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COMMODITY VALUE CHAINS MAPPING FOR TEA

FINAL REPORT

August, 2006

This publication was produced for review by the United States Agency for International Development. It was prepared by Richard Pelrine and Asaph Besigye, USAID Rural SPEED for Chemonics International Inc.

Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

COMMODITY VALUE CHAINS MAPPING FOR TEA

FINAL REPORT

Rural SPEED
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BACKGROUND

Introduction

USAID/Uganda's 2002-2008 strategy calls for expanded sustainable economic opportunities for rural growth, promoting a connection between productive strategies by the private sector in rural areas and expansion of financial services. USAID/Rural SPEED (Savings Promotion & Enhancement of Enterprise Development) was designed to help meet this goal.

USAID/Rural SPEED's objective is to deepen and strengthen Uganda's financial sector to increase its responsiveness to the demand for financial services in the rural economy. Increased availability of financial services would result in the growth necessary to achieve the goals of GOU's Poverty Eradication Action Plan. Rural SPEED is engaged in four key activity areas: 1) savings mobilisation; 2) service delivery mechanisms; 3) agriculture finance; 4) new product development. This report, which supplements an earlier report that mapped three commodities namely sunflower, maize and cotton[1], is concerned with agricultural finance.

In spite of agriculture's being the main occupation of the majority of Ugandans and a principal engine of potential rural growth (services are also important), rural areas, and farming in particular, are not well-served by the financial sector. Currently agricultural credit accounts for less than ten percent of the total formal financial institutions' loan portfolio. Agriculture finance has for long largely remained a poorly understood concept within the financial institutions, with skewed risk perceptions. Furthermore, few actors in the financial sector realize that the full scope of agricultural finance extends beyond production to include, input supply, post harvest processing, transport, packaging, marketing, etc. Further, even when considering production alone, there has been remarkable improvement in agricultural sectors, notably for no-traditional cash and export crops, over the past decade. This progress has been catalyzed by adoption of new technologies by the farmers through the past and on-going technical assistance support by development projects, improved market linkages, infrastructural improvements and better access to inputs.

In the case of traditional cash crops, specifically the tea commodity that constitutes the focus of this report, the adoption of proper agronomical practices, including use of improved inputs, for better yield is a well entrenched concept amongst the farmers. Nonetheless, accessibility and affordability of the inputs and labour by smallholder growers to successfully implement the best agronomical practices is a major limiting factor. In addition though the tea growers would wish to access cash for their crop deliveries, the buyer often delays the payment which further hampers the farmers' efforts to successfully accomplish their farm activities and meeting their other non-farm financial requirements. Thus increasing the growers' accessibility to inputs and labour, and ensuring adequate liquidity for growers' produce can substantially boost the performance of the tea sector. Both regulated and self-regulated financial institutions largely continue to maintain the view that agriculture is risky and are thus reluctant to venture into, or reintroduce, agriculture finance products in their portfolios. This knowledge gap is largely perpetuated by the inadequate exposure to the costs and risks embedded at different points in the value chain of the agricultural commodities, in addition to the knowledge of the tenure of transaction points' activities. Also these institutions lack, or are reluctant to develop, appropriate tools and mechanisms to adequately assess, mitigate and manage agriculture finance risks. With these tools agricultural finance may well become attractive, viable and sustainable.

[1] See http://http/www.speeduganda.org/pdf/Commodity_Mapping.pdf

Objective

The objective of mapping the tea value chain is to demystify and quantify the associated risks and costs of the supply chain of this commodity. In doing this, the transaction point risks and opportunities are exposed and this ought to help financial institutions that are keen on lending for agriculture to assess the low-risk transaction points for lending for this commodity. The result of this, as highlighted in the previous referenced value chain report, should facilitate the introduction of appropriate and focused, viable and sustainable agricultural finance products within institutions that stretch beyond the bounds of production finance.

Methodology

The analysis in this report started from cost of production (COP) and cost of processing data compiled by USAID/Rural SPEED from its own field survey with Kayonza Growers Tea Factory and a sample of Kayonza tea growers in Kanungu district. The cost of borrowing is based on Kayonza Microfinance SACCO lending costs and average commercial loan costs for farmers and processor respectively.

As far as tea production and marketing in Kayonza is concerned, there is reasonable uniformity of costs, including labour costs that are centrally determined by the growers' associations throughout the tea growing areas. Also the mode of green leaf collection from the numerous leaf weighing sheds renders the relative uniformity of per acreage income and profitability for the growers adopting similar agronomical practices. The figures used are those generated during the USAID/Rural SPEED's survey for farmers using an optimal package of an advanced level of technology (fertilisers and pesticides) and who are able to harvest (pick) four times a month. Thus maximum precision has been ensured by Rural SPEED for greater reliability and validity of the data used.

In order to enhance and broaden the reader's understanding of the tea value chain, Rural SPEED has deemed it imperative to include an explanation on the production, processing and marketing operations. The green leaf production activity (currently by 4,500 growers with a total of 1,600 ha of fully established tea crop) is largely dominated by the application of appropriate inputs comprising NPK fertiliser for crop food nutrient and glaphosate pesticide for weed control, pruning to ensure adequate crop regeneration and picking of right green leaf that optimise both grower and factory financial returns. Every grower has to undertake these labour-intensive activities, though with varying levels which are dictated by the grower's capacity to access the inputs and labour. The application of inputs and pruning of the fields also warrant access to basic equipment like spray pumps and pruning knives though not on regular and individual grower basis. The recommended fertiliser and herbicide application is twice and thrice a year respectively while pruning is repeated after every three years. There are no re-establishment costs since the perennial tea crop can subsist for more than 200 years. For maximum quality and out-turn, four green leaf pickings per month or once a week are recommended whereupon the picking of a two-leaf and budded shoot is possible. Whenever the monthly picking frequency is less than four times due to inaccessibility to labour, the growers compromise the quality by picking many overgrown leaves that take long to process and yield lower grade tea.

Green leaf procurement by the factory is through leaf buying clerks from the numerous scattered green leaf weighing sheds that are collectively managed by the growers. This is done on programmed schedules which are strictly observed by the buying clerks, thus limiting any crop loss risks associated with leaf withering and rotting, and subsequent decline in quality and outturn. Also to ensure quality control, transport of green leaf from the green leaf weighing shed is undertaken by the factory-contracted transporters. It is worth noting that green leaf marketing by Kayonza growers is by one

single channel as there is only one factory in the area and thus there is no opportunity for side-selling by the growers.

The processing cycle for tea is of extremely short duration of up to 24 hours and mainly includes leaf moisture reduction through controlled withering, sifting to remove foreign matter, CTC (Cut, Tear and Curl), oxidisation, fermentation, drying, grading and packaging. This is largely by mechanical operations and thus the labour component for handling is very low. The average outturn (conversion from green leaf to processed black tea) is 22.5% and the final product is largely influenced by the upstream activities that determine the quality of the green leaf. The marketing operations are largely through the Mombasa auction where 95% of Kayonza Growers Factory tea is marketed with the remaining 5% being local sales.

The Costs of Production, excluding the field establishment costs which are considered a sunk cost by almost all the farmers as no new ventures or field expansions are being made, used for this report were generated from the survey with the sample growers. Beyond the costs of production, other costs (transport, handling, processing, packaging, etc.) are reflective of what the factory which provides these services incurs under the circumstances of the value chain described. The unit of analysis is UGX/kg, with conversions made from data expressed in per acre and recovery out-turn terms to arrive at UGX/kg. The aim is to show the value added, in UGX/kg, at each financial transaction point in the chain. The analysis follows the chain to the tea auction marketing point at Mombasa to provide a complete picture of the value chain, though USAID/Rural SPEED is conscious that financing ex-factory transaction points is beyond the scope of rural finance and thus beyond its mandate.

SECTION II

ACTIVITY SUMMARY

Tea Value Chain and Analysis

This section presents the final value chain maps and analyses for tea, specifically for Kayonza growers and Kayonza tea factory. The value chain is mapped based on two scenarios under the existing microfinance terms for the growers and commercial lending for processing, the current case scenario (reflecting current financing practices with the factory incurring the inputs financing costs) and a scenario where the input financing is shouldered by the growers.

Tea Value Chain for current case scenario for Kayonza growers and Kayonza Tea Factory (growers with limited credit history and input supply financing by the factory)

The following map is based on Kayonza smallholder tea growers and Kayonza tea factory with inputs procurement and distribution by the factory, limited farmer financing from Kayonza Microfinance SACCO, no intermediary produce buyers, inputs and processing finance at current commercial lending terms, and Mombasa tea auction market. Figures are quoted in UGX/kg of processed tea.

Category of transaction	Value (UGX/kg)	Value Added (UGX/KG)	Return on Investment	Months	Annual Return on Investment
1. Input Retail (supplied by Kayonza Tea Factory)					
Fertiliser - NPK	(159.4)				
Herbicide - Glaphosate	(23.0)				
Commercial Finance (3.5%/month + 2% Commitment Fee)	0.0				
Total Cost of Inventory	(182.4)				
Input Price to farmer	(182.4)	0.0	0%	6	0%
2. Production					
Fertiliser application Labour	(9.2)				
Herbicide application Labour	(13.8)				
Prunning Labour	(8.9)				
Harvesting Labour	(266.7)				
Purchased Inputs	(182.4)				
Total COP before financing	(481.0)				
Commercial Finance (100% of production costs, 3.5%/month + 2% Commitment Fee)	(68.7)				
Total Costs of Production	(549.6)				
Collection shade Price	888.9	339.2	62%	6	123%

3. Factory					
Procurement cost for green leaf (raw tea)	(888.9)				
Transport	(207.0)				
Handling	(2.0)				
Total cost of procurement	(1,097.9)				
Processing costs					
Manufacturing costs	(531.0)				
Factory overheads	(750.0)				
Packing materials	(37.0)				
Transport (Inputs) - Factory to farmers	(1.0)				
Transport (Kayonza - Mombasa)	(178.0)				
Marketing & warehousing costs	(80.0)				
Total cost of processing	(1,577.0)				
Total cost to factory before financing	(2,674.9)				
Trade finance (13.5% p.a)*	(30.1)				
Total cost to factory	(2,705.0)				
Price to factory (X-Mombasa)	3,302.0	597.0	22%	1	265%
Note: 13.5% p.a commercial lending as the factory currently borrows dollars at 12% p.a. and we've included 1.5% for forex transaction costs.					

Notes:

- Auction market price is based on the annual cumulative average price as at 30 June 2006 of UGX 3,302/Kg. This price may vary depending on the variation in quality of tea at the auction and fluctuation in the foreign exchange rate.
- The grower price of UGX 200/Kg is guaranteed by the factory and is payable in cash at 70% 30 days after delivery, with the remaining 30% payable after 90 days.
- Inputs (fertilizer and herbicides) are procured and supplied to the growers on credit by the factory. The inputs are supplied to the growers at cost (excluding storage and distribution expenses). The factory is anxious to divest itself from this financially strenuous undertaking.
- Commercial production finance is based on SACCOs' current lending rates for short-term borrowers of relatively small amounts. Though no specific loan product is available for tea growers, a number of growers are accessing loans from Kayonza Microfinance SACCO. The provision for loan product, covering 100% of labour costs, is priced at the SACCO's current lending terms of 3.5% monthly interest and 2% commitment fees, though the SACCO has indicated that in the near future it will reduce the interest charge to 2.5 per month.
- Transport and Handling is by the factory and the growers cannot undertake these themselves. Thus the growers can not increase margin realizable on direct delivery to the factory.
- Trade Finance for green leaf procurement and processing is based on the current factory dollar-denominated borrowing terms (12% p.a) with a provision of 1.5% to cater for adjustment for currency conversion. There is no consideration of a commitment fee as borrowing is normally by a revolving overdraft facility and thus the commitment fee is likely to be amortized to the extent that it is insignificant.
- Annual Return on Investment is meant only as a reference point in order that the reader will understand what the periodic investment corresponds to in annual terms. Rural SPEED is not advocating annual lending for the value chain transactions but lending ought to match the realistic transaction cash flow expectations.

Tea Value Chain for Commercial Case Scenario for Kayonza growers and Kayonza Tea Factory [Based on private input supply, growers' borrowing for inputs and labour and the factory borrowing for operational and processing costs]

The following map is based on private input supply for the growers, microfinance (SACCO) credit for inputs and production labour based on current lending rates, commercial finance (overdraft) terms for green leaf procurement, processing and marketing operations, including Mombasa auction market costs for the end product. The potential financing tenure for the growers has been tailored on the prospective cash flow for this sector for inputs and labour requirements respectively.

Figures are quoted in UGX/kg of processed tea as in the previous map.

Tea Value Chain Map

Based on Kayonza Tea Growers with limited credit history, uganda average financing, Kayonza Growers Tea Factory grean leaf purchsing and tea output marketing, and private input distribution

Category of transaction	Value (UGX/kg)	Value Added (UGX/KG)	Return on Investment	Months	Annual Return on Investment
1. Input Retail (supplied by private importers)					
Fertiliser - NPK	(159.4)				
Herbicide - Glaphosate	(23.0)				
Commercial Finance (3.5%/month + 2% Commitment Fee)	0.0				
Total Cost of Inventory	(182.4)				
Input Price to farmer	182.4	0.0	0%	6	0%
2. Production					
Fertiliser application Labour	(9.2)				
Herbicide application Labour	(13.8)				
Prunning Labour	(8.9)				
Harvesting Labour	(266.7)				
Purchased Inputs	(182.4)				
Sub-total (production costs before financing)	(481.0)				
Commercial Finance (100% of input and labour costs, 3.5%/month + 2% Commitment Fee)	(110.6)				
Total Costs of Production	(591.6)				
Collection shade Price	888.9	297.3	50%	6	101%
3. Factory					
Procurement of green leaf	(888.9)				
Transport	(207.0)				
Handling	(2.0)				
Total cost of procurement	(1097.9)				
Proceesing costs					
Manufacturing costs	(531.0)				
Factory overheads	(750.0)				
Packing materials	(37.0)				
Transport (Inputs) - Factory to farmers	(1.0)				
Transport (Kayonza - Mombasa)	(178.0)				
Marketing & warehousing costs (Mombasa)	(80.0)				
Total cost of processing	(1577.0)				
Total cost to factory (before financing costs)	(2674.9)				
Trade finance (13.5% p.a)*	(30.1)				
Total cost to factory	(2705.0)				
Price to factory (X-Mombasa)	3,302.0	597.0	22%	1	265%

Note: 13.5% p.a commercial lending as the factory currently borrows dollars at 12% p.a. and we've included 1.5% for forex transaction costs.

Notes:

- Financing of inputs is based on average Kayonza Microfinance SACCO lending charges of 3.5% per monthly plus a 2% commitment fee for a period of 6 months when repeat input usage is envisaged. It is largely hypothetical as few growers are currently being financed for this activity and the SACCO has no distinct lending product for agriculture.
- Auction market price is based on the annual cumulative average price as at 30 June 2006 of UGX 3,302/Kg. This price may vary depending on the variation in quality of tea in the auction and the movement in the foreign exchange rate.
- The grower price of UGX 200/Kg is guaranteed by the factory and is payable in cash at 70% 30 days after delivery and the remaining 30% after 90 days.
- As is the case with input supply credit, commercial production finance for labour costs is based on current average SACCO lending rate of 3.5%/month and commitment fee of 2% of the loan amount from the borrower. The loan product covers 100% of the labour costs, and is repaid over a period of 6 months (especially if combined with inputs financing as a single loan package), though it is possible to make the loan period shorter than this if labour financing is considered separately.
- Transport and Handling is undertaken by the factory, with no opportunity for the farmers to capture the return on investment if they undertook it themselves. Financing for this transaction point is commingled with financing for green leaf procurement, processing and distribution.
- Trade Finance for green leaf procurement and processing is based on the current factory dollar-denominated borrowing terms (12% p.a) with a provision of 1.5% to cater for adjustment for currency conversion. There is no consideration of a commitment fee as borrowing is normally by a revolving overdraft facility and thus the commitment fee is likely to be amortized to the extent that it is insignificant.
- Annual Return on Investment is meant only as a reference point in order that the reader will understand what the periodic investment corresponds to in annual terms. Rural SPEED is not advocating annual lending for these transactions but lending ought to match the realistic transaction cash flow expectations.

Comparison of Scenarios

Under the status quo scenario, there is no need for grower lending for input supply as this is being taken care of by the factory. Though this would render the financing of production more attractive given the low loan volumes and the relatively short loan duration, there is no certainty that the factory would continue to provide adequate volumes of the inputs and in a timely manner. The reality is that the factory is trying to relieve itself of this undertaking as soon as is feasible provided its operations, in terms of access to sufficient volume of good quality raw material, are not hampered. The low loan duration would minimise the lending risk, though minimising the loan income. The second scenario, models the loan tailored on the financing of growers for both inputs and labour costs, in addition to trade finance for processing for the factory. Under this scenario, there is a possibility that the borrowers would require longer repayment period that match the recouping of the input costs and thus increase their loan repayment risk. However, the loan income realisable is higher due to the higher loan volume for the growers. Under the two scenarios, it is highly possible to minimise the loan repayment default by having the growers to assign their tea sales contracts to the lender and thus having the regular sales remittances by the factory through the lender.

The other point to observe with respect to production lending for inputs and labour is the need to assess the capacity of the lending institution, in this case a SACCO, to raise adequate funding to meet the borrowers' requirements given the relatively large number of growers and the overall acreage. At the current production levels, the factory is paying a minimum of US dollars 200,000 for the growers' 6 months' inputs requirements. Given the non-existence of commercial banks in the area, there may

be need for the SACCO to access loan funds or other form of funding, say revolving funds, in addition to increasing the membership savings, if lending for the growers is to be feasible and viable.

Financing for Input Suppliers, Green Leaf Sales and, Processing and Marketing

Clearly, financing of tea transaction point operations should be based on their business viability. The value chain maps for the two scenarios identify the existence of commercially viable businesses. Given the nature of the tea value chain maps, the reader is enabled to only observe the viability of a punctual, one time transaction. The reality, however, is that for both growers and the processor the transactions are revolving as the green leaf deliveries are in a discernable frequency and similarly for the tea dispatch for the auction market and remission of sales proceeds, though the payments for both transaction points are on average one month in arrears. Both transaction points have a clear partner of liquidity that warrants easy assessment of the risks embedded at each of these points. The status quo of paying the growers for the green leaf supplies after 30 days is unhealthy as these growers would want to pay for field operations and thus competitively access services. Thus there is an opportunity for financing this transaction if a suitable mechanism is evolved. As for the case of financing the inputs at the grower level, the recouping of the outflow may take a relatively long time though with a steady and regular flow. As the factory eventually divests itself from supplying the inputs to the growers, there will be potential for evolution of private inputs stockists, thus an additional financing transaction point.

Transaction Points, Risks and Opportunities

Tea growing and, processing and marketing, like many other commodities is, by nature, a risky investment. There are several conditions, which once met, mitigate the risks associated with tea commodity to a reasonable degree. These conditions include: guaranteed market, reliable access to inputs and labour, short production and marketing cycle, and quality maintenance through timely picking, transportation and processing. Tea production by growers for Kayonza Tea Factory fairly fulfils all of these conditions. The factory procures and distributes the inputs (fertiliser and herbicide) to the growers, publishes a preseason green leaf price for all volume delivered which is payable in a stipulated period of time, offers transport for both collection of green leaf and haulage of processed tea to the market and provides field extension. The growers are fully knowledgeable of the realisable benefit from use of improved inputs and timely execution of the activities in terms of acreage yield over a given period of time. Most importantly the growers fully own the factory and thus have a full stake to protect, and are well organised in subgroups under the green leaf weighing and collection shade model that facilitates easy distribution of inputs and collection of green leaf. The revolving cycle for production and marketing for the on-going ventures is very short (for up to 1 month).

The value chain for this crop is both short in numbers of actors and in time duration of completing the transactions. This creates both positive and negative factors in comparison to other crops. On the positive side, the scope of control is much tighter as the inputs supplier (for the status quo), the transporter, the green leaf buyer and processed tea marketer is identified and the same strong body. The negative aspect of this is that there are limited opportunities to finance along this value chain with the exception of growers and processor. However, as pointed out earlier, there is potential for an additional financing point once the factory divests from supplying the inputs.

One major problem that requires careful consideration is the problem of producer scale. The majority of Kayonza Tea growers are producing on a scale between two and five acres, with very few growers having over 25 acres. Also almost all the growers are operating from fully established fields, with the operational requirements restricted to top up fertiliser, herbicides for weed control and labour for fertiliser and herbicides application and green leaf picking. Thus treated as individual units, the loan size to any given farmer would be a maximum of 300,000 UGX (based on financing inputs and labour costs only). Though this may be commercially uninteresting as the costs to administer such a loan

would be prohibitive for the lender, it falls well in the ambit of microfinance lending which is the most feasible currently given the absence of commercial banks in the area. However, the reapeatitive nature of activities for which funding is feasible renders cumulative and repeat funding for the growers potentially cost-effective and thus viable. Also the nature of input access and green leaf marketing operations creates an opportunity whereby the lender could lend to the producers collectively through the factory and or through labour organisation/association. The fact that producers are clustered under distinct green leaf collection centres that are serviced by the factory creates an easy opportunity for a large input or labour service provider to service them efficiently. Farmers can then assign their prospective sales proceeds to the lender; the factory would remit the payments for the green leaf deliveries through the lender who retain a portion for loan instalment recovery and then pay the balance due to growers in cash.

The table below indicates many of the risks at each transaction point along the tea value chain and proposes opportunities for analysing and mitigating these risks in order to make sound lending decisions and enable the capture of profitable opportunities.

Transaction Point: Input Supply	
Risks	**Opportunities and risk mitigation**
Late and inadequacy of inputs delivered.	Structure the loan in such a way that disbursement is direct to the supplier on confirmed delivery of the inputs, building on existing input supply relationship No lending for stockists in the short-term until when viable stockists' businesses emerge.
Transaction Point: Production	
Risks	**Opportunities**
High storage and distribution costs of inputs.	Collaborate with the factory to provide no- or low-cost storage and low-cost distribution.
Gestation period longer than loan period	Only lend for on-going production rather than start-up ventures
Decline in green leaf price.	Forward contracting by the buyer, for example Kayonza, guaranteeing pre-season price and quantity. Donor financed credit guarantee facilities.
Non availability of labour	Lend to growers with signed labour contract agreements
Loan term is longer than production and marketing cycle.	Adjust the term of the loan product to match the production and marketing cycle (a 1 month loan for tea is less risky than a 6 or 12 month loan though it is less profitable).
Yield is lower than expected.	Design the loan product to pre-finance only a portion of the total COP (the examples above reflect financing for inputs and labour costs for on-going operations rather than start-up ventures). The COP for on-going operations is far less than the sales realisation since a major portion of COP is considered a sunk cost.
Sales proceeds diverted other than for repaying the loan.	Work with the processor to channel the sales proceeds through the lender.
Delayed receipt of sales proceeds	Structure the loan to cater for normal delays in receipt of sales proceeds
Side selling of green leaf by grower borrower	Only one tea factory is accessible in the area No private green leaf buyers

No transport to pick the green leaf	Finance only the green leaf that has been collected and for which there is evidence of commitment to pay by the factory.
Transaction Point: Processing and Marketing	
Risks	**Opportunities**
Transport is inadequate.	Offer finance and/operating leases for transit goods trucks. Make contracted transport a prerequisite for the loan contract.
Price is below cost of procurement and processing	Finance only a portion of processing and marketing costs. Explore hedging financing opportunity.
Growers not delivering green leaf	Structure crop finance for processor to make direct payments to growers for green leaf delivered
Processor may default wilfully.	Finance only against assigned sales proceeds by the buyer to the lender for deduction of repayment.

SECTION III

CONCLUSIONS

Clearly, financing agriculture is still to a large extent perceived by most financial institutions in Uganda as a risky proposition. The tea value chain presented in this report has revealed existence of feasible financing opportunities for low-risk transactions. As highlighted in the value chain report for sunflower, maize and cotton, the three basic concepts for value chain financing i.e. 1) each step in the chain must be capable of earning a reasonable return in order to merit financing; 2) each higher level in the value chain relies on adequate supply coming from the previous level; and 3) predictable terminal markets should give comfort to lenders for financing previous steps in the chain, are valid for tea.

It is worth noting that there exist three low risk and short term lending opportunities for tea production, processing and marketing for Kayonza tea growers and Kayonza tea factory: financing input procurement by growers, financing labour costs and, financing the green leaf procurement, processing and marketing for the factory. The former is feasible under microfinance or SACCO arrangement in the foreseeable future while the latter is feasible under commercial bank lending terms. There are major challenges for financing the tea growers given the big number involved and the small amounts required for each individual grower. The timing for microfinance/SACCO lending for the growers is appropriate as the factory is keen to relieve itself of the financing burden it shoulders on behalf pf the growers and the attendant subsidies that are currently embedded therein. Financing of factory operations has not been problematic at all and there is no indication that it likely to be. Indeed as financing for the growers becomes feasible the door for financing the factory operations may widen as the output will be stepped up and quality of the product will be enhanced and thus attracting more and better market opportunities.

There is scope for financing innovations such as warehouse receipts for processed tea, collateralised inputs and structured finance for growers to access labour. Such financing mechanisms substantially lower the lending costs and thus make lending for agriculture attractive. There is potential to leverage financing risks through donor program guarantees such as from Rural SPEED and DANIDA ASPS, and donor revolving funds to encourage agricultural finance.

It is however important to note that whatever financing mechanism is prescribed for the Kayonza tea growers in the foreseeable short and medium term needs to be fully blessed by Kayonza factory which has a significant control on the growers, though the latter own the factory. The mechanism needs to ensure that the sales proceeds due for the growers are strictly channelled by the factory through the lending institution.