



## 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.

