



# **Burundi Tea Value Chain Study**

**Analysis and recommendations for  
PAIR activities**

**January 2008**

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# 1 INTRODUCTION

Tea was introduced in Burundi in 1931 at the Gisozi research station. It gained importance when the agricultural research institute, ISABU (Institut des Sciences Agronomiques du Burundi), established the first tea plantation in Teza in 1963 and in Rwegura in 1966. Smallholders began producing tea during the 1970s and 1980s following various donor-supported projects—four tea factories were financed by the European Investment Bank, the investment arm of the European Union while the fifth was finance by CCCE (Caisse Centrale de Coopération Economique) the French Aid Agency, predecessor of AFD (Agence Française Développement). Production grew steadily and exceeded 6,000 tons in the early 1990s, but it experienced a hiatus in the two years following the civil conflict—from 7,000 to 4,200 tons, with half of the decline accounted for by the Teza tea factory.

Tea is currently Burundi's second largest cash crop after coffee, contributing approximately \$10 million to export earnings, or equivalently, 12 percent of total merchandize exports. During 2001-06, Burundi's made tea output averaged 7,500 tons, split between 5 factories.<sup>1</sup> These factories process on average 37,000 tons of green leaf tea per year, roughly 30 percent of which is produced by four factory-owned plantations and the rest by over 56,000 smallholders. Smallholders account for 75 percent of the area allocated to tea but 71 percent of tea production. Average yields for smallholders are 4.0 tons of green leaf per hectare compared to 4.8 tons of green leaf per hectare for factory estates. That is, estate yields are 20 percent higher than smallholder yields.<sup>2</sup> The typical Burundian tea grower produces 400 kgs of made tea in a plot of one tenth of a hectare, earning about \$46 in 2006.

Because tea is grown at high altitudes, often on mountainous areas with steep slopes, it seldom competes with food or other cash crops. There are five tea producing areas in Burundi with individual factories - Teza, Rwegura, Tora, Ijenda and Buhoro. With the exception of Ijenda, which consists of smallholders only, the other four tea factories receive tea supplies from both plantations and smallholders. The chief player of Burundi's tea industry is the parastatal Office du Thé du Burundi (OTB) which owns and manages these five tea factories and handles estate production, marketing and trade, as well as regulating the industry.

In addition to the five tea areas, the European Union is currently promoting the development of a sixth tea area in the province of Mwaro (Gisozi district). The project, PROTHEM (Promotion de la théiculture en province de Mwaro), financed by STABEX, began

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<sup>1</sup> Made tea is the result of a factory process, involving withering, tearing, fermenting, drying and sorting. The transformation rate between green leaf tea (freshly plucked from the bush) and "made" tea, is about 4.9:1 in Burundi.

<sup>2</sup> Note, however, that these yields are not strictly comparable because the corresponding area may include land which is allocated to tea, in principle, but may have been abandoned. According to a World Bank (1993, p. 20) report, estates achieve higher yields compared to smallholders because they occupy the most productive soils of the tea areas. But, perhaps a more likely reason is that factories pay less for green leaf from their own plantations and so stop or extend time between collection cycles to smallholders while continuing with the collection from their plantations.

in 2002 at a cost of about one million euros. It covers an area of 845 hectares and will involve some 6,540 tea growers with an average tea plot of 0.13 hectares. A private company is in the process of constructing a tea processing factory at Gisozi, expected to be operational by early 2008. This private factory is expected to produce 1,000 tonnes of made tea in its first year of operations. The business plan calls for production of made tea to reach 2,000 tonnes in the fourth year of operations after expansion.

Growers sell their green leaf to the nearby tea factories at a price set by OTB. The price is pan territorial, i.e., the same for all smallholders in all five tea producing regions. Despite considerable fluctuations in the price received for its tea, OTB changes tea leaf prices infrequently, for example, during 1993-99 green leaf prices changed only twice. Over the last three years smallholders have received about one third of the price Burundian tea fetched at the tea auction in Mombassa (see Annex 1, table 3). Almost all (95%) of Burundian tea is exported, with 70 percent going through the Mombassa Tea Auction and the remaining being marketed through direct sales, a practice followed by most African tea producing countries. Burundi's annual tea production of around 7,200 tonnes is negligible considering that global and African tea production during 2001-06 averaged 3.01 and 0.46 million tons, respectively.

Despite changing world market conditions such as declining prices, demand for quality differentiation, and competition from man-made beverages (especially soft drinks) the structure of Burundi's tea industry has remained largely unchanged since its inception. Yet, the sector faces numerous constraints, including structural inefficiencies of the tea factories and plantations, poor incentives to smallholders and estate labourers, limited use of inputs and extension services, and non-existent research. These constraints have led to considerable decline in the quality of tea and consequently the prices at which Burundian tea is sold at the Mombassa Tea Auction. If these constraints are not addressed, the sector will face even more difficulties which are likely to lead to its demise.

Tea provides revenues for approximately 50,000 smallholder farmers and local labourers who work on the tea fields. Tea revenues also go to the approximately 2,500 employees of the tea factories, with further employment in: the transport sector for green leaf and made tea transport; tea packers and blenders; and, fuel wood enterprises.

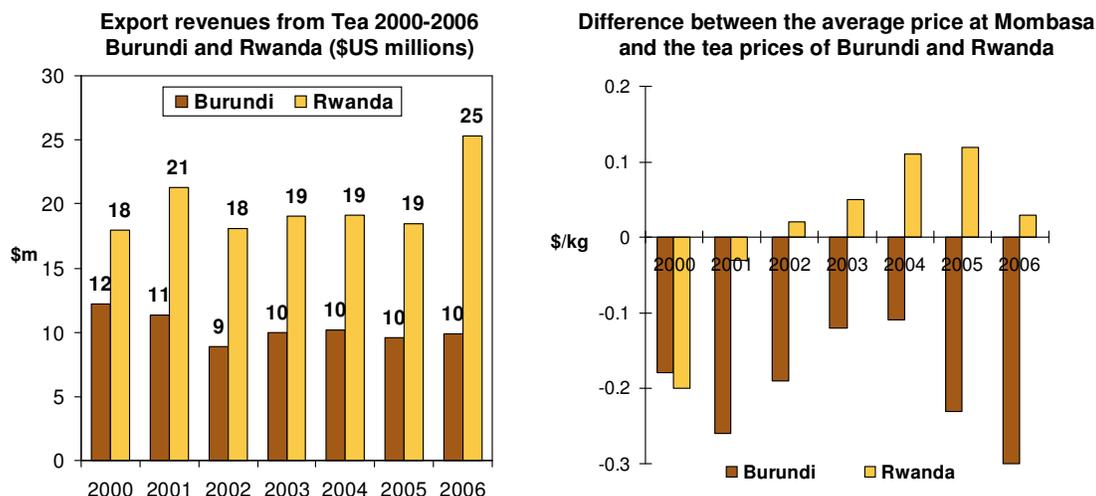
## 2 ANALYSIS OF THE SITUATION IN BURUNDI

The tea industry in Burundi is currently in a perilous state. A number of the key pieces of equipment in all of the factories are close to collapse and the quality of tea being produced has declined dramatically since the early 1990s when Burundi received good prices. Tea exports have been stagnant or declining. The industry currently relies on government subsidies to stay afloat. There are a wide range of constraints faced by the industry that are causing this weak performance and none of these constraints are insurmountable, so there is hope that the tea industry can rapidly transform itself into an efficient competitive industry.

### 2.1 EXPORT PERFORMANCE

Since the crisis the quality of tea has fallen dramatically. The average price received for Burundi tea at the auction in Mombasa has been \$0.2 per kilo below the average price at Mombasa from 2000-2006 and from 2001-2006 has been sold at a discount of \$0.25 per kilo to the average price of Rwandan tea – a country with very similar conditions. *Figure 1* shows that tea export revenues have been stagnant over the past 7 years with a falling price relative to the average at Mombasa. While Rwanda produces a very similar natural quality of tea compared to Burundi, figure 1 below shows that Burundi's relative performance has been very weak.

Figure 1: Burundi's tea industry exports and prices and relative performance<sup>3</sup>



### 2.2 PRODUCTION CONSTRAINTS

While Burundi's natural resources are favourable to production of high quality tea with high yields these natural endowments are not being maximised due to low productivity and no focus on quality throughout the supply chain. The low productivity is caused by a lack of application of fertiliser and by the long time cycle of collection which is normally around 10 days, but in Burundi has been extended to avoid oversupply of green leaf. For example in Rwegura the collection cycle has reached 18 days and in Buhoro collection is occasionally

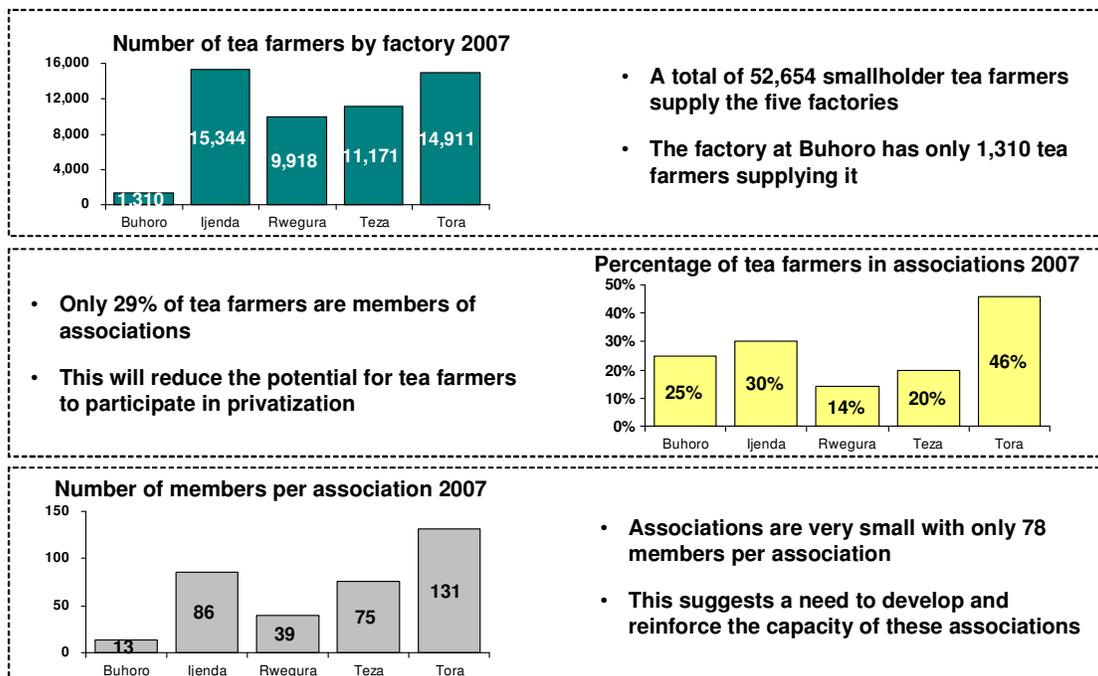
<sup>3</sup> OTB, Ministry of Commerce of Burundi, Trademap, Intergovernmental Group on Tea, KTDA

completely halted to enable the backlog of green leaf to be processed. The lack of focus on quality means that tea farmers and pluckers in the plantations receive the same prices for the green leaf regardless of its quality, hence discouraging the extra care needed to ensure quality leaf.

Despite large numbers of extension workers (e.g. 9 agronomists and 50 extension officers at Ijenda alone) there is a limited number of training sessions held each month and no visible impact on the quality or quantity of green leaf produced. No research is being funded into identifying better varieties of tea or which fertilisers to use when. Excellent research documents were produced by ISABU in the early 1990s explaining clearly and simply how to tend tea plants to maximise their productivity and quality. Unfortunately OTB stopped funding this research after 2000 due to a lack of satisfaction with the output and since 2004 no research has been undertaken in the tea sector.

Smallholder tea associations do exist, but are weak and unrepresentative of the entire smallholder population. Only around 25% of tea farmers are members of an association and these associations are relatively weak, see *Figure 2 below*.

Figure 2: Tea farmer association membership



Transport of green leaf is expensive, irregular and reduces quality. The transport of green leaf was privatised with the exception of Buhoro in 2004, but this has not improved the efficiency. Lorries are regularly overloaded with resulting damage to green leaf from excessive pressure and factories have regularly interrupted the collection cycles in order not to receive a surplus of green leaf. Smallholders and the plantations do not continue to pluck the leaves on a regular basis in order to maintain quality and to apply the excess to the soil to trap humidity.

Wooded areas are not being sufficiently replanted to keep up with demand and so the majority of tea factories will be reliant on expensive private suppliers of wood over the next

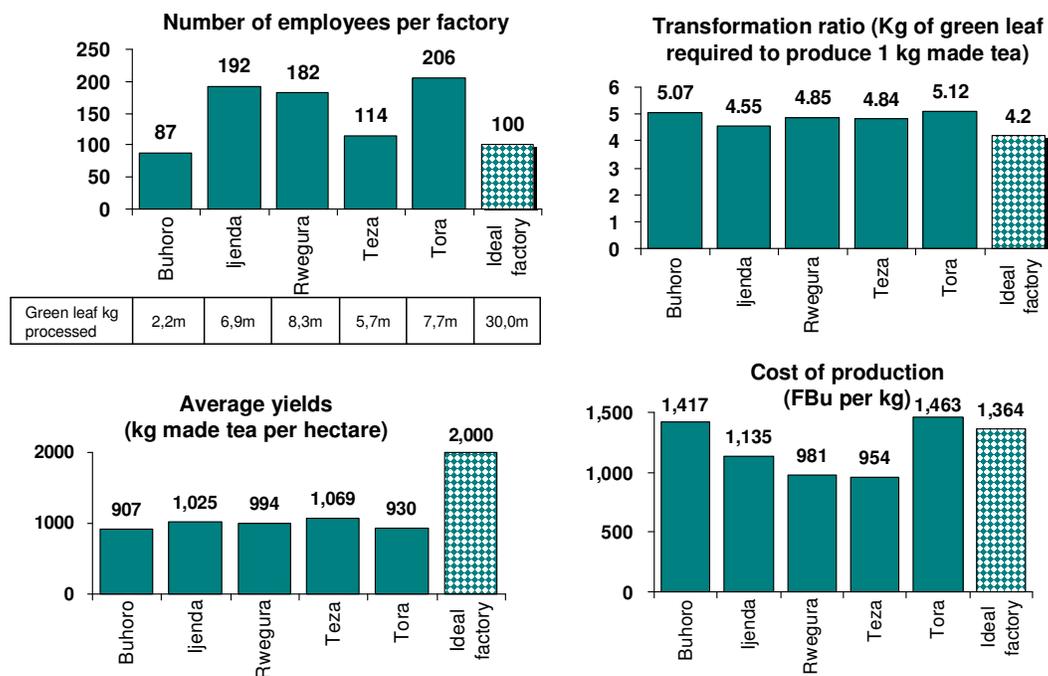
few years. If the current rate of replanting continues, not only will the cost of wood for factories increase leading to further deterioration in factory profitability but also Burundi's tea industry will become a considerable factor in the deforestation of the country with all implied negative consequences for the nation. This must be avoided at all costs.

### 2.3 PROCESSING CONSTRAINTS

The major challenge for Burundi's tea industry is to improve the management of the tea factories and to bring in investment in these factories to raise their capacity. Infrastructures have deteriorated such that they could collapse at any moment. The original installed lines in Burundi's tea factories have never been replaced and some are now unusable and require urgent rehabilitation. Only 41% of the installed capacity is being utilised.

Technical and market knowledge is lacking throughout the industry. Made tea yields of around 1,000 kg per hectare are less than half that of regional well run plantations and factories. The rate of transformation of green leaf into made tea of around 5:1 also highlights significant problems with factory processes. A normal rate of transformation of 4.2:1 would reduce costs of green leaf purchases by almost 20%. Figure 3 shows how Burundi's tea factories compare to the optimal performance on a number of attributes. All factories are using sub-standard practices and poor maintenance of the equipment. For example, cleaning of the fire bars on the boilers every half an hour as opposed to every week, should raise the productivity of the boilers and raise their life expectancy. The lack of such cleaning coupled with the lack of any simple tool to use to do the cleaning indicates a complete lack of knowledge of boiler maintenance.

Figure 3: Burundi's tea factory data compared to best practice<sup>4</sup>



<sup>4</sup> OTB, Burundi; SORWATHE et OCIR Thé Rwanda; Discussion with tea expert Kenya

The availability of human resources to work in the plantations is a further problem. There are particular shortages of labour to work in the plantations at Buhoro and Tora, but a surplus of labour at the head office and in the factories (122 in the head office and 300 in Rwegura). An efficient factory processing 30,000 tonnes of green leaf per year (the total for the whole of Burundi in 2006) should use 100 workers, so there should be plenty of spare workers available from the factories. The main cause of the lack of available labour is likely to be the very low wages. The price paid to daily labourers in the factories and plantations is extremely low at 350 FBu for plantation labourers and 400 FBu for labourers on road maintenance. Pluckers generally do better as they receive on average 900 FBu a day (30FBu per kg with an average of 30kg plucked per day). Other causes suggested include the dangers for women employees and the lack of available housing<sup>5</sup>.

Electricity supply is a further problem with a lack of functioning generators and no use of invertors to reduce usage. Similarly parts of the rural road network are at times impassable, leading to a high cost of local transport, long time delays and lower quality green leaf. Due to the quality of the roads, smallholder plots that produce very small quantities of green leaf (averaging 400kg per year) a long way from the factory are likely to be economically unviable for a private industry to collect.

## 2.4 INSTITUTIONAL CONSTRAINTS

The financial position of OTB is worsening and smallholders have limited access to finance. The OTB faces large long term debts in foreign currency, particularly attributed to the two most inefficient factories, Buhoro and Ijenda. Between 2005 and 2006 these long-term debts increased from FBu 5.6 billions to FBu 6.5 billions, an increase of 14%, with Buhoro responsible for 53% and Ijenda 35% of these debts respectively. On the opposite side of the coin, local banks are unable to finance large-scale investments e.g. of a level required to build a tea factory, and smallholder farmers are unable to access credits due to a lack of formality and cooperation.

Not only are institutions ineffective but also the current institutional framework is lacking. In particular, the structure of the OTB is highly inefficient<sup>6</sup>, with no performance contracts for its managers, no targets against which to measure progress and limited accountability for success or failure. The fixed price for green leaf reduces incentives for higher quality production. Other institutions are also ineffective. Tea farmers are not organised into associations and where these do exist they are weak. Only 29% of smallholders are party to associations. These associations are relatively new and do not have formalised legal status, hence they are unable to easily access finance and do not have strong systems of management or cooperation.

Furthermore, the de facto liberalisation of the tea industry will take place in 2008 without a regulatory body. The private tea factory in Gisozi will become operational in 2008 relying on the production of new tea growers in the region, but also with the potential to utilise green leaf production from Teza and Ijenda cultivation areas. This could result in conflicts if legal agreements are not reached before this date.

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<sup>5</sup> John Baffes, Burundi's Tea Sector, January 2007.

<sup>6</sup> Only 22% of stakeholders surveyed agreed that the OTB is efficient. OTF Group survey May 2007, n=84

### 3 OVERVIEW OF MARKETING & MARKETS

Tea factories package made tea into 60kg bags classified into different primary and secondary grades which is collected by OTB and either stored in Bujumbura or transported directly to Mombasa for auction. Each different grade receives a different and variable price. About 95% of Burundi's tea is exported with 90% going through the Mombassa auction and 10% being sold directly to buyers. The average price received for Burundian tea is around \$1.45 per kg, with the highest prices being fetched by Ijenda and Tora in the South.

#### 3.1 DOMESTIC MARKETING

The domestic market accounts for around 360 tons of made tea per year or less than 5% of tea produced. There is a locally run auction, organised by OTB to sell the tea on the local market. But this auction is inconsistently managed and frequently not held. When it is held OTB offers only the lowest grades of tea to the local auction, where it is bought by one of two packing companies. These companies own small-scale processing plants and package the tea into boxes of tea bags. They then wholesale these to retail outlets. These companies are able to supply both the local market in Burundi and sell some teas to the Tanzanian market (despite a ban from the Tanzanian government), due to the low price.

#### 3.2 INTERNATIONAL MARKETING: AUCTION AND CONTRACT SALES

The most common route for marketing Burundi's tea is through the auction at Mombasa. Direct or contract sales are not favoured, despite the more favourable price because there is seen to be a larger potential for corruption in the management of these relationships than is possible through the auction.

*Auction floors:* OTB delivers the made tea in containers to Mombassa auction floors where they have export agents and warehouses. Tea is auctioned and transacted with different buyers through OTB's representatives. The main markets marketed to are Egypt, Pakistan, Russia, Sri Lanka, Somalia and Sudan among others. This auction mechanism takes between 80% (5,750 tons) to 95% (6,830tons) of the total tea produced.

*Direct/contract sales:* OTB has relationships with regular buyers of Burundian tea who are offered contracts to buy the tea direct from the factories. These buyers pay on average a \$0.1 premium over the auction price and the tea is exported directly to their desired warehouse destination. The contract sale market takes 0-15% (up to 1,100tons) of the total tea produced.

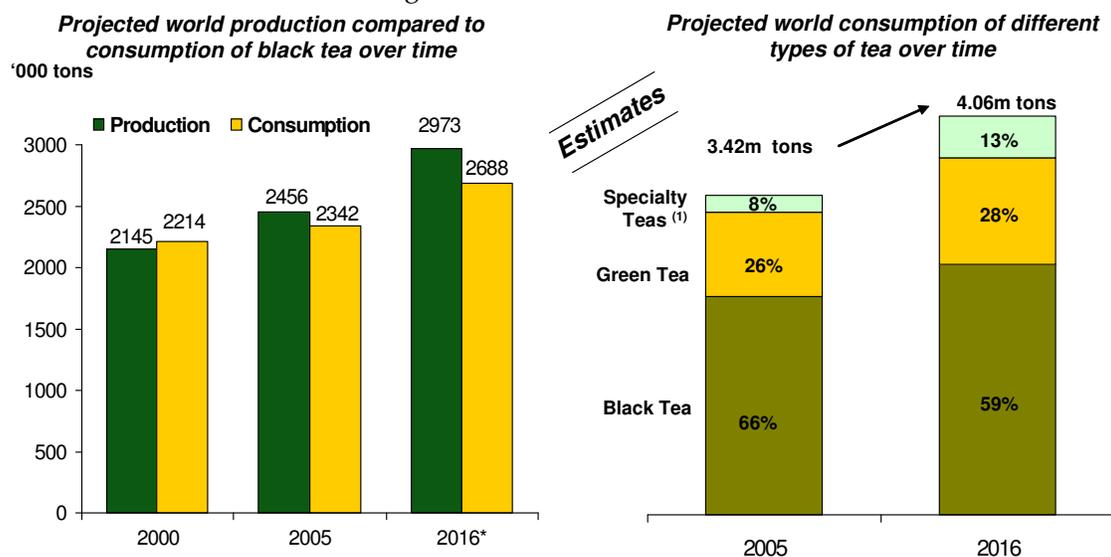
The factories in Burundi receive between \$0.89 to \$2.10 per kg of tea depending on the grade, but these prices could be significantly higher. Burundi should be aiming to improve its quality in order to attain premium prices. This requires efforts to:

- Train smallholders in effective tea bush management
- Enforce a minimum quality threshold for green leaf
- Ensure a regular and shorter collection cycle for green leaf
- Improve the factory equipment and processing skills.

### 3.3 GLOBAL TEA MARKETS

The global tea industry is in crisis. Now that the consumption of tea has become global, the profitability of tea for producer countries has deteriorated due to existing over production of tea. This overproduction is due in part to increase in production that producer countries have focused on in reaction to falling prices. This overproduction looks set to increase over the next ten years with a likely further negative impact on prices and profits (see Figure 4 left hand graph). The eight major conglomerates that purchase the vast majority of world tea will continue to see their power increasing as a result.

Figure 4: Global tea markets<sup>7</sup>



The good news is that high quality or specialty teas are showing strong growth in both quantity and price (see Figure 4 right hand graph). Burundi has the conditions and to a lesser extent the experience needed to produce such teas, but will need to focus on transforming its industry in order to go after these lucrative markets.

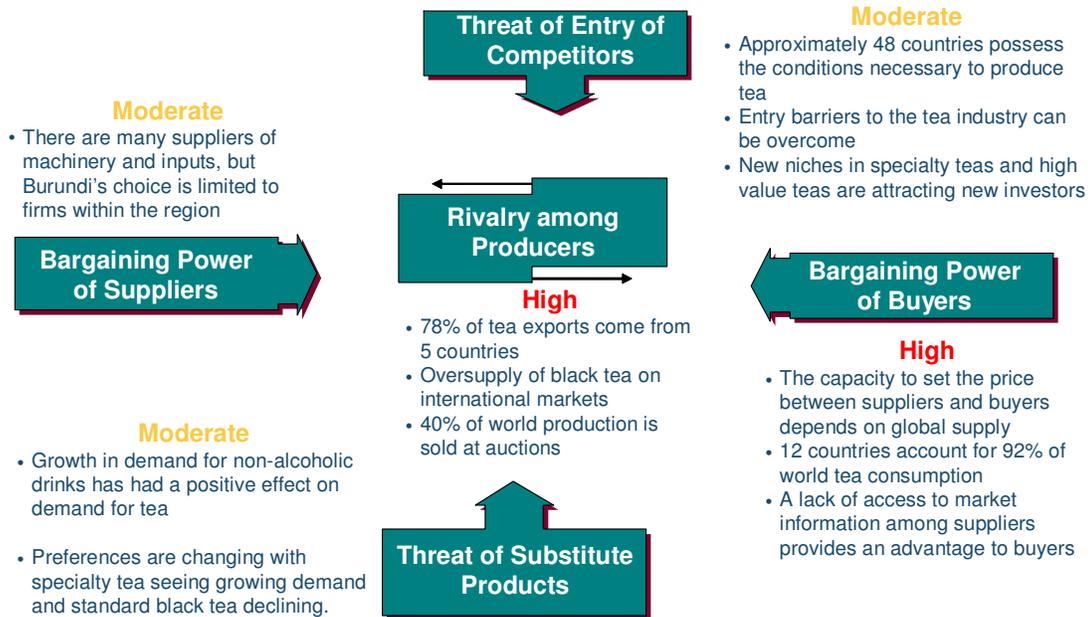
The commercialisation of tea is largely undertaken through auctions dominated by large international buyers. Almost 40 % of world production is sold in auctions especially in India, Sri Lanka and Kenya. The eight largest tea buying companies control almost 70% of the market. In a global survey of tea buyers by OTF, Kenya, Sri Lanka and India were classified as the highest quality producers. *Figure 5* provides a five forces analysis for the global tea industry, which shows that competition in the tea industry is severe, with many countries seeking to raise their quality and add value in order to compete on more lucrative markets.

While tea is mainly sold as a commodity it also offers significant potential for differentiation and for value addition. The quality of a type of tea can lead to a significant premium for teas of that origin, but similar premiums can also be derived from the development of an interesting marketing story or innovative packaging. Consumers are becoming increasingly more sophisticated and demand higher quality but also different types of teas. For example,

<sup>7</sup> FAO, Auction Price London / Mombasa, World Bank, OTF Analysis

green tea and herbal teas also have rapidly rising demand. Other differentiation is also possible e.g. through fair trade or organic certification.

Figure 5: Five forces for the global tea industry<sup>8</sup>



<sup>8</sup> International tea market survey 2007, OTF Group Analysis

## 4 TEA SECTOR MAP

### 4.1 FUNCTIONS AND PARTICIPANTS

**Input supply:** Tea seedlings are produced from clones of improved teas varieties obtained from other major tea producing countries. These are propagated at tea factories as well as through separate nurseries. The seedlings from the nurseries are given to farmers for “free” but paid for by the government or by donors such as through the EU Prothem project. Fertiliser purchase is organised nationally by OTB, but over the past few years has been non-existent, due to the lack of processing capacity in the factories.

**Production:** Production involves the establishment of the tea plantations and pruning. This takes up to three years before the tea can be harvested. Plucking is then undertaken followed by delivery of the green leaf to the factories for processing into made tea. It is an all year round process where farmers harvest their tea and sell to factories throughout the year, although there is often a halt to production in the months of July and August due to a lack of green leaf available. The majority of the production is by smallholder farmers who produce over 70% of green leaf. The rest of the production is produced by tea plantations that are run by four of the five government tea factories. While there are a large number of government funded agronomists to provide training to smallholder farmers, the green leaf yield in Burundi remains very low. At around 1000 kg per hectare, yields are well below half of the 2,400 kg per hectare yields achieved by Kenya. The main causes for this are the inability of factories to process optimal levels of green leaf due to disrepair, inefficiency and a lack of investment.

**Collection and weighing:** Once the tea is harvested by the farmers, it is bagged in sacks and delivered by bicycles and on the head to the nearest collection centres (hangars). These centres are managed by tea factories, but the transport is managed by the tea farmer cooperatives themselves. They weigh the green leaf received and consolidate the bags for delivery to the factories by trucks. When the leaf arrives at the factory it is weighed again and logged and the quality should be checked. This involves measuring the percentage of good leaf in a few sample bags.

**Processing:** The transformation of the green leaf into made tea is a mechanised process with five stages: withering, cutting, fermenting, drying and sorting. The five public tea factories in Burundi have been neglected over the last 14 years, receiving very little investment or incentives to perform efficiently. In Burundi the transformation process results in an outturn of approximately 20% i.e. for every 100kg of green leaf tea, 20kg of made tea is produced. This ratio (the transformation efficiency) is very low in Burundi, as optimal factories in Kenya produce 24kg of made tea per 100kg of green leaf.

**Marketing:** Made tea is put into sacks and sold by OTB to packers locally and internationally through a local auction, through brokers at the Mombasa auction and through direct relationships with buyers. The most common participants in the local market are the tea packers who buy in bulk and wholesale as well as retail tea in the local market.

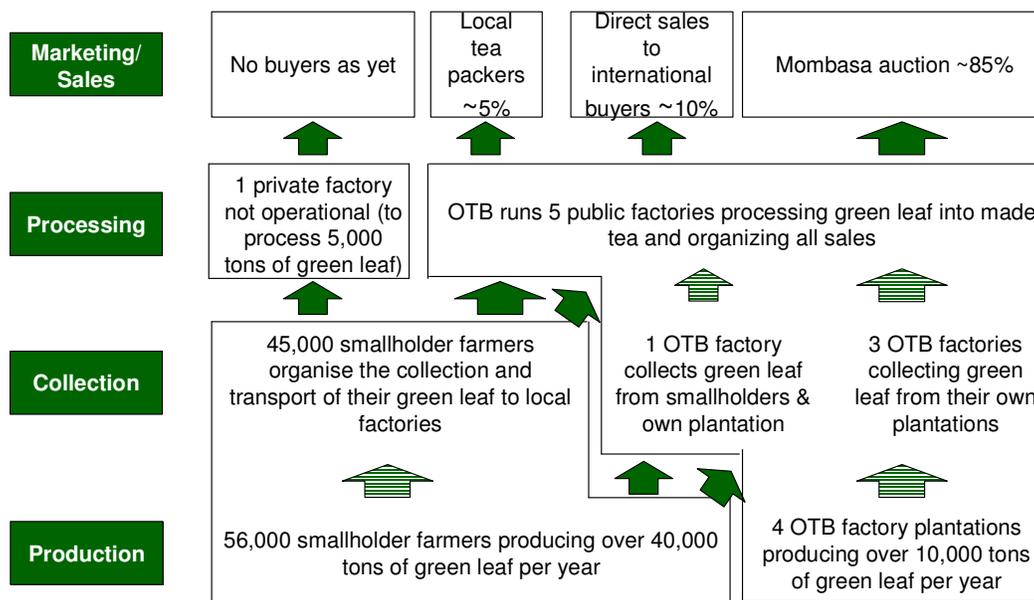
## 4.2 SUPPLY CHANNELS

While most factories have both a tea plantation under their own management and large numbers of smallholder farmer producers, two factories in Burundi, one public and one private rely entirely on smallholder production. Figure 6 below provides a detailed value chain map.

**Channel 1: Smallholder production.** Under this channel, smallholder farmers grow tea and deliver it to the factory. A farmer gets paid Burundian Francs (FBu) 110 per kg, equivalent to \$0.1, of green leaf delivered to the factory. Given a transformation ratio of 20% the tea farmer receives \$0.5 per kg of made tea. OTB sells a kg of made tea at an average price of \$1.45 per kg. The cost of producing a kg of made tea is FBu 1215 or \$1.06. The cost of transporting a kg of made tea to Mombasa and paying the broker to sell it is roughly \$0.18. Thus the factories are currently making a loss on average of between \$0.1 and \$0.2 per kg, depending on the grade of the made tea and the prices obtained in the world markets.

**Channel 2: Factory run plantation production plus smallholder production.** This channel is characterised by a factory that has its own estates and produces some of its green leaf requirements, relying on smallholder farmers for the rest. The average cost of green leaf to the factory from its own plantation is significantly lower than the cost of purchasing green leaf from smallholder farmers. Green leaf from a factory run plantation costs FBu 88 or \$0.08 per kg, compared to the \$0.1 cost of green leaf from smallholders. Hence factories with their own tea plantations tend to maximise their use of their own green leaf and minimise the use of smallholder green leaf.

Figure 6: Tea sector Value Chain Map



## 5 TEA SECTOR DYNAMICS AND DRIVING FORCES

### 5.1 IDENTIFICATION OF GROWING AND SHRINKING CHANNELS

The smallholder channel has recently expanded due to the EU PROTHEM project, which has created a new tea growing area around Gisozi where a private entrepreneur is setting up a new factory. The mixed plantation and smallholder channel is static, although in some areas smallholders have been removing their tea bushes due to the low revenues brought about by the irregular collection cycle and lack of fertiliser. Production through both channels could expand rapidly if factories were rehabilitated effectively and well-managed. The private factory should also rapidly demand more green leaf from smallholders. Once these factory issues are addressed, Burundi's main focus must be on improving the quality of made tea and developing direct sales relationships with branding of Burundian tea.

### 5.2 IDENTIFICATION OF MAJOR FORCES FOR CHANGE

The major power in this sector is the publicly run tea board (OTB), which manages the five factories, coordinates smallholder training and inputs, performs all marketing and sales, and regulates the industry. Under OTB the factories have received very little investment and are in a poor state of repair, while the factory managers or head office staff receive no incentives to improve productivity or profits. Nevertheless, OTB is opposed to the privatisation of the five public factories as this would result in a dramatic reduction of its scope of work and its influence in the sector as well as significant job cuts.

With this background there are a number of forces pushing for change in Burundi's tea industry including trends in the world market demand, pressure from development partners, pressure from the private sector, and pressure from smallholders.

**World market demand:** The world market oversupply of black tea will result in continuing downward pressure on prices over the next 10 years. As Burundi's public tea factories are already loss making, this will increase the pressure on the industry to take radical steps to become competitive. At the same time as bulk black tea sales face declining prices, there is an opportunity for high quality differentiated teas which are seeing increased demand and prices. The pressure is therefore on Burundi to upgrade the quality of its teas in order to avoid the bulk price decline and to ensure that operations are profitable and sustainable.

**Pressure from development partners:** The government of Burundi is facing pressure from development partners (particularly the World Bank and IMF) to privatise its tea industry, in order to reduce the subsidies it pays each year and improve the competitiveness of the industry. At the same time, development partners (the European Union) are supporting the rehabilitation of the five public tea factories and the development of new smallholder tea plantations. These efforts should help to ensure the future sustainability of the industry and provide a stronger base on which to build a dynamic private industry.

**Pressure from the private sector:** The tea sector in Burundi is de facto liberalised and a private operator is building a new factory in Gisozi in the South. Once operational, this factory will compete for green leaf with the other two factories of Ijenda and Tora that are nearby, as in the short-term the amount of green leaf available from smallholders will not be

enough. This competition will force these factories to provide better services to their smallholders and pressure them to improve their efficiency. At the same time number of private sector actors have expressed an interest to the government in buying tea factories.

**Pressure from smallholders:** Smallholder farmers are able to produce much higher quantities of green leaf, but are held back from doing so by long and irregular collection cycles, a lack of fertiliser and poor quality extension services. These factors reduce the income smallholders receive from tea and so reduce the attractiveness of the crop. As this situation continues, more and more smallholders will stop cultivating their tea bushes, reducing the availability of tea and reducing the production of factories. This is clearly unsustainable.

Despite these pressures there are significant barriers to change, which include the prevailing stakeholder attitudes in Burundi's tea industry, as these are not aligned with competitiveness. For example, 77% of stakeholders believe the government should subsidise the profitability of tea factories. Furthermore, 55% believe that cheap labour and natural resources are the key to competitiveness. Finally, while 53% of stakeholders believe privatization is important to the industry success, only 22% believe the government is ready to supervise such a process for the industry. It is paramount these attitudes are addressed if the tea industry is going to be successfully reformed and privatized in the future. Migration of the industry to a sustainable and competitive value model would require such a shift in mindsets.

### 5.3 POINTS OF LEVERAGE

The major points of leverage in the tea industry are the tea factories, which are the centre for collection of green leaf and hence deal with all smallholder farmers and their cooperatives, as well as the centres of processing, employing 2,500 staff. The consistency and quality of the processing is paramount to the prices received for the tea on international markets and hence for the profitability of the tea industry.

Cooperatives are key points of leverage to target the 56,000 smallholders. Cooperatives support smallholders through the organisation and provision of extension services, fertiliser purchase and credit and well as managing the collection of green leaf.

OTB continues to play the leading role in the tea industry, managing 5 factories, marketing all of the tea that they produce and regulating the entire industry. Hence, OTB must be seen as a further point of leverage. Finally, STABEX could also be a useful point of leverage, as they have approximately \$4.5 million to spend on the tea industry and have developed strong working relationships with OTB.

## 6 OPPORTUNITIES & RECOMMENDATIONS

OTF's detailed review of the tea industry has identified a large number of crucial actions to ensure the sustainability of the industry. However, it is recognised that the PAIR project will not be able to tackle the majority of these programs and will need to focus on those areas where it can have the greatest impact and influence. In the first year at least this is likely to be focused on two key areas: i.) the new private tea factory, which has an ambitious roll out program and requires significant technical support; and ii.) lobbying for policy change such as privatisation of management and creating a regulatory body. After a discussion of the major opportunities, sections 6.2 and 6.3 below provide some more details on these recommendations, while 6.4 assesses the potential outcomes.

### 6.1 OPPORTUNITIES

The tea industry in Burundi has been stagnant or declining for the last 14 years, but a reversal of these fortunes is possible, providing the sector becomes private sector driven and receives some significant investments. Key opportunities include privatised management, direct sales, certification, quality improvements, diversification/value addition and improved yields.

**Private management:** Rehabilitating the public tea factories is perhaps the largest and most crucial investment and is being undertaken with support from STABEX funds. However, at the same time as this rehabilitation, it is absolutely imperative that there is a change of management and of management style of these public factories. Without dynamic private management these investments in new machinery are in danger of being badly installed, poorly utilised and hence not having the desired impact. Lobbying for the introduction of private management contracts is therefore a key action for the PAIR program, but this could perhaps best be coupled with the success of private management in the new private factory. It is therefore suggested that a key role for the PAIR program will be to support the development of a private management contract for the private factory, including production and profit incentives.

**Quality improvement:** In the past tea from Ijenda received the highest price of all African teas and was recognised as one of the highest quality CTC teas in the world. Burundi tea in general is still recognised as of naturally high quality, despite its low production volumes and declining quality over recent years. A focus on quality from the green leaf to the buyer should enable Burundi to regain the highest prices in Africa and rebuild its national brand. At the same time, higher quality teas receive higher prices and so enable smallholder farmers to receive higher revenues.

**Direct sales:** The current auction focus of Burundi's tea sales, provides another opportunity to increase prices and profits. Switching to direct sales of Burundian tea to buyers with whom a strong relationship is developed and who have the potential to provide some forward integration or marketing, could provide both higher prices and begin to develop market awareness. While sales of tea from the five public factories continue to be managed by OTB, this may not be possible due to the fear of corruption. However, the PAIR project could support the private factory to build such relationships by identifying the best markets for its tea and helping it to form partnerships with blenders and packers in those markets.

This work could again provide an example to the publicly run tea factories and sales, increasing the pressure on privatisation of the management.

**Certification:** On top of direct sales further premiums can be exacted from certain buyers by gaining fair trade or organic certification and developing a brand or story. Fair trade certification for example also ensures that smallholder farmers benefit from support, advice and the re-investment of profits into the local community. The PAIR project could take the lead in supporting factories to identify potential buyers of certificated tea, build the links with these buyers and then gain the relevant certification. While this process may be initially only for the private factory, it could be broadened to the five other factories after the privatisation of management takes place.

**Diversification & value addition:** Today Burundi produces only black CTC tea. This system of processing is seen as more efficient and more economic than the production of Orthodox tea, but produces small grains of tea that are most suitable for tea bags. Orthodox teas on the other hand are more like small leaves of tea and so can be employed for direct infusion and often reach significantly higher prices on specialty tea markets. The new factory will run one line of CTC and one line of Orthodox machinery to test the markets for a Burundian Orthodox product. This will require external specialist expertise in the running of an Orthodox line (as it is the first line of its kind in Burundi), as well as significant marketing efforts to find specialty buyers. Again PAIR could be instrumental in supporting the factory to bring in relevant production experts, as well as in the identification of potential buyers.

**Market Niches:** There are many established and new market niches in the tea sector, based on the wide variety of different types of teas, the wide variety of different brands for example linked to different origins, and the wide variety of different tea products including iced tea, ready to drink tea, tea bags or leaf tea. The different markets also exhibit different patterns of demand with opportunities to create new niches. Key buyers of Burundi tea at the moment are in the Middle East and large international blenders. Burundian tea is traditionally used in blends to raise the overall quality. This provides a good opportunity for Burundi to move away from being a cheap high quality blend addition to becoming a single origin tea in its own right.

**Yield increases:** A key means of increasing revenues for smallholder farmers is to support them in increasing their productivity. Currently productivity is very low for a number of reasons discussed above, including the long collection cycles and a lack of fertiliser application. The barrier to this is that the publicly run factories require crucial investments in machinery and new management in order to raise their capacity and efficiency, before they would be able to process increased green leaf resulting from higher productivity. However, the privately run factory can process all of the green leaf produced by its smallholders as well as some of that produced by smallholders that traditionally have served Ijenda and Tora. In this Southern region, therefore, there is scope to immediately increase production of green leaf without it being wasted. The PAIR project should work in this region initially to develop sustainable mechanisms for smallholders to access fertiliser credits, to undertake soil testing to ensure fertilisers are specific to needs and to review and upgrade existing extension services.

**Cooperatives:** Currently tea farmer associations are relatively weak organisations, without financial means or strong organisational structures. However, they have a key role to play in

ensuring that farmers have access to fertilisers and other inputs such as extension services. The PAIR project should seek to support the development of stronger cooperative organisations in the Southern tea growing areas, as these will support the attainment of PAIR's objectives as well as of the other opportunities listed above.

## 6.2 SUMMARY PROJECT ACTIVITIES

It is recommended that the project undertake work in the tea sector in the following areas:

1. Facilitate the strengthening of *tea cooperatives* in Southern tea growing areas to improve access to finance, fertilisers and other inputs, in order to raise yields
2. Work with the private factory and tea cooperatives to *organise optimal green leaf collection systems*
3. Target quality improvement by reviewing existing extension services and supporting the development of effective *fee based extension services* for smallholder farmers
4. Support the private factory to *establish mechanisms of quality control* such as the use of minimum green leaf quality standards
5. Facilitate the private tea factory to *contract professional management* with the necessary expertise to run both a CTC and Orthodox tea line
6. Work with the private tea factory and smallholders to *develop plans for providing share ownership in the factory to smallholders*
7. Support the private tea factory to gain *fair trade certification*
8. Support the private tea factory to *identify potential buyers* for both CTC and Orthodox tea who are interested in forming long-term value addition relationships
9. *Lobby OTB to introduce privatised management* or fully privatise the five public tea factories and support the *development of an independent regulatory body*.

## 6.3 DETAILED PROJECT ACTIVITIES

**Recommendation 1:** Facilitate the strengthening of the tea cooperatives in the Southern tea growing areas to improve access to finance and key inputs in order to raise yields and ensure effective fertiliser application:

- Conduct farmer sensitization and problem analysis/needs analysis meetings with tea farmers to explore problems and options for problem solving
- Conduct training on group/cluster formation, dynamics and management.
- Bring in soil analysis expertise to test fertiliser needs
- Explore financial service and input providers and their capacity to service farmer groups (if capacity is available, go to next stage. If it is not available, facilitate financial service and input supply providers development of appropriate products or product delivery mechanisms)
- Support farmer group savings mobilization
- Link farmer groups to financial service providers and input suppliers
- Monitor the linkages between the farmer groups and service providers

**Recommendation 2:** Work with the private factory and tea cooperatives to organise optimal green leaf collection systems:

- Review best practice green leaf collection systems

- Discuss options for green leaf collection with cooperatives & factory management
- Facilitate investments in lorries and collection hangars to ensure effective collection
- Review the system to ensure it is working effectively.

**Recommendation 3:** Target quality improvement by reviewing existing extension services and supporting the development of fee based extension services for smallholder farmers:

- Evaluate the present extension offer, its effectiveness and cost-efficiency
- Assess the scope for potential providers of alternative extension services
- Assess farmer group extension service needs and ability to pay
- Structure fee based extension services through different providers
- Facilitate the training of extension service providers.

**Recommendation 4:** Support the private factory to establish mechanisms of quality control such as the use of minimum green leaf quality standards:

- Provide technical assistance to the private tea factory to set up quality control mechanisms throughout the process
- Monitor the implementation of these mechanisms.

**Recommendation 5:** Facilitate the private tea factory to contract professional management with the necessary expertise to run both a CTC and Orthodox tea line:

- Support the factory to draft a contract for a professional tea factory manager
- Facilitate the identification and selection of potential candidates
- Facilitate training of board of directors in corporate governance issues.

**Recommendation 6:** Work with the private tea factory and smallholders to develop plans for providing share ownership in the factory to smallholders:

- Review best practice in shared factory ownership models
- Work with the factory to develop a proposition for smallholder share ownership
- Discuss options with the smallholders and facilitate an agreement
- Monitor the implementation of the agreement.

**Recommendation 7:** Support the private tea factory to gain fair trade certification:

- Bring in technical assistance to review gaps in fair trade criteria
- Provide support to the factory to overcome these gaps
- Support the factory in bringing in fair trade assessors.

**Recommendation 8:** Support the private tea factory to identify potential buyers for both CTC and Orthodox tea who are interested in forming long-term value addition relationships:

- Identify existing buyers of Burundian tea
- Contact these buyers and other buyers of tea from the region to assess their interest in developing long-term and value added relationships with Burundian producers
- Support the factory in building relationships, e.g. by joint sponsorship of missions
- Monitor the development of the relationships.

**Recommendation 9:** Lobby OTB to introduce privatised management or fully privatise the five public tea factories and support the development of an independent regulatory body:

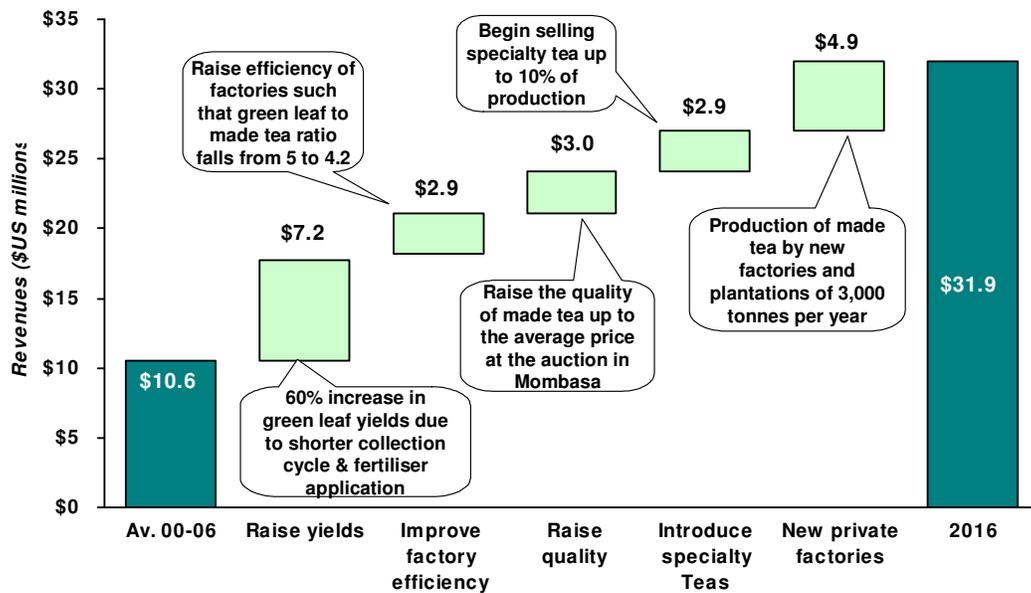
- Write articles in the press on the impact of private management
- Hold meetings with senior government officials and Ministers to discuss privatisation and regulation of the tea industry

- Provide technical assistance to the government to set up an independent regulatory body for the tea industry.
- Monitor the impact and actions of the independent tea regulatory body.

## 6.4 OUTCOMES

Analysis of the potential growth in Burundi’s tea industry revenues, backs up the view that a reversal in fortunes is possible. OTF Group analysis contained in *Figure 7* suggests that with a number of key investments and policy decisions, the tea industry could triple its yearly export revenues from around \$10m to \$31m by 2016. While the PAIR project will not be able to implement all of these actions itself, it should seek to be a strong influence on the implementation of these actions by others.

Figure 7: Potential impact of key actions on Burundi’s annual tea industry export revenues



The impact of the specific PAIR actions will also be felt directly by both smallholder farmers and the government. Smallholders should see their higher productivity and the higher prices for the final tea translated into higher incomes. Projections suggest that smallholders in the Southern province could more than double their revenues from the current average of \$46 per year to over \$100 per year, once the private factory becomes operational and proves to be efficient. The government will benefit from increased tax revenues, increased external borrowing capacity due to higher exports and reduced poverty.

## 7 CONCLUSION

By focusing on supporting smallholders in the Southern tea producing area and by providing technical assistance to the new private factory, the PAIR project could provide an example of the potential for competitiveness Burundi's tea industry. This example should help the PAIR project to lobby for the privatisation of the management of publicly owned tea factories and for shares in tea factories to be provided to smallholders. This example should also provide a recognition of the potential prices achievable given a focus on quality production and of the diversification potential through different production methods, different markets and value addition. As a discrete and private part of the industry, the OTB will have limited jurisdiction to hinder the activities of the PAIR project and instead should come to see PAIR as a useful source of best practice and support. By building this relationship, PAIR should also be able to influence policy decisions in the tea sector and support the creation of an independent regulatory body. More importantly, PAIR's actions will have a significant and direct impact on Burundi's exports and on the livelihoods of approximately 15,000 smallholders.

## ANNEX 1 – TRADE AND MARKET STATISTICS

Table 1: Trends in World Production of Tea (averages)

	1980-84	1985-89	1990-94	1995-99	2000-04	2005
<b>PRODUCTION ('000s of TONS)</b>						
Kenya	102.5	158.2	201.9	253.1	287.3	328.6
Malawi	34.0	38.1	36.5	39.1	42.0	38.0
Uganda	2.8	4.2	10.1	20.5	33.7	37.7
Tanzania	16.3	15.5	20.6	22.8	27.3	30.4
Zimbabwe	11.2	16.1	13.6	17.5	21.6	14.9
Rwanda	7.3	11.7	11.1	10.9	15.4	14.5
Burundi	2.3	4.0	5.6	6.1	7.6	7.8
South Africa	7.4	11.4	11.3	9.9	9.9	5.5
Ethiopia	—	—	—	3.9	4.7	4.9
Cameroon	2.1	2.7	3.4	4.2	4.2	4.6
Mozambique	17.5	3.7	1.9	1.6	3.0	3.2
DRC	3.9	4.0	3.0	2.5	2.7	3.0
Mauritius	5.8	7.1	5.7	2.2	1.2	1.5
<i>Africa</i>	<b>213.1</b>	<b>276.7</b>	<b>324.6</b>	<b>392.7</b>	<b>460.5</b>	<b>493.7</b>
<i>Asia</i>	<b>1,559.7</b>	<b>1,896.5</b>	<b>2,054.4</b>	<b>2,307.4</b>	<b>2,561.7</b>	<b>2,775.1</b>
<i>Others</i>	<b>212.6</b>	<b>192.2</b>	<b>133.0</b>	<b>84.9</b>	<b>98.1</b>	<b>107.2</b>
<b>GLOBAL</b>	<b>1,985.4</b>	<b>2,365.4</b>	<b>2,512.4</b>	<b>2,785.0</b>	<b>3,120.3</b>	<b>3,376.0</b>
<b>SHARES (Percentage From AFRICA)</b>						
Kenya	48.1	57.2	62.2	64.4	62.4	74.1
Malawi	15.9	13.8	11.2	10.0	9.1	8.2
Uganda	1.3	1.5	3.1	5.2	7.3	8.2
Tanzania	7.6	5.6	6.4	5.8	5.9	6.6
Zimbabwe	5.2	5.8	4.2	4.5	4.7	3.2
Rwanda	3.4	4.2	3.4	2.8	3.3	3.1
Burundi	1.1	1.4	1.7	1.5	1.6	1.7
South Africa	3.5	4.1	3.5	2.5	2.2	1.2
Ethiopia	—	—	—	1.0	1.0	1.1
Cameroon	1.0	1.0	1.1	1.1	0.9	1.0
Mozambique	8.2	1.3	0.6	0.4	0.6	0.7
DRC	1.8	1.5	0.9	0.6	0.9	0.7
Mauritius	2.7	2.6	1.8	0.6	0.3	0.3
<b>Shares (Percentage of World production)</b>						
<i>Africa</i>	<b>10.7</b>	<b>11.7</b>	<b>12.9</b>	<b>14.2</b>	<b>15.0</b>	<b>14.6</b>
<i>Asia</i>	<b>78.6</b>	<b>80.2</b>	<b>81.8</b>	<b>82.8</b>	<b>82.1</b>	<b>82.2</b>
<i>Others</i>	<b>10.7</b>	<b>8.1</b>	<b>5.3</b>	<b>3.0</b>	<b>3.1</b>	<b>3.2</b>
<b>GLOBAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: International Tea Committee and author's calculations.

**Table 2: Production of made tea in Burundi (tons)**

	Teza	Rwegura	Tora	Ijenda	Buhoro	TOTAL
1991	1,407	1,608	1,043	1,265	139	5,462
1992	1,392	1,995	1,063	1,451	48	5,949
1993	1,416	1,959	829	1,096	223	5,523
1994	1,647	2,313	1,052	1,480	372	6,864
1995	1,716	2,033	1,192	1,673	380	6,994
1996	998	1,761	1,128	1,712	116	5,715
1997	376	1,583	949	1,138	124	4,170
1998	1,378	2,081	1,183	1,628	399	6,669
1999	1,343	1,743	1,425	1,919	434	6,864
2000	1,403	2,213	1,447	1,589	467	7,119
2001	1,634	2,790	1,652	2,190	743	9,009
2002	1,603	1,789	1,156	1,485	604	6,637
2003	1,701	2,044	1,516	1,608	507	7,376
2004	1,759	2,140	1,516	1,544	711	7,670
2005	1,934	1,811	1,711	1,764	603	7,823
2006	1,593	1,704	1,109	1,521	435	6,362

Source: Office du Thé du Burundi

**Table 3 Tea prices**

	Exchange Rate (FBU/\$)	Quotes for Burundi Tea			Price to tea farmers	
		Made Tea (\$/kg)	Made Tea (FBU/kg)	Green leaf (FBU/kg)	Green leaf (FBU/kg)	Share (%)
	[1]	[2]	[3]	[4]	[5]	[6]
1993	243	1.56	379	79	26	33
1994	253	1.61	407	85	26	31
1995	250	1.30	325	68	33	49
1996	303	1.36	412	86	33	38
1997	352	1.39	490	102	35	34
1998	448	1.39	622	130	35	27
1999	564	1.65	930	194	45	23
2000	721	1.93	1,391	290	60	21
2001	830	1.27	1,055	220	75	34
2002	931	1.34	1,247	260	85	33
2003	1,083	1.43	1,548	323	100	31
2004	1,101	1.41	1,552	323	100	31
2005	1,082	1.13	1,222	255	110	43
2006	1,020	1.66	1,693	339	110	32

Notes: [3] = [1]\*[2]; [4] = [3]/4.8; [6] = 100\*[5]/ [4]. For the year 1998, Burundi's tea was not sold on auction and hence the price for Rwandan tea has been used as a marker.

**Tableau 4: Distribution of Tea by production zone in Burundi (Averages 2001-2005)**

	Teza	Rwegura	Tora	Ijenda	Buhoro	TOTAL
<b>Area (hectares)</b>						
Plantations	556	776	330	—	300	<b>1,962</b>
Tea farmers	1,316	1,503	1,436	2,099	478	<b>6,832</b>
TOTAL	1,872	2,279	1,766	2,099	778	<b>8,794</b>
<b>PRODUCTION (green leaf, tons)</b>						
Plantations	3,031	4,855	1,543	—	2,079	<b>11,508</b>
Tea farmers	5,488	6,095	6,000	7,866	973	<b>26,421</b>
TOTAL	8,519	10,950	7,543	7,866	3,052	<b>37,929</b>
<b>YIELDS (green leaf, tons per hectare)</b>						
Plantations	5.5	6.3	4.7	—	6.9	<b>5.9</b>
Tea farmers	4.2	4.1	4.2	3.7	2.0	<b>3.9</b>
TOTAL	4.6	4.8	4.3	3.7	3.9	<b>4.3</b>
<b>PRODUCTION (made tea, tons)</b>						
Plantations	632	1,011	322	—	433	<b>2,398</b>
Tea farmers	1,143	1,270	1,250	1,639	203	<b>5,504</b>
TOTAL	1,775	2,281	1,571	1,639	636	<b>7,902</b>
<b>AREA (percentage)</b>						
Plantations	6	9	4	—	3	<b>22</b>
Tea farmers	15	17	16	24	5	<b>78</b>
TOTAL	21	26	20	24	9	<b>100</b>
<b>PRODUCTION (share, percentage)</b>						
Plantations	8	13	4	—	5	<b>30</b>
Tea farmers	14	16	16	21	3	<b>70</b>
TOTAL	22	29	20	21	8	<b>100</b>

**Source:** *Office du Thé du Burundi* and calculations from Mr. John Baffes, World Bank.