

# Positioning Tea as a Priority Commodity for Uganda's Agro-industrialisation

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### Introduction

By 2010, Uganda's tea sector employed over 60,000 people and provided an indirect source of livelihood to about 500,000 Ugandans. In the Financial year 2016/17, tea was Uganda's 6<sup>th</sup> largest export, earning the country US\$ 67 million.<sup>1</sup> Given its potential to employ many people and raise foreign exchange, it is important that the tea sector is prioritized in Uganda's development agenda, as this will also support inclusive growth. To reach the sector's potential, a number of key issues will need to be addressed in the areas of production, processing and marketing. For example tea exports averaged 5,114 tonnes from FY2012/13 to FY2016/17<sup>2</sup>, however there is potential to increase this to 400,000 tonnes.<sup>3</sup> This export gap emanates at production level, where only 14 percent of the 200,000ha of land earmarked as optimum for tea production is being utilised. This case study highlights the key gaps in attempts to develop the tea value chain and proposes solutions in light of the proposed EPRC integrated model for *Fostering a sustainable Agro-Industrialisation Agenda in Uganda*.

### Relationship between the Integrated Model and the tea value

<sup>1</sup> According to data from Bank of Uganda

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<sup>3</sup> Daily Monitor, 2017. How Shs.29 trillion national Budget will be shared. Daily Monitor, 8 June.

### chain

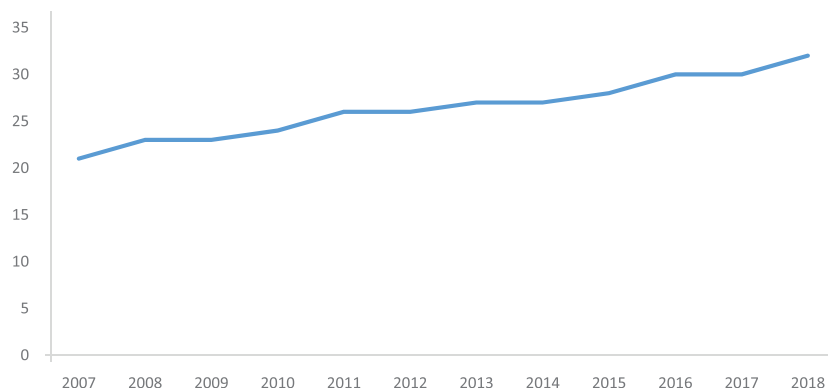
Tea factories (game changers in this context) are pivotal in the tea industry, as evidenced by the organization of small holder farmers around them.<sup>4</sup> Tea factories have the convening power to, among other things, organize farmers, trickle down research and development initiatives, which eventually influences farm productivity. The quality and quantity of factory output is to a big extent determined by the quality and quantity of farm output, which consequently determines what is passed out to the market in terms of quality and quantity. Market prices, among other variables is determined by the quality of green leaf tea produced and processed (farmers and game changer's output). The market for tea is both domestic and external, though the domestic market is significantly small, currently at 7 percent of the total output.

### Organisation of tea for industrial production

Organization of tea for industrial production starts at the farm level. 97 percent of the total families growing tea are in Western Uganda, followed by 2 percent in Central Uganda, and 1 percent in Eastern region (Munyambonera, Lakuma & Guloba, 2014). It is grown at both small and large scale level, with large scale estate growers owning about 16,000Ha and explain 72 percent share of production while small holders own 12,000Ha and produce about 28 percent of total tea. In total, there are 32 factories, and small holders are

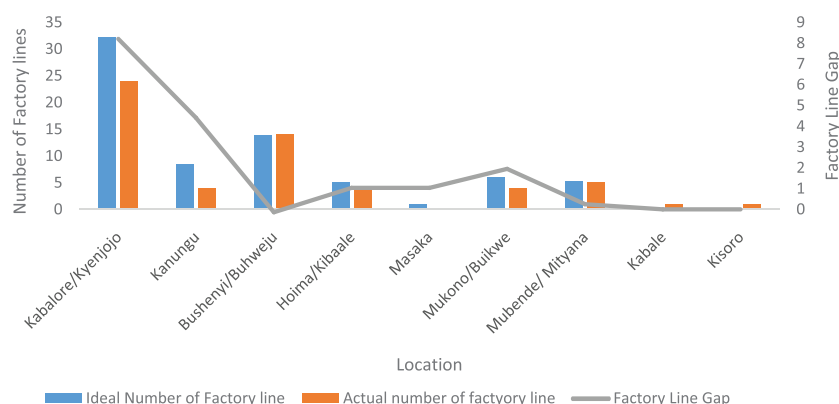
<sup>4</sup> 26 farmer groups operating around 28 factories

Figure 1: Tea factory trend in Uganda



Data Source: Uganda Tea Association

Figure 2: Distribution of Tea Factory Lines in Uganda in 2018



Data Source: Uganda Tea Association

organized in 26 farmer groups operating around 28 of the factories (Munyambonera, Lakuma & Guloba, 2014).

### Current status of tea with respect to manufacturing

As earlier mentioned, there are 28 tea processing plants in Uganda. Tea is processed by small-holder managed Cut, Tear and Curl factories. The distribution of Tea processing plants is not even, with some potential tea growing areas having no processors. The limitation of tea factories in Kabale and Kisoro (MAAIF, 2005 in Munyambonera, Lakuma & Guloba, 2014) was indirectly acknowledged by government which finally allocated UGX 6 billion for 2 factories in that area and one in Zombo in FY 2017/18 (Daily Monitor, 2017).<sup>5</sup> It is also important to commend government's effort in establishing tea factories, noted by the positive trend in the number of factories over the years as illustrated in figure 1.

Figure 1 shows that the number of tea factories have been on the rise all through the past decade. However, this rise has not been fast enough to adequately meet the needs of the sector. Which is why we propose that Uganda learns from the Kenyan tea sector which performs relatively better. Using the Kenyan model, the figure and

table below illustrate the ideal and actual number of factory lines for Uganda's tea sector and the cost it would take to fill the gap. We use Kenya's processing model where for every 500 Ha of tea, with 1.5 tonnes/Ha productivity, there should be a single line CTC factory with a capacity to wither and process 750 tonnes of black tea or 3,500 tonnes of green leaf and with an average out-turn of 23.5 percent.

Figure 3 shows the gap between actual and ideal number of factory lines. Kabarole/Kyenjojo has the widest gap while Bushenyi/Buhweju and Mubende/Mityana have no gap. Production data for Kabale and Kisoro is currently unavailable so we could not establish their status. Table 2 below illustrates the factory gaps per geographical area by 2015, and thus showing how many factory lines are needed where.

According to the data, a total of 16 more factory lines are needed. The areas that have gaps are: Kanungu, Kabarole/Kyenjojo, Mukono/Buikwe, and Hoima/Kibaale. These are areas that could benefit from additional factory lines. Each line is currently estimated to cost US\$4,450,060, meaning it will cost Government US\$71,200,960 to fill the gap.

<sup>5</sup> EPRC is yet to establish whether the factories were put in place.

Table 1: Tea factory Gap (by geographical location) in 2015

	Ideal Number of Factory lines	Actual Number of Factory Lines	Gap	Factory line gap (%)	Cost of filling the factory line gap (US\$)
Kabarole/Kyenjojo	32	24	8	25	35,600,480
Kanungu	8	4	4	50	17,800,2404
Bushenyi/Buhweju	14	14	0	0	0
Hoima/Kibaale	5	4	1	20	4,450,060
Masaka	1	0	1	100	4,450,060
Mukono/Buikwe	6	4	2	33	8,900,120
Mubende/ Mityana	5	5	0	0	0
Kabale	-	1	-	-	-
Kisoro	-	1	-	-	-
<b>Total</b>	<b>71</b>	<b>57</b>	<b>16</b>		<b>71,200,960</b>

Source: Authors Estimates Using data from Uganda Tea Association

### Weak links in the Tea Value Chain with respect to the proposed integrated model

At production level, according to OWC reports, constraints range from poor management of tea seedlings distributed to farmers under NAADS/OWC, lack of or limited use of fertilizers, poor quality seedlings and other inputs by farmers, limited access to extension services and at times unattractive prices of green leaf. Other related challenges include, limited use of mechanized plucking, and the fact that many of the tea bushes in the traditional tea growing areas are more than 50 years old hence diminishing in productivity. There are also rampant delays in government procurement procedures, especially in processing and effecting payments to nursery operators and seedling suppliers, leading to overgrowth of plantlets in nurseries, hence going to waste. Incidences of over production of green leaves beyond existing processing capacity persists, especially in peak periods in traditional tea growing areas like Kanungu and Kyenjojo as illustrated below. This is both a production and processing challenge.

At processing level, gaps exist in the number of factory lines required in some areas as is clearly illustrated in table 2 above. Example by 2012, Igara factory, was receiving more than 100 tonnes of tea leaf daily for processing, Over 200 percent above what it was meant to handle per day (MAAIF, 2012 in Munyambonera, Lakuma & Guloba, 2014).

At market level, due to low quality Uganda's tea continues to fetch low prices. The low quality is mainly attributed to low altitude, poor post-harvest handling methods. As a result, Uganda tea is rated in the lowest categories of *lower, medium to plainer* as opposed to better ratings of *Best, Good, Good-Medium and Medium*. According Tea Brokers East Africa Ltd, in 2017, Uganda auction market price at Mombasa was about US\$ 1.85 on average as compared to that of Kenya which was US\$ 2.98 and Rwanda at US\$ 3.20.

Further, the lack of alternative international markets beyond Mombasa weakens the link between game-changers and the market. Our major market right now is the Mombasa tea auction, meaning what we get from what we produce is highly dependent on going prices at the Mombasa tea auction. We are therefore price takers and not price makers. The lack of a strong brand for Uganda's tea makes it even harder.

The other weak link is between government and game changers, particularly in terms of research. There is currently no devoted line of accountability for tea in Uganda. Apart from NARO which is an overarching body for agricultural research in Uganda, there is Rwebitaba Zonal agricultural research and development institute in Kabarole which remains under funded (Munyambonera, Lakuma & Guloba, 2014). Effective tea research ended in 1977, NARO just started reviving it through Rwebitaba in 2015. The limited research and development has inhibited the emergence of high yielding clonal tea. Kenya has produced 58 clones, but Uganda has not produced anything new since the East African Community era. Rwebitaba has 278 tea clones (in the gene Bank) but they are not yet released out due to technical and financial shortfalls. There is also no clear system for transferring research output to the farm. Example there is lack of a verification and certification system for seedling sources and the tea extension system is ineffective. This means that both government and game changers will also find it difficult to trickle down R&D to the farms and markets. These constraints particularly affect small holders as estate owners have their own extension system.

At a broader level, the tea sector currently lacks a regulatory framework, meaning that government is limited in regulating and coordinating the entire tea industry. Putting in place a clear regulatory framework for tea industry would empower government to perform its myriad oversight functions aimed at quality and quantity control within the industry including R&D, input quality, and market competition among others. These are functions that government cannot effectively enforce without a binding framework.

### Product Space for Tea

An estimated 93 percent of Uganda's tea is processed as black tea and auctioned at the Mombasa tea auction while 7 percent is consumed locally in different assortments as illustrated below. Black tea dominates the product space because of its market demand. The other tea products are limited for various reasons, the key one being that their international markets (e.g. for Hibiscus) is dominated by other players like China.

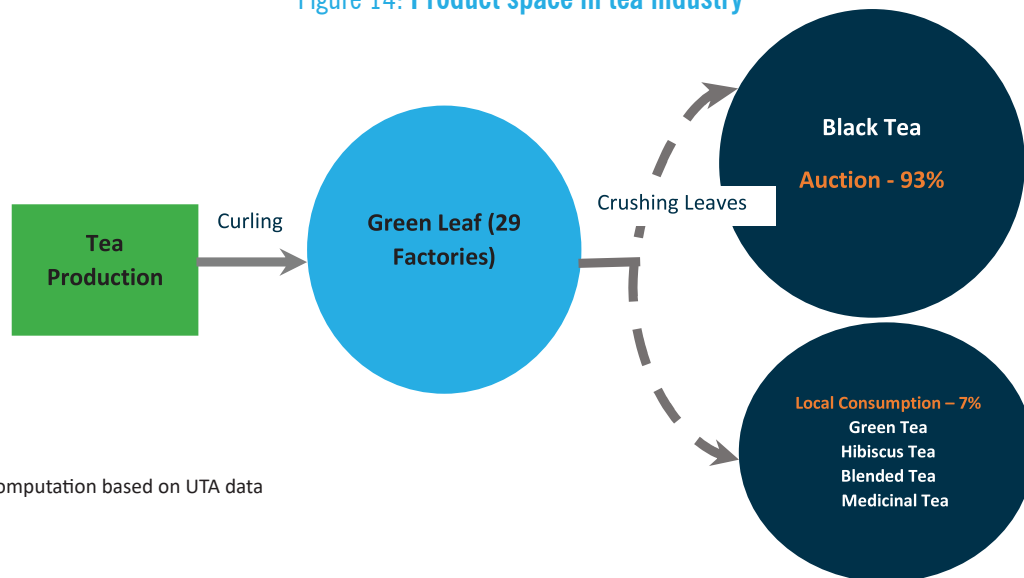
There remains a potential to increase black tea export (at auction) from the current 60,000 tonne average to 400,000 tonnes. The local consumption could still be increased as well from the current huge 7 percent through boosting the local brand.

**Table 2: Current factory capacity and leaf production in selected areas**

District	Factory	Installed capacity per day (Tonnes)	Leaf production per day (Tonnes)	Excess leaf per day (Tonnes)	Anticipated leaf per day in the next 2 years (Tonnes)
Kyenjojo	6 factories	800	1,600	700	Expected to double
Kanungu	Kayonza Tea Growers + Kigezi Highlands	80	150	70	300

Source: OWC reports, 2018

Figure 14: Product space in tea industry



Source: Authors' computation based on UTA data

### Proposed intervention to ensure an integrated agro-industry value chain for tea

Uganda's tea industry is in dire need of some key reforms for it to have an integrated agro-industry value chain: 1) There is need to match processing plants with production output. Processing plants are more likely to reduce post-harvest losses as well as expand farm level market thereby incentivising farmers to grow more tea. At the same time, evenly distributed processors will more likely increase supply to the market; 2) There is urgent need to put in place a regulatory framework for the tea industry, as stressed earlier, this is pertinent to aid government in dispensing its regulatory mandate across the tea value chain; 3) More government effort at production level should focus on small holder farmers through providing a strong extension system, supporting research and development initiatives and linking small holders with estates. Specifically, zonal research centres like Rwebitaba need to be supported more, both financially and technically to roll out new tea breeds, an output-based payment for seedling distribution should be adopted, preferably managed by the research centres<sup>6</sup> (will require an independent verification system) and so does the private management of public extension system (requires non-wage costs for extension workers); 4) Uganda needs to seek alternative markets for its tea. While starting a

<sup>6</sup> It was observed at the stakeholder's meeting on 14<sup>th</sup> August 2018 that the current system works with nursery operators that don't care what happens to plantlets after selling them off. Sometimes they sell at 5 months, yet plantlets have to be in the nurseries for 9 months before transplanting.

Uganda tea auction is currently not a feasible option, Uganda could explore bi-lateral arrangements that maximize direct sales of Uganda made tea to the external markets since these fetch a premium price. This way, we can strengthen our leverage to bargain at the international level or even divert our tea elsewhere if we feel cornered by auction markets. To increase our chances of success in this direction, the issue of quality needs to be addressed across the tea value chain. Right from improved tea clones, better extension system, to systematically addressing mind-set issues at production level, example the bad behaviour of farmers who pick more than two leaves and a bud, consequently affecting processed tea quality<sup>7</sup>.

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<sup>7</sup> Key informant view during stakeholder meeting on 14th August 2018