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IGARA GROWERS TEA FACTORY BUSINESS MODEL

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Background

Uganda's tea sector was the fourth highest foreign income earner during the 1970s. After 1973 tea production started declining and by 1981 the tea industry had almost collapsed. As the social and political environment started to improve after 1981, farmers started to rehabilitate their tea gardens and production began to increase. The major limitation was now the state of the tea factories. At the time, the Ugandan government was in the process of liberalising the economy and it was at this time that the Uganda Tea Growers Corporation designed the Smallholder Tea Development Programme which consisted of two projects. The Green Leaf Project and The Tea Factory Project.

The objectives of the programme were as follows:

- Assist the smallholder farmers to take control of the factories to which they delivered their green leaf
- Create an attractive investment environment for the medium and large scale farmers
- Improve extension services
- Improve the technical efficiency and capacity of the tea factories

The total value of the programme was US\$ 45.89 million, jointly funded by the European Union (EU) and the Ugandan government. The EU funded US\$ 36.14 million of which US\$ 10.14 million was from the Stabex 1991. The Ugandan government funded US\$1.95 million and the rest (US\$ 7.8 million) was funded by the tea factories and the growers. Stabex was created in 1975 as a stabilisation system that offered ACP members funds to finance their agricultural sectors when they encountered serious difficulties emanating from shortfalls in export earnings, whether these were due to lower world prices or natural disasters.

As a result of the Smallholder Tea Development Programme, the Igara Tea Growers Factory Limited was incorporated in 1995 as a public company with restricted ownership to bona fide tea farmers with a signed green leaf supply contract. To promote private business interest among the farmers, the shares are allotted during the production season on the basis of one share for every 500 kg of green leaf delivered. At the end of the season the farmers indicate their intention to purchase the allotted shares and how payment will be made. In some instances, the farmer will have provided the factory with an instruction to make a deduction to cover the payment for the shares. Finally the board of directors approves the shares transfer to conclude the share purchase. The principal goal of the company is to buy green leaf tea, process it into black tea and sell the black tea on the local and export markets.

This programme included three other tea factories, Kayonza in Kanungu and Mabale and Mpanga in Kabarole District, located in western Uganda, the main tea growing area.

As part of the programme, a management company was established to manage all the four tea factories. However, at the completion of the programme the tea factories opted to carry out their own management while Igara and Kayonza opted to create the Uganda Tea Development Agency Limited (UTDAL) which oversees the management and marketing of tea from their regions.

UTDAL is wholly owned by Igara and Kayonza tea growers factories on a 50:50 basis. Each shareholder appoints 2 directors to the UTDAL board and the fifth director is independent. Below is a high level schematic diagram of the ownership and management relationship.

Igara and Kayonza growers tea factories, clearly understand the importance of appointing well trained and proficient managers to ensure sustainability. This has been achieved through the management company, UTDAL that provides the management and secretarial services to the 2 factories.

The ownership structure of UTDAL implies that there is no third party involved in the ownership or management of the tea factories. This addressed the sensitivity associated with the involvement of

third parties in the management of (Farmer Organisations) FO businesses. However FOs ought to seriously consider and adopt the option that generates the best financial and social returns.

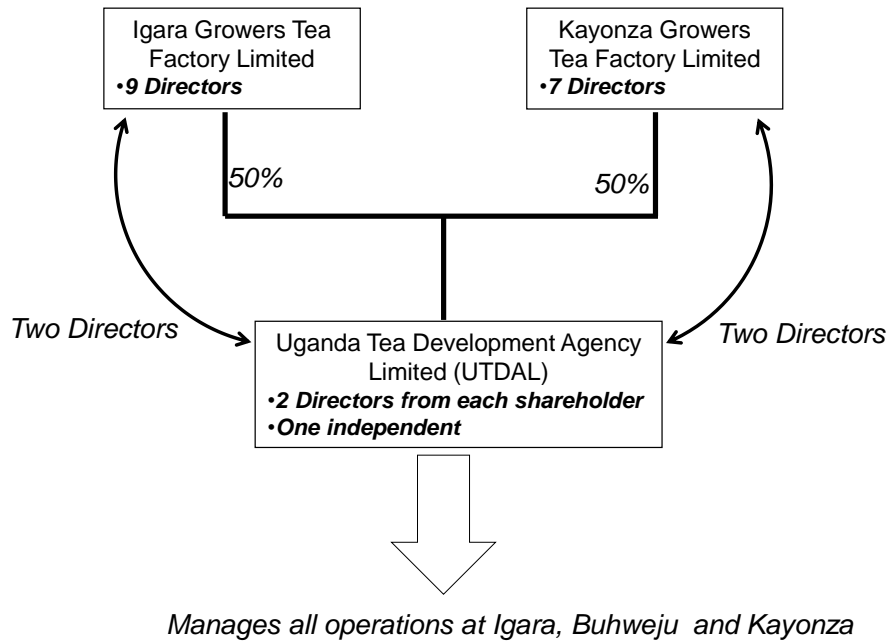


Figure 1: High Level Organisational Structure

The management company provides strategic leadership, day to day management, marketing, company secretariat services and engineering. The senior management positions at the factory such as Group Manager, Field Manager and Factory Manager are held by employees of the management company. This has had the benefit of ensuring clear business principles and separating ownership and management as a number of the employees have their roots in tea through their immediately family.

Igara's Journey to success

The board

Igara Growers Tea Factory Limited has a board of 9 elected members. The board is managed on a rotational system for continuity. Board members are elected to represent specific areas within which they farm. This process has been running since 1995 with the support of the project and was entirely taken over by the farmers when the project came to an end in 1999 while the management company under the project wound up in October 2001.



Figure 1: Igara Growers Tea Factory

Stakeholder engagement

Maintain relationship with the farmers through regular engagement. The production areas are divided into zones in which the board members are elected. It is through these zones that the communication and interaction with the farmers is managed.

External support

Igara lobbied and attracted government support. During 2008 Igara obtained government support for the Buhweju factory in the form of a grant to cover all the buildings valued at US\$ 2.4 million. The government also supports the development of planting material through support to farmer managed nurseries.



Figure 2: Buhweju Growers Tea Factory

Production capacity

Igara currently has a green leaf production of about 34 million kg per annum valued at approximately US\$ 7.2 million in the local economy. This is driven by the US\$ 21 cent per kg of green leaf paid to the farmers which is influenced by the prices attained for the made tea and overall management of the production and marketing costs. The most significant growth in production at Igara has taken place after the Tea Factory Project. This clearly shows that the farmer owners have taken on the challenge to grow their business.

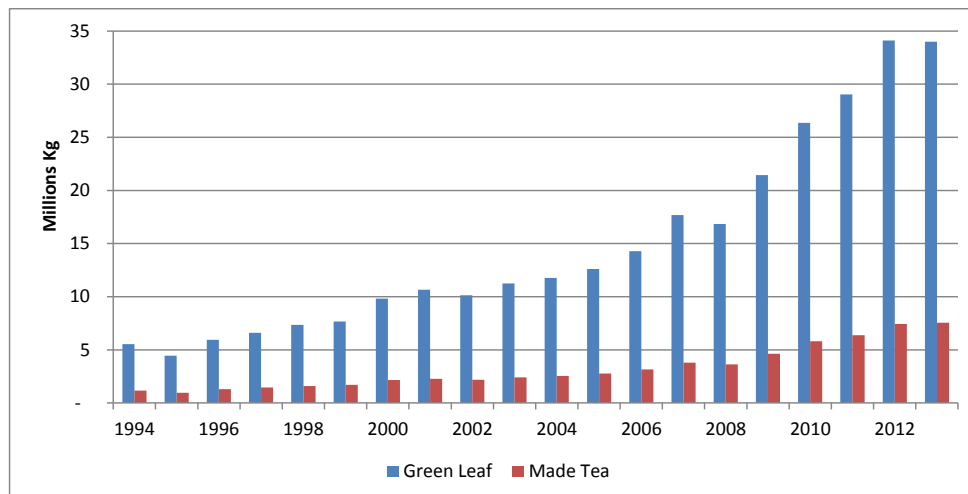


Figure 2: Igara Growers Tea Factory Production Trend

Membership

Igara has seen its farmer membership increase from about 4,000 farmers to 6,880 farmers between 1995 and 2013. This has to a large extent been driven by the value of green leaf which can only be accessed by bona fide tea farmers. There has also been a marked increase in new generation farmers - the young farmers who have completed their education. This is depicted in the increasing size of the average tea gardens. Previously tea gardens averaged about 2 acres but this has increased to an average of 4 acres.

Community engagement

This has been attributed to the recognition given to the farmers, both new and old farmer, and in some instances some farmers are recognised posthumously. This has enabled the company to remain connected to the families of the deceased farmers and maintain its attachment to the older generation of farmers. The company takes its presence in the community seriously and endeavours to remain associated with the farmers and thus its eco-environment. A condolence message and support is given by the company to the family of every deceased shareholder and this has had the effect of showing how caring and connected the company is within the community. This holds the attraction to join or remain connected with the company.

Farmer support

Igara provides a credit facility to the farmers for inputs such as fertiliser, herbicides and spray pumps. Extension services are also provided by the factory with the most experienced staff assigned to the new production areas as a way of supporting the farmers and ensuring success in expanding the area under tea.

As an incentive, dependent on availability of funding, some lead farmers are taken on study tours to Kenya or Rwanda to visit and learn from other tea farmers and seek new methods to improve their current operations. Local tours to a garden of the lead farmer in a village are also organised as part of the training approach.

The company also holds an annual farm management competition as an incentive for good agronomic practices. The winning farmer is rewarded with a prize that will enhance his farm, such as fertiliser, herbicides, etc.

Achievements of Igara Growers Tea Factory as a farmer-led business

- There is a high level of accountability to the farmers
- Previously led by other farmers, emphasis is on adding value to what is already in place
- Made significant improvements to the business such as improved internal control systems
- Payments to the farmers are significantly high. This includes the first, second and bonus payments.
- The turnover and profitability of the factory is increasing.
- Increased the capacity of the factory from 86,000 kg in 1995 to the current 100,000 kg per day
- Established and invested in a subsidiary tea factory, the Buhweju Growers Tea Factory

Challenges within this Business Model

- *Imbalance between financial and social objectives*
The lack of training in business skills is closely related to how the company strikes a balance between the financial and social objectives of the companies. As farmers themselves, and elected representatives of the wider farmer groups for a specific zone, the directors may feel pressured to serve the needs of the farmer so to appease their members and guarantee re-election as directors as opposed to focusing on ensuring that the company is building reserves and securing investments for planned expansions.
- *Green leaf price*
The green leaf price determines the farmers' revenue but also determines the business' cost of raw material. Clear business principles are required to manage this and keep the cost of

production and thus the profitability at acceptable levels in comparison to the growth in turnover.

- *Mixing personal and business interests*

There is no little distinction between the farmers and business. The farmers expected their children to be employed with the added challenge when the farmer was also an employee.

However, this has to a large extent be managed by putting in place a well-defined system. The farmers' family members may be employed on merit through the formal recruitment process.

- *Maintaining transparency in management*

The Igara board endeavours to ensure that it creates an environment in which the board and management can operate without fear and with a clear basis on which the decisions are based. The key goal is to ensure that the managers do not feel threatened when the board members change.

- *Separation of powers*

This also applies to managing the board to ensure that the board does not take on the day to day management responsibilities. It is important that farmer organisations and farmer led businesses ensure that all actors i.e. the farmers, management and the board of directors all understand their boundaries.

Challenges faced by Igara Growers Tea Factory

- *Poor road infrastructure*

This affects leaf handling, the quality of made tea and the cost of delivering green leaf and inputs. This also has a negative influence on the costs of transporting the made tea to the markets.

- *High labour costs for the farmer and the factory*

This is associated with the fact that the area is rich with regard to agricultural resources and therefore people are not motivated to work for food. Therefore the labour wage has to be high in order to attract labour onto the farm or factory.

- *Delays in services that should be provided by government*

Extension services and research in tea which should be provided the government are poor and slow. The farmers continue to experience delays in input supply though the company continues to support and subsidise the supply of inputs. The subsidy is in the form of interest not charged on input credit and transport costs.

- *Lack of regulation of the tea sector*

The tea sector does not have a well-defined and outline policy. Construction of tea factories targeting smallholder tea remains common and this in the future will bring into question the profitability of the factories but also the sustainability of farmer profitability as control of the value chain is lost.

- *Timely activities and reward of the farmers*

If the farmer is paid well, they expand their activities by growing more tea. If the farmer is not paid, not profitable or not paid in time he or she is discouraged and has no incentive to produce more.

Replication of Business Model

This business model gives Farmer Organisations an option to attract business and management skills not available within the farmer environment while according the farmer the opportunity to remain in control of his destiny. Having a management company in place brings the opportunity of combining farmer organisations in different activities under one management company permitting the sharing of some service and thus lowering fixed costs.

Acknowledgment

A special word of thanks and appreciation goes to the Igara Growers Tea Factory Board of Directors and management for the support in publishing this article. Their willingness to share the business model and experiences in facilitating farmer businesses offers valuable knowledge for other farmer organisations.

The ACP-EU Technical Centre for Agricultural and Rural Cooperation (CTA) believes sharing farmer experiences will go a long way in giving farmer organisations a different perspective to how the business can be managed.

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