coming years. This presents a huge - albeit short-term - opportunity for countries with competitive labour costs and other conducive conditions to attract new investment, transfer in technology, and create hundreds and thousands of jobs.

Importantly, there is increasing global focus on ethical and sustainable textiles and garments, meaning countries have an opportunity to become destinations for responsible investment that generates decent jobs.

This creates a compelling opportunity for Tanzania, where the cotton & textiles sector has further poverty-reducing potential, given that more than 500,000 smallholders - concentrated in some of the poorest and least fertile regions of Tanzania - grow cotton.

However, farmers with limited to no savings struggle to invest every year in the land preparation, improved seed, pesticide and fertiliser needed to boost yields and quality. This means their average yields are less than half those of smallholders in West Africa, and they receive low returns for their low quality crops.

Learning from across the world shows multiple models for boosting farmer investment in cotton, plus lessons for how to turn initial investments in garment manufacturing into a thriving textiles industry.

POTENTIAL IMPACT

Wide-ranging reforms in the cotton & textiles sector could have huge impacts on Tanzania's citizens and its economy, including:

- **Lifting 650,000 people out of poverty in cotton-growing areas by doubling household incomes from the current US\$540 per year**
- **Creating 50,000 decent textile and garment jobs by 2030**
- **Increasing textile and garment export revenues sixfold to US\$800 million by 2030**



A BIG NUMBER OF PEOPLE EARN THEIR LIVING FROM COTTON, SO IF YOU TALK ABOUT POVERTY ALLEVIATION, IF YOU STRENGTHEN THE COTTON INDUSTRY, IT WILL CONTRIBUTE GREATLY.

MARCO MTUNGA, DIRECTOR GENERAL OF THE TANZANIA COTTON BOARD

THE JOURNEY SO FAR

Gatsby has engaged in Tanzanian cotton & textiles for over 12 years through various activities. Progress has been far from linear, with a number of setbacks.

In cotton, significant progress has been made on raising competitiveness by increasing farmers' access to improved seed, which boosts productivity and quality. In the 2018/19 season, after a decade of work, improved seed called UKM08 was rolled out to every cotton farmer. This boosted the sector's income by an estimated US\$40 million – split evenly between farmers and processors.

Following this achievement, maintaining a pipeline of new seed varieties and the system to bulk them for dissemination is vital to the sector's future, otherwise the gains will quickly be eroded.

Different models to increase farmer investment in cotton have been trialled over the years. At certain times and in certain areas, incentives have been aligned and productive partnerships forged to deliver increased investment. However, this has yet to translate into sector-wide progress, and greater focus is needed on building stakeholder trust – which is crucial for the higher impact models that have been trialled.

Textiles has moved up the national agenda, and the government has highlighted the industry as a priority. There has been some progress towards developing investment-ready infrastructure, with Gatsby supporting efforts to develop large zones for garment manufacturing, given many investors have turned away due to a lack of serviced land. Such zones could see thousands of people employed in decent textiles and garments jobs. Thousands of jobs would also be created in local businesses supplying goods and services to these zones.

The ambition is to draw on the scale of international investment ready to move into Tanzania to manufacture garments, but to harness this investment to create demand linkages for smaller local businesses, for Tanzanian textile firms and, ultimately, for cotton and other fibres. Securing such linkages will help ensure foreign firms' long-term commitment to Tanzania and help build a locally-owned industry.

Learning from international examples shows this will need strong public investment in skills and business support services. Initial work on this in Tanzania has been promising, further demonstrating the potential.



GATSBY HAS DONE A LOT OF WORK HERE. THERE IS NOWHERE GATSBY HAS NOT STEPPED IN.

BOAZ OGOLA, CEO OF ALLIANCE GINNERIES





CURRENT MOMENTUM

The 2018/19 cotton growing season should have been a relative success, based on strong productivity increases. These were driven by the programme's huge achievement in securing universal coverage of improved UKM08 seed, plus more effective inputs procurement and distribution by the Tanzania Cotton Board (TCB). Total seed cotton output increased 55% to 350,000 MT from the previous season.

However, the sector was once again plunged into crisis in the wake of a global cotton price shock. A desire to protect Tanzanian farmers led to the local cotton price being set higher than the global one. Yet this made cotton-buying unattractive to processors, and inadvertently penalised those who had invested in farmers. The resulting lower sales volumes also stopped the TCB collecting the loans it had provided farmers for inputs. This has severe implications for the TCB and other sector institutions' finances.

Positively, 160,000 farmers are now purchasing inputs for cotton and other crops from a Gatsby-supported village-based agro-dealer network.

This year progress on developing serviced land for textiles slowed. However, government agencies have strengthened their work on textiles, attracting interest from foreign investors (see table). The positive signals from government have also convinced IFC/World Bank to reformulate their strategy and identify textiles as a priority in Tanzania. A Gatsby-run pilot skills development programme also generated good results this year, and is being further developed with the IFC – with the aim of building local capacity to assess and address skills gaps.

Textiles and garments remains a compelling opportunity, with output and exports rising (including to the demanding US and EU markets) despite the number of active firms falling to 9 from 12 in 2016. This suggests the more viable businesses have survived and diversified, setting solid foundations for the future.



BEFORE, I HAD LITTLE FOOD OR MONEY AND LIMITED BUSINESS SKILLS – NOW I HAVE INVESTED IN MY OWN FARM, HAVE A HOUSE WITH 6 ROOMS AND HAVE ATTENDED RELEVANT TRAININGS. I AM NOW TRUSTED BY THE LOCAL COMMUNITY.

ADAMU M, A VILLAGE-BASED AGRO-DEALER SUPPORTED BY GATSBY IN SHINYANGA

FIVE PROGRAMME HIGHLIGHTS IN 2019/20

ACHIEVING FULL COVERAGE OF IMPROVED SEED

The programme enabled the development, multiplication and distribution of improved UKM08 seed, resulting in 100% coverage in the 18/19 season (ending September 2019).

REGISTERING ALL COTTON FARMERS

For the first time, all cotton farmers were brought onto a registration system, providing a foundation for future service delivery models.

AGRO-DEALERS REACHING MORE THAN 160,000 FARMERS

The programme has developed a commercial village-based agro-dealer network from scratch. More than 500 self-employed input dealers - linked into the supply chains and distribution system of large agri-input companies - have now achieved estimated combined sales of \$13.8m across the Lake Zone to 160,000 farmers.

ATTRACTING INVESTORS

A Hong Kong-based textile and garment manufacturer - C&D - signed an MoU to invest in the Benjamin William Mkapa Special Economic Zone in Dar es Salaam. It is expected to start operations in 2021, growing to 7,000 employees and US\$12m of exports. A Turkish investor also announced it wanted to relocate its garments operation from Turkey to Simiyu region.

PILOTING INDUSTRY TRAINING PROGRAMME

The programme organised and co-financed training for Tanzanian supervisors at Mazava Fabrics. This improved technical and leadership skills and increased the factory's productivity, with other firms now seeking to draw in such training in future.



MOST OF THE FARMERS HERE ARE RELUCTANT TO ADOPT BEST FARMING PRACTICES AND TECHNOLOGIES SO AS TO REAP BIG FROM THE SECTOR. I HOPE THAT THIS STRATEGY WILL ADDRESS THE CHALLENGE THUS TRANSFORMING THE FARMERS' ECONOMY.

ANTONY MTKA, REGIONAL COMMISSIONER OF SIMIYU

WHERE NEXT?

- As the cotton sector seeks to recover from crisis, the government has an exceptionally ambitious plan revolving around co-operatives playing a central role in input distribution and marketing. This offers a potential way forward, but will be challenging to implement given governance and capacity issues.
- This year our programme will focus on supporting Simiyu Region - which accounts for 50% of Tanzania's total cotton production - to implement its new cotton strategy, with exciting technology-based solutions playing a lead role. Success could offer a model for the whole industry to replicate. We will also explore options to ensure the long-term commercial sustainability of our village-based agro-dealer network. Crucially, we will support the government to develop a sustainable cotton seed system, protect the pipeline of future seed varieties and deliver more certified and delinted seed.
- In textiles, the government is to create a new National Textiles Industry Development Strategy. This offers Tanzania an opportunity to clarify its preferred pathways for the industry's growth and rally stakeholders behind a shared vision for its future.
- This year our programme will offer learning and evidence to help guide stakeholders developing the strategy, while continuing our support to the investment promotion agencies' crucial work in textiles and garments.
- Overall, the cotton & textiles sector is at a crossroads. Tanzania has the potential to be a leading producer of textiles and garments for domestic, regional and global markets, generating hundreds and thousands of decent jobs and doubling the incomes of more than 500,000 cotton farmers. Fulfilling this potential is possible, but will require consistent and coordinated efforts from all stakeholders to pull together towards a shared vision and common purpose.





TANZANIAN TEA SECTOR

Facilitating domestic and foreign investment by demonstrating innovative models that boost profits for farmers and factories and see benefits shared more equitably

THE OPPORTUNITY

Many sectors offer real opportunities to build win-win relationships between processors and smallholder farmers. However, the level of risk at the start of potential relationships can be high, preventing them from ever forming.

Our joint programme in Tanzanian tea, implemented by The Wood Foundation, is aiming to test a model to overcome such challenges. Tea can be a difficult proposition for farmers, with bushes only offering returns several years after planting. Without a guaranteed market and with little if any money to invest, farmers may look to other crops instead – even if they are potentially less profitable.

Similarly, a tea factory is a multi-million dollar investment for a processor – while they may be keen to source from smallholders with land available to grow tea, they need confidence that farmers will deliver a level of production and quality that is hard for smallholders to guarantee. As such, investments can become blocked.

To address these challenges, we have created a farmer services company in Njombe. The not-for-profit company provides interest free loans on

patient terms to farmers and offers professional services for planting, maintaining and selling quality tea. By buying down the risk and reducing the complexity of supply, the company has facilitated a multi-million dollar investment by Unilever in a tea factory and operation getting the majority of its supply from smallholder farmers.

This is a major innovation in Tanzanian tea. Should it succeed, it could catalyse more investment, encourage existing tea firms to adopt similar models for farmer relationships, and even demonstrate such models for other agricultural sectors.

POTENTIAL IMPACT

Successfully implementing the service company model in Njombe could see:

- **Supported farmers achieving nearly treble the yields of the baseline average – 11,250 kg of green leaf per hectare, compared to 4,000 kg**
- **4,000 farmers in Njombe directly benefiting from service company support and higher incomes from tea**
- **The planting of 2,500 hectares of new smallholder tea**



I CALL UPON TEA FARMERS IN NJOMBE REGION TO CONTINUE CULTIVATING THE CASH CROP TO TAP THE MARKET OPPORTUNITIES OF THIS MODERN TEA PROCESSING FACTORY.

TANZANIAN PRESIDENT JOHN POMBE JOSEPH MAGUFULI SPEAKING AT THE INAUGURATION OF THE UNILEVER FACTORY IN NJOMBE



IN NJOMBE THERE WAS A SMALL GROUP OF FARMERS GETTING INTERESTED IN TEA. THEY DIDN'T HAVE A RELIABLE MARKET; THEY DIDN'T HAVE ACCESS TO INPUTS; THEY DIDN'T HAVE ACCESS TO EXTENSION SERVICES; AND THEY HAD VERY LIMITED MOTIVATION TO REALLY INVEST IN THEIR CROP AND SCALE IT UP.

DAVID KNOPP, WOOD FOUNDATION AFRICA DIRECTOR

THE JOURNEY SO FAR

While we have been engaging in the Tanzanian tea sector since 2010, our focus has pivoted over time to centre on the farmer service company model and Unilever's investment in Njombe. The aim is to create excitement and build the evidence-base around what is possible at the firm-level, triggering momentum for future sector-level change.

We created the Njombe Outgrowers Service Company (NOSC) in 2014. It has since recruited more than 1,900 farmers across 33 villages. NOSC has given loans, advice and access to quality seedlings to support those farmers to professionally plant and manage more than 1,600 hectares of new tea. With a reliable supply of quality green-leaf guaranteed, Unilever began factory construction.

In an important milestone for the sector, the Unilever factory opened in June 2018. It is now paying a price premium to NOSC farmers, who are receiving 47% of the made tea price – the highest in Tanzania. This has sparked substantial interest from both the Tanzanian government and development organisations.

However, challenges in the wider sector remain. Action is needed on critical constraints, including weak regulation, limited irrigation and low levels of mechanisation.



THREE PROGRAMME HIGHLIGHTS IN 2019/20

FARMERS RECEIVE SHARES IN SERVICE COMPANY

After significant delays and issues with the original farmer association, 49% of NOSC shares were transferred to a joint enterprise cooperative that represents the interests of the NOSC farmers. In the coming months the Minister of Agriculture is expected to complete a ceremonial handover of the shares.

STRONG PERFORMANCE BY SERVICE COMPANY

Operationally, NOSC continues to perform well. It met its 250 hectare planting target in 2019 and has also implemented a number of innovative initiatives to ensure it is able to take all the leaf off the bush during the high crop period, driving increased production. Quality of green-leaf being provided to the factory also remains high. The strong pipeline of farmers wanting to join the project is a testament to the quality of services provided by NOSC to date.

MODEL SPARKS INTEREST

The model has sparked significant interest with the Tanzanian government and also with the development community, opening up the potential for replication in other sectors and countries. The model was presented at the recent UK-Africa investment summit as a strong example of a project that benefits farmers, unlocks significant FDI and is designed to be commercially sustainable.



CURRENT MOMENTUM

With global over-supply of tea, prices being paid for Tanzanian tea have fallen significantly, compromising the business case for both farmers and factories.

Worsening agronomic conditions, including the impact of drought, have also hit farm and factory performance. This is further reducing the incentives to invest, which were already low due to the sector's critical constraints. The consequences are serious, with some farmers attached to other factories not being paid for six months in 2019.

In this challenging operating environment, NOSC itself continues to perform well:

- It planted 254 hectares in 2019 and has a strong pipeline of new farmers wanting to join the project going into 2020;
- Green-leaf quality provided by NOSC to the Unilever factory is 70% – the highest in Tanzania;

- Innovative models have been deployed to ensure leaf is taken off the bush – for example by training graduates to operate mechanised harvesting machines.

Significantly, this year 49% of shares in NOSC were transferred to a joint enterprise cooperative representing the interests of NOSC farmers.

This is a major milestone for the programme and the sector – with farmer representatives now able to sit on the board. It has further added to the interest in the model shown by the government. In a signal of this, the Minister of Agriculture is due to complete the ceremonial handover of the shares. The government has highlighted the NOSC model as an innovation they would like replicated.

Within the model, the NOSC and Unilever teams are taking action to tackle challenges that have emerged around production and factory performance. This is vital, not just for successful delivery, but also given the model is based on a number of assumptions that need to be fully tested before others will be able to replicate it with confidence.



WHEN NOSC CAME IN WE UNLOCKED CHALLENGES BY GIVING THE FARMERS PROFESSIONAL EXTENSION SERVICES SUPPLEMENTED BY FARMER FIELD SCHOOLS.

FILBERT KAVIA, GENERAL MANAGER OF NOSC



WHERE NEXT?

- The tea sector in Tanzania is at a critical juncture. Stakeholders need to pull together urgently to address current market challenges as well as crucial underlying constraints.
- Given the current market conditions, our farmer service company model also faces key tests over its underlying assumptions. It will be important to embrace these challenges – learning about which assumptions hold and which do not and adapting accordingly to give the model the best chance of success. Doing so will help secure the confidence it can be replicated more widely.
- Over the coming year, the focus will therefore remain on driving NOSC's performance, supporting it to hit planting and production targets.
- In addition, we will look to support the wider sector by sharing the evidence from trials around mechanisation and smallholder block irrigation. Both should help demonstrate potential activities that stakeholders could develop to help lead the sector out of its current crisis.



WE HAVE LEARNT ABOUT WHAT IT TAKES TO HAVE SUSTAINABLE AGRICULTURE, PRODUCE QUALITY CROPS AND MANAGE RESOURCES WISELY.

NOSC-SUPPORTED FARMER THIEMO MSEMWA



RWANDAN TEA SECTOR

Trialling new ownership structures and methods of supporting farmers to allow the sector to fulfil its world-class potential, while ensuring smallholders benefit from its growth

THE OPPORTUNITY

Rwanda's agro-climatic conditions mean it can produce among the highest quality black teas in the world. There are 60,000 jobs in the sector, making it Rwanda's third largest employer, and more than 42,000 smallholders grow tea. But the sector's potential is even greater.

Greater investment can drive increased planting, yields, quality and efficiency, boosting returns and incomes for farmers and factories. Moreover, innovative models for smallholder ownership of factories and related companies could ensure farmers hugely increase their share of the sector's value as rapid growth kicks in. The Rwandan government itself is eager to ensure the sector grows in an inclusive way.

In 2011, the government announced it was privatising two tea factories. Gatsby and our partners The Wood Foundation Africa realised buying the factories would allow us to demonstrate the commercial viability of smallholder-owned tea factories. As implementing partner, The Wood

Foundation began the process of turning these failing factories around.

We further expanded our footprint in 2016 and 2017 by creating service companies to support farmers to plant quality tea and thus facilitate factory investments. This engagement is leading to factory investments of ~US\$50m in Rwanda that would otherwise not happen.

POTENTIAL IMPACT

Success in our programme could result in:

- **More than 23,000 farmers across Rwanda and achieving higher incomes through our factory and service company investments**
- **Farmers in our factories increasing their share of the made tea price to ~60% – from less than 25% in 2011**
- **Tea export revenues more than doubling – from US\$83.5m to US\$209m by 2024**
- **The planting of 32,000 hectares of new tea (from a baseline of 18,000 hectares)**



THE EAST AFRICAN COMMUNITY AS A BLOC IS THE FIRST TEA EXPORTING REGION IN THE WORLD. WE ARE EXPORTING BUT WE HAVE TO FOCUS ON ADDING VALUE TO OUR TEA.

RWANDAN PRESIDENT PAUL KAGAME



THERE IS A BUZZ ABOUT IN THE RUGABANO TOWN NOW. PEOPLE ARE WORKING SO THEY HAVE MONEY TO SPEND SO THE TOWN IS GROWING.

CEO OF RUGABANO TEA COMPANY, AMIR AHSAN

THE JOURNEY SO FAR

The sector has expanded rapidly. Our own purchase of two factories has gone well, with performance turned around at both. The factories are now generating substantial profits and paying back our original loans.

The next phase involves transitioning ownership to the farmers, and ensuring that the factories continue to be managed professionally and profitably – a key test for the sector.

The government has played a strong guiding role in the wider sector – by improving the enabling environment it has contributed to international brands Unilever and Luxmi deciding to invest in both greenfield sites and existing factories. Our service companies have also played a crucial role in triggering this investment, which had previously been stunted by uncertainty over the supply

of quality green-leaf from smallholders. The companies have removed this uncertainty by financing and organising new smallholder planting and providing ongoing extension and logistics services to guarantee delivery of quality green-leaf to the factories.

The service companies' success, replicability and the pace of their evolution will be important factors determining how rapidly the sector can grow.

Other factors will also be crucial, including boosting skills in the sector and its marketing capacity, and mitigating the impact of climate change – a severe risk to Rwandan tea. The sector also needs to address factory licensing, fuel-wood and technical capacity.





CURRENT MOMENTUM

Change is happening at a rapid pace. This year, Luxmi's factory in Rugabano opened – another significant step for the sector. Our partners The Wood Foundation Africa also entered into a further partnership with Luxmi, buying two more majority smallholder-supplied tea factories together.

Both our factories continue to perform well, generating strong returns for farmers. The factories paid record bonuses to farmers totalling \$750,000 in August 2019. The factories also paid back \$2.25m of the outstanding loan to us.

Despite this progress, there remains a shortage of technical tea skills in the country. With such fast growth in the sector expected by the government in the coming years, it will be important that there is a clear sector strategy that addresses the issue of technical skills as well as other sector-wide challenges, such as wood fuel availability.

THREE PROGRAMME HIGHLIGHTS IN 2019/20

LUXMI FACTORY OPEN

In August, the Indian tea major Luxmi opened its first tea factory in Africa at Rugabano in Rwanda. The factory is now being supplied by smallholders supported through Rugabano Outgrower Services, a farmer service company we co-own with our partners The Wood Foundation. This statement of intent by Luxmi should aid the sign-up of farmers to join the project and plant tea. The quality of made tea already being produced by the factory is promising.

STRONG MOMENTUM WITH UNILEVER PARTNERSHIP

Our other service company in Rwanda, Services Company of Nyaruguru, has had an successful year – hitting its annual planting targets of 240 hectares and completing first plucking from 2017 planting. With elements of the model now being demonstrated, farmers are seeing the potential and becoming increasingly excited about the project.

STRONG FACTORY PERFORMANCE

Our factories have continued to perform well over the last 12 months. They distributed farmer bonuses in August 2019 totalling \$750,000, and paid back a further \$2.25m of the outstanding loan to us, bringing full farmer ownership a step closer.



THE MONEY I AM EARNING FROM THIS PROJECT HAS TO PAY FOR SCHOOL FEES, TO PAY FOR MEDICAL COVER, TO BUY CLOTHES AND TO BUY SMALL ANIMALS LIKE RABBITS AND GOATS.

FARMER SUPPORTED BY RUGABANO OUTGROWER SERVICES



YOU'VE GOT THE PRIVATE SECTOR THAT ARE WILLING TO INVEST, TO PUT UP PATIENT CAPITAL. YOU'VE GOT THE GOVERNMENT THAT IS WILLING TO PROVIDE THE RIGHT ENVIRONMENT, THE RIGHT INFRASTRUCTURE FOR THIS TO HAPPEN. SO IT IS A WIN-WIN FOR ALL THAT ARE INVOLVED.

FORMER DIRECTOR GENERAL OF THE NATIONAL AGRICULTURE EXPORT BOARD OF RWANDA, AMBASSADOR BILL KAYONGA

WHERE NEXT?

- The tea sector in Rwanda is growing rapidly, with strong foundations and collaboration between stakeholders catalysing a burst of investment and innovation. This is particularly impressive given the global oversupply of tea and its impact on world prices.
- Smallholders and rural communities are already benefiting from the sector's growth, although more is possible. A key test for the coming year will be establishing the arrangements to ensure a smooth transition of ownership of our factory in Mulindi to smallholders.
- The sector still has challenges to overcome - including around the availability of skilled technicians - but can tackle these from a position of strength. The government has played a crucial role in the sector's growth over the past decade. Its continued commitment builds confidence that stakeholders will take the collective action needed to secure the sector's considerable potential. Doing so will transform the lives of tens of thousands of Rwandans.





GATSBY
AFRICA

LEARN MORE

To learn more about our programmes - plus
our other activities in East Africa - please visit:
www.gatsby.org.uk/africa

