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**REPUBLIC OF RWANDA**  
**SMALLHOLDER CASH AND EXPORT CROP**  
**DEVELOPMENT PROJECT**

**REFORMULATION MISSION**  
**OF THE TEA COMPONENT**

Volume I: Main Report

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**REPUBLIC OF RWANDA**  
**SMALLHOLDER CASH AND EXPORT CROPS DEVELOPMENT PROJECT**  
**REFORMULATION MISSION OF THE TEA COMPONENT**

**MAIN REPORT**

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Working Paper 2: Smallholders' Organization  
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**REPUBLIC OF RWANDA**  
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**REFORMULATION MISSION OF THE TEA COMPONENT**

**MAIN REPORT**

**I. INTRODUCTION**

**A. The Tea Industry in Rwanda**

1. Tea growing in Rwanda started in 1952. Since its introduction, tea production has increased steadily, from 60 tons of black tea in 1958, to 1,900 tons in 1990, to 14,500 tons in 2000, reaching a peak of 17,800 tons in 2001. Over 90% of the production is exported, but represents only a small share of the total volume traded in the international market, which is about 1.4 million tons.

2. Rwanda tea is planted on hillsides at high altitude (between 1,900 and 2,500 m), and on well drained marshes at an altitude of between 1,550 and 1,800 m. Tea is grown on 11 estates. A total area of approximately 12,500 ha is planted in the provinces of Byumba, Cyangugu, Gikongoro, Gisenyi and Kibuye. Tea plantations must be located near a tea factory because the harvest must be processed within a few hours of picking. There are five forms of tea plantations:

- Industrial blocks (a total of 4,002 ha in the country) integrated to a processing plant. Industrial blocs are large plantations, sized between 300 and 500 ha. One of the industrial estates, the Nshili plantation in southern Gikongoro, is almost 1,000 ha. Industrial estates employ wage labor;
- Tea growers co-operatives (1,895 ha) in the provinces of Cyangugu (Shagasha and Gisakura plantations) and Byumba (Mulindi plantation). The cooperative plantations are also blocks of large size and employ a mixture of family and wage labor;
- Tea growers association (ASSOPTHE - 852 ha) in the province of Byumba (Cyohoha-Rukeri plantation the production of which is processed by the tea factory owned by SORWATHE). Each member cultivates a 0.23 ha tea plot under his/her responsibility contrary to the situation in cooperatives in which members cultivate the plantations collectively;
- Private investment (SORWATHE - 252 ha);
- Smallholder (*thé villageois*) tea plots (5,540 ha). Smallholders have 0.2 - 0.25 ha of tea plots in their family holdings and have essentially recourse to family labor.

3. Yields are low by comparison with other producing countries in Asia and also in nearby African countries. Public sector plantations produce on average the equivalent of 1,400 kg/ha and smallholder plots about 1,200 kg/ha. Private sector managed plantations and cooperative blocks, by contrast, have recently recorded as much as 3,500 and 2,600 kg/ha, respectively, essentially due to applying adequate doses of chemical fertilizers. The green leaves of the tea bushes are harvested all through the year but production peaks during the rainy seasons and is less during the dry seasons. This provides a smallholder tea planter with a regular cash income. Smallholder tea is generally picked by women, who receive payment in small amounts every two weeks.

4. Tea is processed in 10 factories, 2 are private companies (SORWATHE and PFUNDA) and 8 are still managed by OCIR-Thé. OCIR-Thé is a State agency in charge of the tea sector. It was

originally set up as a parastatal directly responsible for the production processing and marketing of Rwanda tea. Since the war, Government policy has changed and a new role is now envisaged for OCIR-Thé as a promotion regulation and monitoring agency. Processing capacity of OCIR-Thé managed factories is a constraint, and most of them had considerable difficulties in handling the 2001 bumper tea crop. There is no factory near the OCIR-Thé estate established since 1983 in southern Gikongoro (Nshili district) with African Development Bank funding. The failure to build a factory at Nshili means that Nshili green leaves have to be transported to the nearest factory at Mata over a distance of 60 km on poor roads. This seriously reduces the quality of the tea. Due to the time required to evacuate the crop to Mata, the harvesting time at the plantation is reduced to no more than four hours a day, which also limits the production from the Nshili plantation. In addition, large quantities of tea leaves that arrive in Mata too late in the day for processing are actually thrown away (40% losses on average).

5. The quality of the Rwanda green tea leaves is among the best in the world, although a difference is noted between tea grown on the hillside and that grown in the *marais*. This excellent reputation is still acknowledged by the international market, despite the deterioration of the processed products which occurred after 1994. The state of uncertainty among the staff of OCIR-Thé regarding the privatization programme is partly responsible for the deterioration. Sub-optimal delivery of fertilizers for both the OCIR-Thé industrial estates and the smallholder growers affect both quantity and quality of the green leaves produced. OCIR-Thé uniform green leaves price nation-wide is no incentive to increase production and ensure quality. Low prices for the green leaves have a negative impact on the way smallholder growers handle the pruning and harvesting of their tea bushes.

6. World demand for tea has expanded steadily at 2% per annum, sustained by the expansion of consumption in the main producing countries, such as India and Sri Lanka, until the end of the 1990s, when the increase in demand ceased. Subsequently, a world surplus occurred, causing a drop in price of about 25%. Since overall supply is expected to continue growing at a faster rate than total consumption, low prices are also expected to continue for some time. However, as in the case of coffee, the price decrease has affected essentially producers of low quality teas. Demand for good quality teas, such as Darjeeling and Assam teas in India and some Sri Lanka and Kenya teas, has continued to expand, and their prices have commanded a good premium over the price of average or inferior quality teas. From this point of view, Rwanda has a distinct opportunity to exploit, since Rwanda CTC tea is considered among the very best in the world. This reputation, which is a critical factor for the financial viability of new investments in the sub-sector, must be restored after the decline in the quality of OCIR-Thé products occurred after the 1994 war. Currently, not all tea factories in Rwanda are back to the pre-1994 performance in this respect. The view of experts and traders coincides with the view of the GoR in that, provided the country production is brought back to the pre-war level of quality, Rwanda tea can obtain prices. Some traders feel that most Rwanda CTC teas can fetch higher prices than the best Kenya teas. The Nshili area, in particular, has the potential to be among those, provided growers apply the correct pruning and harvesting practices, fresh green leaves are delivered quickly to a nearby factory, and adequate processing immediately follows.

7. The situation is different for smallholder tea growers. A poor family with a plot of 0.2-0.25 ha of tea has a relatively reasonable and regular cash income all the year around even at the current low price paid by OCIR-Thé. Women often retain this income, since they do the picking and delivery of the green leaves, and this generally helps to improve the livelihood of the family. In tea, the smallholder problem is how to get better prices for the excellent quality of green leaves they produce.

8. A good deal of work is still required to formulate an adequate programme for the development of the tea sector, combined with a coherent policy aimed at providing incentives to private investors and at securing adequate income for smallholder tea growers. These ought to include at least the general strategic lines of development of new tea planting and processing capacity, going beyond the statement of principles of the current privatization policy, the implementation of which also needs to be very significantly accelerated. The lack of progress on privatization has indeed been a stumbling

block for several years. Donors are reluctant to assist the sub-sector, pending evidence of concrete progress under the privatization policy.

9. Priorities for the medium term are not difficult to identify. The construction of a factory at Nshili is by far the top priority. Most existing factories in Rwanda must be expanded so that they can adequately handle even the currently available green leaves in case of a bumper crop, and the potential production that can be attained if measures are taken to increase yields towards levels more in line with comparable areas elsewhere in the world. New areas can also be planted, with careful attention to producing top quality products, to introducing organic tea with all the related measures aimed at increasing the use of farm yard manure and at strengthening land conservation, and to secure timely construction of new factories, which is essential for the financial survival of such initiatives.

## B. Government Policies

10. In 2001, the GOR issued the **Poverty Reduction Strategy Paper (PRSP)**. The PRSP recognizes that a successful poverty reduction policy must be based on a high rate of growth of the economy. In this respect, following the liberalization measures introduced since 1996, the major challenges in the medium term are increasing export earnings, increasing agricultural production, supporting to non-farming activities in rural areas, and diversifying the economy, the latter comprising development of services, including information and communication technologies related services. A major emphasis is placed on market oriented education, to create a competitive, highly skilled labor force that can exploit fully the advantages of national bilingualism.

11. Strategic prongs specifically oriented to improving the economy of poor rural people and rural poverty reduction include: securing land tenure, development of micro-finance institutions based on savings mobilization, improved natural resource management and fight against land degradation, investing in rural transport and market infrastructure, participatory agricultural technology generation and transfer, demand driven agricultural research, measures to reduce rural food insecurity, and promotion of off-farm income generating activities and employment. The institutional reform aimed at strengthening the rural community representation in the lower levels of local public administrations, through a democratic election process is designed to increase representation and empowerment of the poor in the development planning and implementation process. The process of reconciliation is encouraged through dialogue and careful weighing of public interventions to avoid conflicts and discrimination.

12. **Privatization Policy** (with regards to the Tea sector): The privatization program set up by the GoR in 2003 concerned all 9 tea factories managed by OCIR-Thé. Assets proposed for the privatization include the factory, the industrial bloc, woodlots and social infrastructures (mainly workers' houses). With regards to factories that are processing smallholders' and/or smallholders' cooperatives green leaves production, a percentage of their share capital after privatization will be allocated to smallholders or their cooperatives, such as follows: (a) 10% for smallholders and, (b) between 15 and 35% for cooperatives<sup>1</sup>. In 2002/2003, MINECOFIN launched a pilot privatization process for 2 tea factories: Mulindi and Pfunda. Pfunda was successfully privatized in November 2004<sup>2</sup> while Mulindi privatization offer has been removed from the market (price offered by private investors too low compared with the estimated industrial asset value and percentage of share capital detained by the Mulindi cooperative i.e. 35% considered too important by private investors).

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<sup>1</sup> With regards to share capital allocation for the 3 existing and registered cooperatives, the proposal of MINECOFIN through the Privatization Cabinet was as follows: 35% for the cooperative in Mulindi, 20% for the cooperative in Shagasha and 15% for the cooperative in Mwaga-Gisakura.

<sup>2</sup> Pfunda Tea Company Ltd share capital is held by a London-based company (LAB International) at 55%, the GoR holding the remaining 45%. In accordance with its privatization policy, the GoR has transferred 10% to the smallholders while the remaining 35% will be proposed to Rwandan investors. Price paid by LAB is USD 1.06 million. LAB has made affirm commitment to invest an additional USD 1 million to modernize and develop plantations in Pfunda. It has also committed to take over all employees currently working in the factory

13. In the light of the difficulties to negotiate the privatization of the remaining tea factories with private national and/or international investors, the Privatization Secretariat will contract a local consulting firm with a view to analyze the three following scenarios opted by the GoR for the privatization of the remaining tea factories: (a) sale of the tea factories assets to private investors with or without smallholders and/or cooperatives stake in the share capital, (b) leasing of the tea factories assets to private investors and, (c) management contract to operate tea factories awarded to private investors. The GoR has pushed aside the possibility of privatizing tea factories through smallholders holding 100% of their share capital. This option has been considered too risky with regards to the current lack of capacity of smallholders to effectively and efficiently own and manage a tea company<sup>3</sup>. The results of this analysis will be available at the end of 2005 and the GoR final decision with regards to privatization of the 8 remaining tea factories will be taken during the first semester of 2006. This new deadline offers to the reformulated tea component time to set up and build up the financial resources of a smallholders' financial institution that will be able to participate in the privatization process of the remaining tea factories.

14. **Land Law:** A new Land Law has been drafted and should be enacted by the GoR in 2006. The draft Land Law specifies that rural and agricultural land could be sold or leased to individuals or associations with legal personality. Terms and conditions for sales of land vary with the nature and size of the land. Terms and conditions for leasing contract are to be discussed on a case by case basis. Leasing duration is comprised between 3 and 99 years.

### C. Public and Private Sector Organizations Involved

15. The most relevant public and private organizations directly or indirectly involved in the tea sector comprise of the following:

(a) Public Organizations

- Ministry of Agriculture and Animal Resources (MINAGRI) responsible for agricultural development policy and services. Decentralized units are established at Provincial and district level. MINAGRI sets the general policy for the development of all sub-sectors in agriculture. However, with regard to the traditional export crops, it operates through the national agency specifically responsible for tea: OCIR-Thé;
- Ministry of Economy and Finance (MINECOFIN) and specially (a) the Privatization Secretariat in charge of turning over the 8 tea factories still managed by OCIR-Thé to private sector investors and, (b) CEPEX, a unit responsible for coordinating the different projects that operate in the country. CEPEX performs a very useful function, facilitating the implementation of development projects, particularly in the field of planning and budgeting and streamlining the relationships between the line ministries, the project coordination units and MINECOFIN;
- Ministry of Land, Environment, Forestry, Water and Mines (MINITERRE) is responsible for the conservation of the natural environment of Rwanda, for land allocation in resettlement areas, and for formulating proposals for land tenure policies and legislation. As previously mentioned, the MINITERRE is finalizing a Land Law that is expected to be enacted in 2006;

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<sup>3</sup> The option consisting in smallholders holding 100% of the company and contracting out a tea specialist as Manager of the factory is also considered as too risky. In line with its policy aiming at promoting private investments, the GoR favors a mixed shareholding comprising of private investor(s) holding a major share and smallholders and/or smallholders' cooperatives/associations holding a minor share specialized management

- Ministry of Commerce (MINICOM) sets the policy framework and oversees the smooth functioning and development of the domestic and international market of the country. The *Office national de normalisation* (ONN), set up in the Ministry, is mandated to define the rules governing production and marketing of goods in the domestic and international markets. Within the Ministry, a special unit funded by UNDP is responsible for market research and for designing promotional policies and measures for traditional export crops;
- *Institut des Sciences Agraires du Rwanda* (ISAR) is the main organization responsible for agricultural research. Heavily affected by the war, during which many-trained staff was lost, it is still in the process of reconstructing its capacity. Currently ISAR appears overcharged with responsibilities, as a result of the heavy demand from projects funded by many donors, including IFAD;
- OCIR-Thé was originally established to provide technical extension services, to control production, processing and marketing of the tea. Under the liberalization and privatization reform, it is expected to divest of its production and marketing activities. OCIR-Thé is the major industrial concern of the country, owns several large-scale tea estates and 8 tea factories, and plays a dominating role in the sub-sector. The GoR policy envisages that after privatization, OCIR-Thé will continue to play a central role in technology generation and transfer, promoting and monitoring development, formulating and enforcing a regulatory framework for the private processing industries and marketing organizations. OCIR-Thé has a pool of highly trained and experienced technical and managerial staff with expertise in growing, processing and providing extension services to growers. These staff represents precious human capital upon which to build further development of the sub-sectors.

(b) Private Organizations

- Farmers' associations and cooperatives. There are some large cooperatives and associations of tea growers. In terms of efficiency and capacity, the situation is naturally highly diversified. Many groups, associations, and formal cooperatives are confronted with serious operation and management problems and need considerable support for institutional strengthening and training. FERWATHE (Federation of Rwandan Tea growers) has supported restructuring and capacity building of several cooperatives. However, the role of smallholders within FERWATHE is not proportional to the importance of smallholders tea growers in the tea sector;
- National NGOs. Most of these NGOs have substantial experience in working with rural people on social development and agricultural production. Some are highly specialized, for example: ARAMET specializes on *aménagement du territoire*, ARD specializes in agricultural development and multiplication of planting material of improved varieties, DUTERIMBERE specializes in microfinance and rural institutions, INADES-RWANDA specializes in cooperative formation and training, IWACU on community development, participatory approach, and training;
- TWIN. The TWIN group is one of the Fair Trade International Organizations Network partners. TWIN is mostly responsible for work with poor primary producer cooperatives. TWIN skills are in the mobilization, training, and organization of farmers associations, and in providing quality control, market information; management assistance and marketing assistance. TWIN provides the link between producers and consumers and ensures that farmers understand and apply the cropping and crop-processing practices required to meet the standards that would command the highest prices in the international markets. The policy of



the group is to develop, on behalf of cooperatives of poor producers, specific market niches for labeled products that can sell at very attractive prices.

#### **D. IFAD COSOP 2001**

16. The COSOP for Rwanda approved in July 2001 by IFAD, reflects IFAD and Regional strategies, the evolving circumstances in Rwanda, the lessons of project implementation experience, and the important changes introduced to the country's institutional setting. The overall aim of IFAD is to comply, as much as possible within the constraints of the Fund limited resources, with the Government's request that IFAD takes the lead in supporting Government efforts to alleviate rural poverty. This would entail investing resources in projects focusing on sustainable activities that respond to the felt needs of the target group, developing and testing approaches that can be replicated in other parts of the country with the support of other Donors, promoting co-financing of own projects by other Donors, and maintaining an effective policy dialogue with the Government on matters related to the economic, human and institutional development of the poor rural community in Rwanda.

17. In pursuing its overall aims, IFAD is guided by three basic strategic guidelines:

- Emphasis on institutional development to achieve the effective transition of project approaches to local communities from the concept of helping project “beneficiaries” to that of dealing with “partners in development”;
- Exploiting all potential means of increasing the income of the rural poor, including food and cash crops, livestock, and non-farm income generating activities;
- Focus on the potential synergies between IFAD projects, undertaking a smaller number of projects covering a smaller area with complementary activities, and correspondingly increase the support of IFAD Headquarters to project start-up and implementation.

18. Accordingly, the COSOP indicates the following nine main thrusts of IFAD strategy in Rwanda: (i) support to the government decentralization policy, (ii) support to the development of sustainable rural microfinance institutions, (iii) support to new ways to handle issues in technology generation and transfer for crop and livestock, (iv) support to income generation, income diversification, and market organization, (v) integrated support to small and medium size non-farming rural enterprises, (vi) support to community infrastructure, (vii) cross cutting emphasis on gender and on fighting impact of HIV/AIDS, (viii) decentralized project management and improved reporting monitoring and impact evaluation practices and, (ix) improved exploitation of potential synergies among different IFAD projects, and more exchange of experiences among IFAD projects and with other Donors' initiatives with similar objectives.

19. Emphasis will be given in the reformulated tea component of the PDCRE on three of the above-mentioned thrusts, namely: (a) support to new ways to handle issues in technology generation and transfer for crop and livestock, (b) support to income generation, and income diversification and, (c) support to community infrastructure.

## **II. OVERVIEW OF THE TEA COMPONENT**

### **A. Initial Design: Rationale and Planned activities**

20. The choice of a crop focused project responded to the challenge of assisting the GoR to develop sub-sectors of agriculture, which are of key importance for the growth of the national

economy, and, at the same time, to seize emerging opportunities for combining such economic development objectives with poverty reduction objectives. In Rwanda, the rehabilitation and development of the export crops sub-sector, and the maximization of related foreign exchange earnings, are key factors of sustainable economic growth and balance of payment equilibrium. Rwanda has good potential for significantly increasing the quantity and the value of the traditional export crops and for diversifying the production of cash crops to meet both export and local market demand. Several areas of Rwanda produce valuable tea crops, for which current export prospects are still favorable. There is scope to increase tea production, expand processing facilities, and improve marketing, especially with regards to new market opportunities such as ‘Fair Trade Organization and Network’.

21. The initial design of the Tea component was twofold: (a) integrated smallholder tea production processing and marketing in Nshili District and, (b) development of smallholder tea in Mushubi district. As far as the first sub-component was concerned, it included the following activities: (i) privatization of the existing plantation in Nshili (OCIR-Thé concession) which would be equally divided among 4,000 beneficiaries (each beneficiary receiving 0.25 ha) out of which 30% should be women head of households, (ii) development of 200 ha of new tea plantation within the OCIR-Thé concession area distributed to 800 beneficiaries, (iii) setting up of a private tea company that would build, own and manage a tea processing plant for the production of the privatized and newly developed plots and, ultimately this private company to be owned by smallholders planters cooperative societies, (v) connection of the new factory to the national power grid, (vi) capacity building of tea growers’ representatives to ensure their ability to manage the factory and to play their role as major shareholders, (vii) rehabilitation of the 965 ha owned by OCIR-Thé to be privatized among beneficiaries, (viii) continuation of services to farmers for sale of their green leaves to other existing tea factories and for supply of agricultural inputs until new factory becomes fully operational, (ix) TWIN involvement for implementation of tea growers’ cooperatives and training of their members, for tea quality control and improvement and, for facilitating access to new markets especially with regards to ‘fair trade organizations and markets’, (x) rehabilitation of OCIR-Thé assets, (xi) access to new technologies and techniques developed in other tea producing countries, (xii) access to long-term financing through participating financial institutions and, (xiii) pre-financing by the project of smallholders tea company shares on their behalf and implementation of a specific financial mechanism for smallholders to buy back their shares thanks to dividends distributed by the tea company.

22. As far as the development of tea plantations in Mushubi was concerned, the actions to be undertaken by the project included: (i) technical, logistic and financial assistance for the plantation of 1,200 ha, (ii) establishment of 500 ha of firewood plantations of which 200 ha of district plantations and 300 ha on individual farmers plots to provide fuel to power a new factory <sup>4</sup> and, (iii) undertaking a feasibility study on organic tea production in these new plantations.

23. The financing of the tea component was as follows: (a) IFAD loan for an amount of USD 5.84 million<sup>5</sup>; (b) BADEA loan for an amount of USD 5.66 millions<sup>6</sup>; (c) beneficiaries’ contribution for an amount of USD 0.33 million; (d) local commercial bank for an amount of USD 0.31 million; (e) TWIN contribution for an amount of USD 0.12 million and, (f) GoR contribution for an amount of USD 0.98 million. The total amount of the component reached USD 13.25 million out of which USD

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<sup>4</sup> GoR, IFAD and other potential partners were to discuss the possibility of a new project that would include the construction of a tea factory in Mushubi. The institutional, legal and financial arrangements set up for the Nshili tea factory could be replicated for Mushubi.

<sup>5</sup> IFAD would fund the equity capital of the Nshili Tea Company on behalf of the cooperatives of smallholder growers. The overdraft facility required by the company would be funded by IFAD to the extent of 75% and by other Rwandan financial institutions to the extent of 25%.

<sup>6</sup> BADEA would fund the cost of the detailed design and feasibility study for the tea factory, the construction of factory buildings and ancillary facilities including the water supply, the purchase of the factory equipment, and the connection of the factory site to the national electric grid.

11.50 millions were earmarked for the Nshili sub-component and USD 1.75 million was earmarked for the Mushubi sub-component.

## **B. Potentialities and Constraints in the Tea Sector**

24. The main factor of agricultural development in general, and of tea development in particular, is the will of people to overcome the vicious circle of poverty, and their capacity to adapt the farming system and practices within the constraints imposed by the economic and natural environment. Rwanda has considerable agricultural potential, despite the threat of overpopulation. There are large areas with fertile soils suitable for growing many crops with international market potential, including soils with the right pH for tea and coffee, and high altitude locations with adequate rainfall where production of top quality tea and coffee is possible. The quality of the Rwanda green tea leaves is among the best in the world and this excellent reputation is still acknowledged by the international market, despite the deterioration of the processed products which occurred after 1994.

25. Another important favorable factor for the development of tea is the peoples' willingness to face the challenge of the future jointly, and in an organized manner, even though most of the current farmers' organizations have little financial resources. The GoR decentralization policy with its focus on the lower levels of the local government is an important factor of political and social dynamics that can be instrumental in backing up the spontaneous structuring of the rural people.

26. Finally, the liberalization and privatization policy of the GoR is slowly beginning to bear fruit. This is evident in the very significant increase of tea yields connected with the management of the only processing factory that has been privatized.

27. However, Rwanda is a landlocked country. High costs of transport affect the cost of fixed assets and of inputs, which must be imported, and the cost of transporting finished products to foreign buyers. The general underdevelopment of the rural areas increases the cost of any ancillary service that economic operators require. Tea yields are low by comparison with other producing countries. As a result, despite very low labor costs and grower remunerations significantly lower than elsewhere, Rwanda is a high cost producer. Other constraints stem from the lack of up-to-date research, which affects agronomic practices of traditional crops. To survive in export markets, Rwanda needs to produce high quality products, cashing in the opportunities offered by the natural conditions, and by the skills already developed among growers and in the processing industry, and to market them in new and innovative ways. A major constraint faced by poor smallholder cash crop producers is the low level of farm gate prices resulting in a lower share of the price of the processed products by comparison with other exporting countries, including nearby Kenya. This can only be partly explained by the high cost of processing and marketing mentioned above, some of which also affect Rwanda's neighbors. Participation of smallholder growers associations in tea factories/companies is a key to seriously address this constraint.

## **III. COMPONENT OBJECTIVES, STRATEGY, TARGET POPULATION, GENDER AND ENVIRONMENTAL ISSUES**

### **A. Component Objectives**

28. **Main Objectives:** The main objective of the reformulated tea component is to increase poor rural households' income in a sustainable manner through the development and promotion of tea as well as to strengthen their capacities.

29. **Specific Objectives:** The specific objectives of the new component include: (a) maximization of the quality and value of tea products with a specific focus on '*thé villageois*' (tea produced on smallholders' home gardens); (b) facilitation of the participation of poor women head of household in the tea development activities and, (c) developing efficient and democratically managed institutions regrouping smallholders and securing their full participation and empowerment in the tea industry.

## B. Strategy

30. The strategy underlying the reformulated tea component aims at providing smallholders with the possibility of an effective participation in the development of the tea sector in Rwanda through development of new plantations, through the organization of smallholders in a representative national institution and, through financial investments in new and/or to-be-privatized tea processing plants.

31. Since land allocation as projected in the PDCRE Appraisal report has been drastically modified (smallholders will only receive 265 ha from the existing OCIR-Thé concession and develop 200 ha of new tea plantations within the concession instead of receiving and developing 1,200 ha from that same concession) and, with a view to maintain the same number of beneficiaries (4,800 households) and the same level of income per household as budgeted in the PDCRE Appraisal report, the project will mainly focus on the development of smallholders' home gardens (735 ha). For each smallholder, the revenues generated by his/her home garden will complement the revenues he/she will earn from rehabilitated and new developed plantations leased out. The project will ensure that each household's global revenue from plantations is at least equal to the revenue he/she would have earned should he/she have received a 0.25 ha tea plot as indicated in the initial tea component.

32. For component targeted households, income may derive from different activities: (a) income from tea production on home gardens, (b) income from tea production on leased out plantations, (c) wages as a daily worker in leased out land, woodlots or somebody's else home garden, (d) wages as daily worker in PI's industrial bloc and, (e) monthly salary as unqualified staff at the NTF. Poorest of the poor households i.e. landless households or women headed households will have priority over other households for a job at the NTF or as daily worker. This income will complement the income that, in any case, these poorest households will receive from leased out plantations production sold to the NTF (see below).

33. Due to the fact that 700 ha have been allocated to the PI as industrial bloc for the NTF, the option of selling the remaining land available from the OCIR-Thé concession (i.e. 265 ha of rehabilitated land and 200 ha of newly developed land) to smallholders has been ruled out as the size of each smallholders' tea plot would not have been viable (0.097 ha). Thereby, the project will support a leasing agreement for those 465 ha rehabilitated and developed to be signed between smallholders' associations and the GoR. The latter has already accepted the following terms and conditions: (a) duration of no less than 50 years and, (b) symbolic price or even free of charge leasing. This arrangement also meets the smallholders' preference to collectively cultivate these lands.

34. Basic figures of the tea industry show that out of 12,759 ha of tea plantation, 6,605 ha are cultivated by smallholders (52%)<sup>7</sup> and that out of the 30,334 households cultivating tea as their main livelihood only 10% are members of cooperatives while 90% remain as individual tea smallholders. Since the national strength of smallholders is more than 27,000, the development of a strong National Institution will be further explored by the project based on the experiences of the KTDA (Kenya) and TSHDA (Sri Lanka). The project will support the implementation of relevant and efficient institutions representing smallholders at local, provincial and national level enabling them to become important partners in the tea sector.

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<sup>7</sup> Industrial blocks represent 30%; cooperatives 15% and private growers 3%.

### **C. Target Population and Target Area**

35. The definition of the target group of any cash and export crop development project must identify the area of convergence of three major sets, namely, (i) the number of households living below the poverty line, which are the target of the GoR and IFAD poverty reduction strategies, (ii) within that group, the number of households willing and capable of meeting the conditions required to join financially sustainable development activities in the sub-sectors, and (iii) the number of households of the latter group that can be accommodated, taking into account the suitability of natural conditions for quality production, and the market constraints and opportunities that would make such sustainable development activities possible. Within the smaller set, gender-targeting issues would be addressed.

36. With respect to the development of tea production in the reformulated tea component, the project will maintain its objective of targeting 4,800 households in the Nshili district and another 4,800 households in the Mushubi district. The project will ensure that poorest of the poor households benefit in priority of each intervention planned in the component. In addition, the implementation of a local and provincial smallholder tea growers' association, of a national federation of smallholder tea growers and of the smallholders' financial holding will directly benefit to members of the 13 tea producers' associations already formed by smallholders in the 5 provinces where tea is grown, namely Byumba, Cyangugu, Gikongoro, Gisenyi and Kibuye

### **D. Environmental and Gender Issues**

37. **Gender Issues:** In the case of tea production, women do most of the harvesting work. Measures should be introduced by the project that will strengthen the control of tea revenues by women. In that respect, poor women heads of household will be selected on a priority basis as direct beneficiaries of component interventions and will represent no less than one third of the component beneficiaries.

38. **Environmental Issues:** The tea component is classified in category "A" because no significant negative environmental impacts are expected. In fact, there are likely to be substantial positive environmental impacts. The tea component, by providing a stable and more interesting price to smallholder tea growers will contribute to re-establishing good tea husbandry, which will help restoring the potential role of tea bushes in soil conservation. The project funded extension services provided to smallholder tea growers will include the standard recommendations of MINAGRI with respect to soil conservation and anti erosion techniques. A higher household income, resulting from the project interventions, and the guaranteed credit scheme (see PDCRE Appraisal report), are expected to remove some of the farmers' income and cash-related constraints for adopting such practices.

## **IV. COMPONENT DESCRIPTION AND ACTIVITIES**

### **A. Overview of the Components**

39. The reformulated tea component aims at complementing the activities financed by the PI (construction of a tea processing plant in the Nshili district) with a view to (a) further increase smallholders' income, (b) institutionally and financially organize smallholders at local, provincial and national level and, (c) strengthen smallholder tea growers' capacities. In that respect, the reformulated tea component will include the following sub-components:

- Development of smallholders' tea production in Nshili district <sup>8</sup>
- Development of smallholders' tea production in Mushubi district <sup>9</sup>
- Smallholders' organization and capacity building <sup>10</sup>
- Financial holding <sup>11</sup>

### **Sub-component 1: Development of smallholders' Tea Production in Nshili District**

40. The **objective** of this sub-component is to (a) increase in a sustainable manner the income of 4,800 households through the rehabilitation and development of new tea plantations and the supply of their production to the tea processing plant built in Nshili and, (b) strengthen smallholders' capacities with regards to tea production leading to a production of better quality and higher yield. In addition, the project will also support Nshili smallholder tea growers until the new tea processing plant becomes operational. In that respect, the **activities** carried out in this sub-component include:

- (a) Rehabilitation and extension of the tea plantation surface leased out and cultivated by smallholders;
- (b) Development of woodlots;
- (c) Development of adequate infrastructures to supply agricultural inputs, fertilizer and small equipments to smallholders;
- (d) Provision of extension services to smallholders;
- (e) Continuation of services to smallholders until the Nshili Tea Factory (NTF) becomes operational;
- (f) Baseline survey.

41. **Rehabilitation and Extension of the Tea Plantation Surface Leased out and Cultivated by Smallholders:** Considering the 700 ha allocated to PI from the existing 965 ha OCIR-Thé concession land, and with a view to further increase the smallholders' income to a level at least equal to the income they would have received with a 0.25 ha tea plot (as under the initial PDCRE design), the project will assist smallholders to develop new tea plantations in their home gardens (*thé villageois*). Most households have an average of 0.5 to 1.0 ha of land that is not yet cultivated (or only a little fraction for subsistence crops) and that can be used to cultivate tea. In that respect, the project will:

- Rehabilitate 265 ha from the existing OCIR-Thé concession land. 100 ha will be rehabilitated during year 1 of the project and 165 ha during year 2. The recurrent costs related to this 1-year rehabilitation process will be entirely borne by the project i.e. labor, agricultural inputs, fertilizer and small equipments;
- Develop 200 ha of new tea plantations within the existing perimeter of OCIR-Thé concession land. 100 ha will be developed each year starting from year 2. The recurrent costs related to the development of new plantations will be entirely borne by the project until green leaves are sold to the NTF (i.e. after 3 years of development). Recurrent costs include: labor, agricultural inputs, fertilizer and small equipments;
- Develop 735 ha of new tea plantations in smallholders' home gardens. Sensitization of smallholders will not be necessary as most of them are already aware of the income and net

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<sup>8</sup> See Working Paper 1 on Tea Development Programme

<sup>9</sup> See Working Paper 1 on Tea Development Programme

<sup>10</sup> See Working Paper 3 Institutional Arrangements for the Tea Company

<sup>11</sup> See Appendix 7 on Field Visits: Main Observation and Lessons Learnt

profit from tea production. 245 ha will be developed each year from year 2 onwards. The recurrent costs related to the development of new tea plantations in smallholders' home gardens will be borne by the project until green leaves are sold to the NTF (after 3 years of development). However, these recurrent costs do not include labor that will be considered as the beneficiaries' contribution to the component, but include agricultural inputs, fertilizer and small equipments.

42. The former OCIR-Thé concession land (i.e. the 265 ha rehabilitated and the 200 ha developed) will be leased out to 12 smallholders' zone associations<sup>12</sup> (SZA) each regrouping 400 members and receiving 38.75 ha of tea plantations. The Ministry of Land, Environment, Forestry, Water and Mines has already given its approval for a leasing to the SZA free of charge or at a symbolic price. Members of the same SZA will collectively (a) cultivate their SZA plantations and, (b) sell its production to the NTF. Each SZA will be separately registered at the level of the NTF and, each SZA will equally share the profit resulting from sales of green leaves to the NTF among their 400 members, after deduction of operating costs incurred (especially wages for daily workers).

43. Each smallholder will also individually (a) cultivate his/her home garden and, (b) sell his/her production to the NTF. He/she will be individually registered at the level of the NTF. He/she may also hire external labor that he/she will pay directly.

44. As a result from this dual type of lands (leased out and home gardens), revenues earned by each smallholder will come from (a) leased out tea plantations cultivated collectively equivalent to 0.097 ha for each smallholder<sup>13</sup> and, (b) *thé villageois* produced in smallholders' home gardens equivalent to 0.153 ha for each smallholder<sup>14</sup>. Thereby, each smallholder's global revenue will be equivalent to the revenue he/she would have received from a 0.25 ha of tea plot. However, landless households' income will only come from leased out plantations shared profit. To complement this income, they will have priority for jobs at the NTF and/or as daily workers.

45. Until green leaves are sold to the NTF, the project will give agricultural inputs, fertilizer and small equipments to each SZA, who will then dispatch them among its members. Once green leaves are sold, agricultural inputs, fertilizer and small equipment will be provided by local private micro-enterprises supported by the project (see below).

46. Each SZA will sign a contract with the project for the provision of the necessary labor force to carry out works in rehabilitated and developed leased out plantations. The contract will end once green leaves produced on these lands are sold to the NTF. The project will pay monthly each SZA on the basis of a document issued by its President. Each SZA will then pay each worker individually but will levy a small percentage (to be agreed upon by all 400 SZA members) to build up its financial resources to finance future actions/activities. Once green leaves are sold, each SZA will pay the daily workers from revenues received from sales to the NTF.

47. **Development of Woodlots:** The project will support the development of 100 ha of woodlots on the OCIR-Thé concession land in complement of the 300 ha developed by the PI. The land will be leased out to the smallholders' main association regrouping all 12 zone associations. Until woodcuts can be sold to the NTF, the project will bear all investment and recurrent costs (i.e. seeds, agricultural inputs, fertilizer, small equipments and labor). The project will provide inputs, fertilizers, seeds and small equipments to the main association while labor costs will be paid by the project to the main association, which in turn will pay each worker individually. Once woodcuts are sold to the NTF, revenues will be kept by the main association to finance recurrent costs (especially labor).

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<sup>12</sup> 10 zone committees regrouping 400 households each have already been formed and their office bearers trained by TWIN. The project will seek for transforming these committees into legally registered associations.

<sup>13</sup> 465 ha of leased out tea plantations divided by 4,800 beneficiaries.

<sup>14</sup> 735 ha of tea plantations developed in smallholders' home gardens divided by 4,800 beneficiaries.

48. **Development of Adequate Infrastructures to Supply Agricultural Inputs, Fertilizers and Small Equipments to Smallholders:** The project will support: (a) nurseries; (b) demonstration plots and, (c) micro-enterprises.

- (a) In order to supply tea plants for the development of new surfaces (leased out land and home gardens), 12 nurseries will be implemented (1 per zone). Component beneficiaries will contribute to the cost of these nurseries in the form of materials and labor for their construction. The project will finance the necessary equipments as well as the recurrent costs (labor, agricultural inputs, fertilizer) of each nursery for a period of 4 years. These nurseries will be supervised by extension officers (see below) while daily work will be carried out by component beneficiaries trained by extension officers. The project will also sensitize smallholders on the necessity to allocate a small portion of their home garden to develop their own nursery, thus enabling them to expand their home garden tea plantation at minimum cost;
- (b) 2 demonstration plots will be implemented in each zone to disseminate knowledge and other tea husbandry skills required by smallholders. These demonstration plots would be located in selected smallholder's plots of land and would initially commence in Nshili and Mushubi, and after evaluating their usefulness and impact they would be replicated in other areas in the future. These demonstration plots would also be used for disseminating research on tea. The project will bear recurrent costs such as agricultural inputs, fertilizer and small equipments while labor will constitute the beneficiaries' contribution. Development plots will be supervised by extension officers (see below) while daily work will be carried out by component beneficiaries trained by extension officers;
- (c) The project will also promote the implementation of private local micro-enterprises that will supply smallholders and their local associations with necessary agricultural inputs, fertilizers and small equipments. Adequate micro-credit scheme and credit repayment procedures will also be implemented such as repayment of micro-credit deducted from payments made by the NTF to smallholders for supply of green leaves. The project will finance sensitization and information meetings for the component target population and will also assist potential micro-entrepreneurs to develop their business plan and to present it to micro-finance institutions.

49. **Provision of Extension Services to Smallholders:** The project will support the provision of extension services to smallholders with a view to building up their capacities and assisting them with their tea production as far as best practices are concerned. The project will finance on a decreasing scale 4 extension officers in charge of managing nurseries and demonstration plots. They will also be vested with the responsibility of training 4 members of each SZA. Each member will then train, supervise tea growing activities on smallholders' home gardens and on leased out land and provide technical assistance to 100 households members of his/her SZA. Selection of these 4 members will be carried out based on performance indicators such as yield obtained, quantity and quality of green leaves produced. Costs borne by the project include purchase of motorcycles as well as recurrent costs such as salary, social charges and motorcycle running costs. The project will also finance training of these extension officers, including study tours in Rwanda, Kenya and Malawi. Gradually, these recurrent costs will be borne by the Nshili smallholders' main association (see below). Performance-based bonuses mechanism will be implemented by the project for these extension officers.

50. **Continuation of Services to Smallholders until the NTF Becomes Operational:** Until the NTF becomes operational, green leaves will continue to be processed by the Mata tea factory. In order to reduce the losses incurred by smallholders when supplying their green leaves to Mata, the project will finance the purchase of a new truck with adequate storage facility and will finance its operating costs until NTF is operational. At that time, the truck will then be used by each zone association to collect and transport green leaves to the NTF and the recurrent costs will then be borne by each SZA.



51. **Baseline Survey:** A specialized Rwandan service provider will be contracted out by the project to undertake a baseline survey to determine the socio-economic status of the target group with a focus on household's economy and agricultural production in their home gardens. The baseline survey will be carried out at the inception of the component.

### **Sub-component 2: Development of Smallholders' Tea Production in Mushubi District**

52. The **objective** of this sub-component is to diversify the sources of income for 4,800 households through the development of tea plantations and the building up of their capacities. The activities carried out under this sub-component will not vary from the activities identified and planned in the Appraisal report. These **activities** include:

- Establishment of 1,200 ha of new smallholder tea plantations, based on individual plots of 0.25 ha each. The project will support individual smallholders to plant 0.25 ha of tea each on their fallow land, up to a total planted area of 800 ha. It will also support smallholder tea planting on 200 ha of land which is of marginal value for food-crop production, including parts of *terrasses radicales* developed under the IFAD project PDAG, as well as on 200 ha of district land recently allocated to poor vulnerable returnee households. The project will finance the recurrent costs related to the establishment of these new plantations until production is processed by a factory and income is earned by smallholders;
- Establishment of 500 ha of firewood plantations, of which 200 ha of District plantations and 300 ha on individual farmers' plots, to provide fuel to power the future processing plant. The project will bear all costs related to these activities;
- Formation of smallholders' associations and training of their members.

53. To build up smallholders' capacities, the project will also support the provision of adequate extension services to smallholders. The project will finance 4 extension officers in charge of managing demonstration plots and of training 4 members of each SZA they supervise. These members will then provide technical assistance, train smallholders and supervise tea growing activities on each land cultivated by smallholders (i.e. developed land and home gardens). Costs borne by the project include purchase of motorcycles as well as recurrent costs such as salary, social charges and motorcycle running costs. The project will also finance training of these extension officers, including study tours in Rwanda, Kenya and Malawi. Gradually, these recurrent costs will be borne by the Mushubi smallholders' main association (see below). Performance-based bonuses mechanism will be implemented by the project for these extension officers.

54. Saleable green leaves from newly developed tea plantations will become available for processing during year 4 to 5 of the project. At that time, a tea factory has to be operational to process that production. Any other solution regarding the processing of the green leaves in other existing factories will lead to the same problems that Nshili tea growers have experienced with Mata and such solutions are not sustainable for Mushubi tea growers. In that respect, the project will organize meetings with GoR representatives, private investors, commercial banks and smallholders' association representatives with a view to jointly finalizing a project aiming at the construction of a new tea factory in Mushubi district. Ideally, a sustainable plan of actions should be worked out and finalized by the time tea bushes are planted in smallholders' home gardens and in developed lands.

### **Sub-component 3: Smallholders' Organization and Capacity Building**

55. Considering the government's on-going privatization policy of tea factories and its consequences for the Rwandan tea production (private investors striving to maximize profits by producing premium quality tea for export markets, improving yields and quality and increasing extents under tea), smallholders who represents a large majority of the tea producers will undoubtedly play a more important role than at present time. Based on the 13 organizations already formed by

smallholders in the 5 provinces where tea is grown, the **objective** of the project is to support the development of local and provincial smallholders' associations and the development of a national smallholders' Federation, starting with Nshili and Mushubi and progressively expanding to other regions. The role of this Federation is two-fold: (a) smallholders' representation vis-à-vis the GoR, the future Tea Regulatory Board, Private Investors and other stakeholders in the tea sector and, (b) dissemination of well coordinated extension services, of new techniques, equipments and technologies to its members. In that respect, **activities** supported by the project with the facilitation of the GoR are as follows:

- Short-term technical assistance from international and local specialists to establish the necessary structures/institutions for the smallholders' organization (including draft of their charter, internal procedures and regulations) at zonal, local, provincial and national levels;
- Implementation of a financial mechanism ensuring the sustainability of the Federation and of the zonal, local and provincial associations. This mechanism would be based on membership fee, contributions levied on each member's annual income from tea production and, withholding tax on payments of labor force required on rehabilitated and developed lands leased out. These contributions will be paid by each smallholder to his/her smallholders' zone association (SZA). The SZA will pay its contribution to the Nshili Tea Smallholders' Association (local level) which in turn will pay its contribution to the Gikongoro Tea Smallholders' Association (provincial level) which, finally, will pay its contribution to the Rwandan Tea Smallholders' Association (national level). The financial resources collected will enable the Federation to gradually take over the costs of extension officers primarily financed by the project (see above) as well as the costs of implementing additional demonstration plots and nurseries. The design and implementation of the financial mechanism will be carried out by the PCU Tea component Manager, local specialists and members from smallholders' institutions at all level;
- Sensitization and information meetings on the importance and usefulness of strengthening tea smallholders in Rwanda through efficient zonal, local, provincial and national representation bodies. These sensitization and information activities will be carried out during the first 2 years of the component by the PCU Tea component Manager. These activities will start in the Gikongoro province and then will be expanded in other tea producing provinces;
- Capacity building of office bearers of these smallholders' institutions through adequate training, study tours in neighboring countries, exchange programs, workshops and information dissemination with other tea growing countries.

56. In order to facilitate the implementation of the zonal, local, provincial and national smallholders' representation institutions, the project will seek for the transformation of the Nshili cooperative regrouping the 4,000 project beneficiaries into an Nshili Tea Smallholders' Association that will become the local representation body of the future national smallholders' Federation. In addition, the project will also seek for the transformation of the zone committee into smallholders' zone associations (SZA) regrouping 400 households that will become the first level (or zonal level) of the smallholders' general organization. In Nshili as well as in Mushubi, 12 SZA will be implemented and these 12 SZA will be regrouped in the Nshili Tea Smallholders' Association (NTSA). Each association, including the NTSA, will elect its 'bureau' comprising of a President, a Vice President, a Treasurer and a Secretary. The project will assist each zone committee for its transformation into an association and for its election process.

57. The project will sign a contract with each SZA for the provision of labor force to cultivate the leased out rehabilitated and developed plantations. The project will provide the NTSA with the necessary inputs, fertilizer and small equipments required for leased out plantations and development

of tea plantation in smallholders' home gardens. The NTSA will then dispatch them to each SZA which in turn will dispatch them among its members. Once the production of the leased out plantations is saleable to the NTF, and in order to benefit from better prices and economy of scale, each SZA will centralize orders for inputs, fertilizers and small equipments to micro-entreprises supported by the project. Delivery will be made through each SZA. Payments will be processed by each SZA from the green leaves sale proceeds.

58. In a latter stage of development, possible partnership building with smallholders coffee growers' associations will be further explored by the project with a view to develop a 'smallholders export crops growers' national association'.

#### **Sub-component 4: Financial holding**

59. Under this sub-component, the **objective** of the project is to establish a sustainable financial mechanism that will enable smallholders to become important shareholders of tea factories to be privatized and/or of new tea companies. The activities carried out in this sub-component will be in line with the GoR privatization procedures and promotion of private investments. They will also enable smallholders' organization to increase their financial resources and to use them for profitable investments in the tea sector. In that respect, the **activities** undertaken are as follows:

- Sensitization and information of smallholders and smallholders' associations on the role and benefits of such a financial holding and on their role and responsibilities with regards to its ownership and management. Sensitization and information will be provided in the 5 provinces where tea is grown, starting with Gikongoro province. 2 meetings will be organized for each of the 13 smallholder tea growers' associations already implemented. Sensitization and information activities will be carried out by the PCU Tea component Manager (see below);
- Establishment of a financial holding 'Smallholders Financial Holding Ltd' (SFH) capitalized and managed by smallholders or smallholders' associations. Initially, the project will finance this holding through equity participation<sup>15</sup> on behalf of the smallholders. During its first 5 years of operations, SFH elected members will be trained and supervised by representatives of a local commercial bank where SFH funds are deposited (training costs borne by the bank as its contribution to the project);
- Development of a sustainable mechanism for a fixed annual contribution of smallholders to the share capital of their SFH so as to increase its financial resources. The amount of the contribution will be annually revised by the SFH General Assembly of Shareholders;
- Financing Nshili Tea Company. As a first investment, 15% of the Nshili Tea Company (NTC) share capital will be financed by the SFH, the amount of this investment still needs to be determined based on financial projections and business plan to be provided by the PI (see below). Dividends earned from this investment will be maintained in the SFH in order to maintain the level of its financial resources for further investments in the tea sector;
- Further investments in tea companies. SFH financial resources available will be used for investments in tea companies to be privatized and/or new ones and other investments in/or related to the tea sector (such as packaging plant, warehouses, collection centers). Such investments will be examined in the light of the privatization process and modalities to be defined by the GoR in early 2006 on the basis of a specific study which results will be made available in December 2005. These investments should be subject to a minimum 34% stake in the share capital of these companies, thus giving

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<sup>15</sup> The amount of the project financing still needs to be determined as the total cost of the factory has not been finalized. The PI will finance 2/3 of the cost of the factory through long-term borrowed funds and 1/3 through share capital. 15% of the share capital is allocated to smallholders or their organization.

smallholders an effective role in policy and decision-making of these companies. However, smallholders' organization stake in share capital will be in line with the GoR privatization policy.

60. When the possibility of investing in new tea factories or in privatized ones will be exhausted, available SFH financial resources might be used to respond to increases in share capital, to buy shares from other shareholders or to finance additional productive assets and activities. At that time, part of the dividends earned by SFH will also be distributed among its shareholders (smallholders' associations). Such a decision will be taken by the SFH General Assembly of Shareholders.

### **B. Phasing of the Component Implementation**

61. During the first year of implementation of the reformulated tea component, the organization and management arrangements of the project will be put in place and completed. This consists of: the recruitment of the additional staff to the PCU, the equipment of their premises in Kigali, the preparation and negotiations of contracts with all service providers as well as with extension officers. As far as Nshili is concerned, rehabilitation work on leased land (from the OCIR-Thé concession) will start in year 2 so that saleable green leaves produced can be processed at the Nshili Tea Factory. Nurseries will be implemented in year 1 to supply smallholders with tea bushes that can be planted on leased land from the OCIR-Thé concession and in smallholders' home gardens from year 2 onwards. Saleable green leaves from those lands will only be available in year 5. As for Mushubi, nurseries have already been implemented and planting in smallholders' home gardens and on District land will take place in year 1 of the project. Saleable green leaves will be produced on those lands from year 4 onwards. This production will require immediate processing in a nearby factory. The project, the GoR and potential private investors should meet regularly to finalize the implementation of such a factory that should become operational by mid-2009. With regards to smallholders' associations and holding, these institutions will be set up from year 1 onwards: first year zonal and local associations as well as financial holding; second year provincial association and, third year national federation. During that period, training and technical assistance will be provided to members and elected members of their respective governing bodies.

62. The following table summarizes the expected phasing of key reformulated tea component implementation activities after year 1.

**Table 1: Phasing of Component Activities**

Component activities	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Construction of the factory</b>	xxxxxxx	xxxxxxx			
<b>Tea processing</b>		xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx
<b>Sub-component 1: Tea development in Nshili</b>					
<u>Rehabilitation and development on leased lands:</u>					
• Rehabilitation work	xxxxxxx	xxxxxxx	xxxxxxx		
• <b>Saleable green leaves</b>		xxxxxxx	xxxxxxx	xxxxxxx	
• Development of plantations leased land					
- Nurseries	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	
- Planting and maintenance	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx
<b>Saleable green leaves</b>					xxxxxxx
<u>Tea in smallholders' home gardens:</u>					
• Nurseries (see above)		xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx
• Planting and maintenance		xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx
• Demonstration plots					xxxxxxx
• <b>Saleable green leaves</b>					xxxxxxx
Development/maintenance of woodlots		xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx
Recruitment of extension officers	xxxxxxx				
Continuation of services to Mata	xxxxxxx				
Land survey	xxxxxxx				
<b>Sub-component 2: Tea development in Mushubi</b>					
Planting and maintenance in home gardens	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx
Planting and maintenance in District land	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx
<b>Saleable green leaves</b>				xxxxxxx	xxxxxxx
Recruitment of extension officers	xxxxxxx				
Maintenance of woodlots	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx
<b>Sub-component 3: Smallholders' organization and capacity building</b>					
• Setting up of associations	xxxxxxx	xxxxxxx	xxxxxxx		
• Members' contribution	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx
• Training of associations members	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx
• Training of progressive farmers for extension support	xxxxxxx	xxxxxxx			
• Maintenance of demonstration plot	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx
<b>Sub-component 4: Smallholders' Financial Holding</b>					
• Setting the SFH	xxxxxxx				
• Training	xxxxxxx				
• Investment in the Nshili Tea Company	xxxxxxx				
• Contribution from members	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx
• Other tea-related investments			xxxxxxx		
<b>Tea component coordination (to be included in the Project PCU)</b>					
• Recruitment of staff	xxxxxxx				
• Procurements	xxxxxxx				
• Implementation of specific M&E	xxxxxxx				
• Training in M&E	xxxxxxx				
• Surveys	xxxxxxx		xxxxxxx		xxxxxxx

63. Activities related to development of smallholders' tea plantations in their home gardens will require support from the project beyond the end of the project stipulated in the Loan Agreement. Because, development of home gardens will be carried out in 3 years in order to maintain manageable sized nurseries, the households whose home garden will be developed during year 4 will only start pluck saleable green leaves during year 5 and, during that fifth year, they will still need support from the project (inputs, fertilizers). For that reason, during mid-term review of the project (in 2007), IFAD

will consider the possibility of extending the reformulated Tea component of 1 year. However, the financial projections shown in the COSTAB have already integrated a 1-year extension of the Tea component.

### **C. Component Costs and Financing**

64. The amount of IFAD loan allocated for the reformulated tea component has been maintained at exactly the same level as the amount determined in the Loan Agreement and in the Appraisal Report while the total cost of the reformulated tea component and the breakdown of this cost among financiers have been totally modified. Expenses already incurred for Nshili and for Mushubi have been kept in the COSTAB so that the effective budget of the reformulated tea component amounts to the difference between the initial budget and the expenses already incurred.

65. The total component costs are estimated at USD 15.22 million, including price and physical contingencies. About 10% of that total cost (i.e. USD 1.45 million) represents foreign exchange costs. Duties and taxes make up 6.65% (USD 1.02 million) of the total component costs. The component will be financed by IFAD (USD 5.81 million - 38.2 %), the Co-investors (USD 5.70 million - 37.4 %), the beneficiaries (USD 1.04 million - 6.8 %), the Government (USD 2.56 million - 16.8 %) and a commercial bank (USD 0.1 million - 0.7 %).

66. The tables ‘Components by Financiers’ and ‘Expenditures Accounts by Components’ for both the initial tea component and the reformulated tea component are shown in Appendix 3 on Cost Structure, Financing and Economic Analysis.

### **D. Co-financing and Other Financial Arrangements**

67. The Private Investor will hold 70% of the shares of the Nshili Tea Company and will also bring the long-term financial resources required for the construction of the tea processing plant in the form of long-term loans. The estimated total cost for the factory and the company of USD 6 million will be financed through share capital (1/3 of the total amount i.e. USD 2 million) and long-term borrowed funds (2/3 of the total amount i.e. USD 4 million). MIG Investment company will hold 15% of the share capital (i.e. USD 0.3 million)<sup>16</sup> and the Smallholders’ Financial Holding will hold the remaining 15% (i.e. USD 0.3 million).

68. The contribution of the Government includes: (a) costs related to the connection of the tea factory to the national electric grid for an amount of USD 2 million and, (b) duties and taxes (USD million). The cost of connecting the factory to the electric national grid still needs to be finalized.

69. The contribution of beneficiaries is twofold: (a) contribution in the form of labor for the development and extension of tea plantations in their home gardens (valued at USD 0.61 million), (b) contribution in the form of labor for the development and extension of woodlots (valued at USD 0.1 million) and, (c) cash contribution to the smallholders’ local associations and to the smallholders’ financial holding (representing USD 0.46 million). Contributions to smallholders’ local associations

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<sup>16</sup> MIG is a limited company registered in 2004 with 1,600 shareholders of whom around 400 are natives from the Gikongoro region but living elsewhere and the remaining 1,200 are mostly farmers living in Gikongoro province. MIG FRW 400 million share capital includes individuals, associations, companies (such as UBP local branches), cooperatives (share value is FRW 10,000). Its Board is composed of 12 members of whom 3 represent the 1,200 members from Gikongoro (1 individual and 2 representatives from UBP branches). MIG seeks the socio-economical development of the Gikongoro province through investment (minor shareholder) and capacity building of locals. Thereby, MIG shares the same objectives as IFAD in terms of rural development of the Province and could become the adequate partner in the Nshili project. MIG has already invested in several coffee washing stations and in the promotion of provincial honey production. In the near future, MIG is also interested in investing in Mata and Kitabi tea factories (OCIR-Thé factories to be privatized) up to a maximum of 30% in the share capital. Finally, MIG benefits from a yearly financial commitment of the government amounting to FRW 60 millions during 3 years to cover running costs.

have been considered for smallholders from the Gikongoro province while cash contributions to SFH have been considered from smallholder tea growers nationwide.

70. The contribution of the commercial bank relates to the financing of training courses for SFH elected members of its governing bodies.

## **V. ORGANIZATION AND MANAGEMENT**

### **A. Project Coordination Unit**

71. At the level of the Project Coordination Unit, a Manager of the Tea component will be contracted for the remaining period of the project. He/she will be responsible for the coordination and supervision of the various activities undertaken in each sub-component and will be under the authority and supervision of the Project Coordinator (his/her Terms of Reference are detailed in Appendix 6). In addition, an administrative agent/secretary and a driver will also be recruited. Both the Tea component Manager and his/her assistant will be responsible for collecting the necessary data for the specific monitoring and evaluation system set up for the reformulated tea component (see below). In that respect, the project will finance a specific training for the Tea component Manager and his/her assistant on participatory monitoring and evaluation approaches and techniques and on the collection data necessary to measure performance and impact indicators. Furthermore, the project will finance a vehicle, the necessary office equipments as well as the recurrent operating costs.

### **B. Contracts with Service Providers**

72. Some of the activities will be contracted out to service providers for implementation. Although in the Appraisal it was envisaged to contract OCIR-Thé and TWIN for most of the activities of the tea component, at re-formulation this situation has changed. This is in line with the government's policy on the restructuring of the tea sector, where the role of OCIR-Thé would be mostly confined to regulatory, promotional and research work. The role envisaged for TWIN was (a) the formation and training of smallholders' institutions, (b) the assistance and capacity building of smallholders with regards to management and ownership of the Nshili Tea Factory and, (c) the development of innovative marketing possibilities especially through the Fair Trade Organizations and the implementation of the necessary structures managed by smallholders. Apart from the formation and training of smallholders' associations groups and the training of the smallholders' representative seating at the Board of the Nshili Tea Factory (and assistance as a non-voting observer at each Board meeting), the implication of the PI in the revised design of the component nullifies the recourse to TWIN, especially with regards to marketing and commercialization of NTF production. In the absence of future services provided by OCIR-Thé and/or TWIN, suitable NGOs both local and national will be contracted based on their comparative and competitive advantage to undertake the following activities:

- Training of extension officers in both Nshili and Mushubi plantations (including technical and technological innovative aspects of tea production, supervision techniques of smallholders' plantations, nurseries and demonstration plots, collection of data for monitoring and evaluation, training techniques, activity reporting);
- Baseline survey in Nshili and Mushubi;
- Formation of zonal, local, provincial and national smallholders' associations (including legal aspects such as registration, charter, internal regulations, procedures);
- Orientation and training of smallholders' associations members as well as members of their 'bureau';

- Training of staff of the Smallholders' Financial Holding (carried out by a commercial bank through a specific contract).

73. The general Terms of Reference related to the recruitment of service providers are given in appendix 6.

### **C. Monitoring and Evaluation**

74. It is proposed that a specific monitoring and evaluation system be developed under the tea component to review progress in component implementation and success in meeting its objectives. This should have a two pronged approach: (i) continuous monitoring of project impact on poverty and other socio-economic conditions of beneficiary households; and (ii) monitoring the overall progress of the processes of component implementation and that of the service providers, and provide project management with independent information on the performance.

75. The PCU Tea component Manager will be responsible for M&E of the component. With the assistance of the project M&E, the Tea component Manager will develop a comprehensive result-based M&E plan and an action programme. The M&E action program will depict the target objectives, monitoring indicators, means of verification, required activities, expected time of completion, financial plan, quantitative targets, measurement of status, agency/persons responsible, the assumptions and the issues.

76. The field staff especially the tea extension/development officers will be responsible to monitor their activities and outputs. In order to review the quantitative performance, information should be collected periodically by way of reports and sent regularly to the PCU. These data will be used for the measurement of physical and financial progress of the component. The qualitative assessment will usually be done during the visits to the beneficiaries by the extension staff. These observations made at field visits will be reported back by extension staff at regular intervals. The information will include progress, bottlenecks, development constraints and any other information that needs attention of the management. The M&E system will also focus on process monitoring. The component will use service providers and the process monitoring should include monitoring the service providers, their out put and the quality. A participatory monitoring system will be developed focusing especially on impact assessment of the target group beneficiaries. Since the extension staff will routinely visit the beneficiaries, indicators need to be developed to assess the impact. Beneficiaries and extension officers will be trained to carry out participatory monitoring.

77. However, mission's interventions at different levels both in the Project and at field level indicate that there is a lack in the identification of indicators that would be used for impact monitoring at all levels. Assessing impact implies the measurement of change, which presumes knowledge of the pre-change situation and of indicators by which to measure the change. If the impact of project interventions on rural poverty was to be quantified, selected baseline impact indicators should have been clearly identified prior to or early in the Project. They should thereafter have been monitored as part of a regular management information system or a series of specially focused case studies or small scale surveys/assessments. Suitable indicators would reflect and be measured in terms of the people's stated objectives and expected components/activity outputs. A list of performance and impact indicators is given in Appendix 5. This list will be finalized by the PCU Tea component Manager, the project M&E responsible and the Manager of the NTF.

78. Finally, the specific M&E system of the tea component will be integrated in the project M&E system.



## **VI. BENEFITS, JUSTIFICATIONS AND RISKS**

### **A. Component Beneficiaries and Component Benefits**

79. The component will accelerate the economic growth and increase the productivity of the Nshili Tea Smallholders' Association block through investments for new planting, infilling and the rehabilitation. It will also initiate new planting in the former neglected under-utilized home gardens of the target beneficiaries. The component will produce good planting materials. The NTC and the experienced management of the factory will improve the tea manufacturing facilities. The Nshili sub-component is expected to benefit around 4,800 beneficiaries or 1,200 ha of tea. The rehabilitation and the infilling programme is expected to increase the associations' average yield by 1,800 kg per ha. The increase in yield will improve the comparative advantage of the tea sub-sector. At peak production, the sub-component will have an estimated incremental production of 5,118 metric tons of tea per annum valued at USD 8.2 million. The new planting in Nshili smallholders' home gardens will benefit 4,800 households and expected yield at peak production from home gardens is expected to be 3,444 metric tons of tea per annum valued at USD 5.5 million. The sub-component will generate employment to the target beneficiaries in the NTC, plant nurseries and wood lot improvement. Estimated 1,907 person-years of employment will be created during the development phase. Tea being a labor-intensive crop, an estimated 1,366 person-year of employment is expected to be generated at full development of the component.

80. Similar to Nshili, the development of smallholders' home gardens in Mushubi would produce 1,980 metric tons of made tea which would generate USD 3.2 million as revenue. The 500 ha of woodlots would also bring them revenue by selling wood to the factory to be constructed shortly.

81. The rehabilitation of the existing tea, new planting and infilling of the industrial block and the hilly areas of the home gardens will help improve the environment by arresting soil erosion and degradation. Around 4,800 families will see an improvement in their living conditions resulting from improvements of feeder roads that will transport the green tea to the factory. With the supply of electricity to the factory from the national grid, the whole area will benefit with possible micro enterprises emerging due to the availability of electricity as well as increase in the buying capacity of the target group population in Nshili and Mushubi. The component will seek to improving representation of smallholder tea growers through efficient and sustainable organizations and will also seek to providing smallholders with a financial structure that will enable them to participate effectively in the financing of the development of the tea sector. These benefits are not quantified but are important for all Rwandan smallholder tea growers.

### **B. Economic Analysis**

82. The general assumptions taken into consideration for the economic analysis include: (i) implementation period of 5 years; (ii) economic life of tea ranging from 25 years to 40 years; (iii) benefits and costs are in 2005 base prices; (iv) standard conversion factor of 0.9 used to convert non-traded inputs into border values and, (v) daily labor cost in the estate sector at FRW 500 per day (following the latest increase in daily wages from the GoR).

83. Quantifiable tea component benefits computed for financial and economic analysis comprise the value of incremental green leaf and made tea, resulting from investments in rehabilitation and new planting of the industrial block and smallholder home garden new planting of tea. Nursery development was not considered as it was not a commercial venture but was producing solely for the above three activities. The financial and the economic return of the Nshili tea factor cannot be calculated since the cost estimates of the new factory are still not available. Since the land earmarked for the smallholders from the industrial block would be worked collectively, financial analysis was

carried out for a holding of 1 ha. The analysis of the industrial block indicates that each smallholder will enjoy incremental income from the first year of bearing from both rehabilitated and the new planting of tea. Return to each household will be FRW 2,575 per month to from the 3<sup>rd</sup> year of the rehabilitated tea in the estate while the returns will reach the maximum from the 11<sup>th</sup> year to FRW 12,553 per month. The returns from new plantings from the tea estate will bring FRW 1,225 per month to each household while this amount will reach FRW 9,184 per month from the 11<sup>th</sup> year of production. From each home garden plot developed under tea in an extent of 0.15 ha, each household income will be FRW 1,007 from the 5<sup>th</sup> year of bearing while this will reach the maximum of FRW 44,866 per month on the 11<sup>th</sup> year. Thus from all three sources, the income of each household from tea cultivation will be FRW 2,575 per month starting from the 3<sup>rd</sup> year. In the 5<sup>th</sup> year, the monthly income will reach FRW 3,807 and from the 11<sup>th</sup> year, it will peek to a maximum return of FRW 66,603 per month. In addition, some of the farmers will get employment both in the tea estate owned by the PI and some others will be employed in the Nshili Tea Factory as casual hands.

84. The financial and the economic internal rate of return (IRR) for the activities of the tea component and the economic internal rate of return (EIRR) for the whole tea component are illustrated in the table below:

**Table 2: Financial and Economic Internal Rate**

Items	Financial internal rate of return (%)	Economic internal rate of return (%)
Industrial bloc		
• New planting	37	35
• Rehabilitation	62	61
Home garden		
• New planting	42	42
<b>Global for the whole tea component</b>		<b>18</b>

### C. Risks and Risks Moderation Measures Included in the Component Design <sup>17</sup>

85. Tea is one of the most important industries for Rwanda, employing the most number of people compared to any other industry, and as such its viability must be handled with great care. Like all agricultural undertakings, the tea component is potentially subject to a number of risks including low tea prices, unpredictable weather conditions, pest and disease out breaks, and lack of good planting materials. The risks are minimized through strengthening of research relevant to smallholder tea cultivation, production of high-quality planting materials, and provision of extension services to improve cultivation practices. The component will construct a new factory with modern technology and with experience management on tea production, which will improve the quality of tea produced, thus helping to maintain prices in the face of declining global tea prices. The extension services and support to the smallholder development associations will lead to increased productivity with subsequent income increases, making tea cultivation a more profitable venture attractive to the rural poor.

86. Rwandan tea production is predominantly of the CTC type and the marketing strategy should capture the changing in the consumer preferences in the traditional orthodox markets to CTC tea, which is used in tea bags such as Turkey, the Middle East, Russia and the Central Asia region which were the orthodox markets earlier. The component design calls for institutional reforms of tea smallholder organizations leading to greater autonomy and more efficient provision of services at lower cost. The streamlining of these organizations with a broad-based constitution, orientation, relevant training, demonstrations and exchange of tea growers to other tea growing areas and countries

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<sup>17</sup> Risks associated with the PI and his proposal are developed in section VII.

for its members will enable strengthening the smallholders in Rwanda who would continue to play a major role in the future tea industry.

87. The tea development component faces the risks that farmers/smallholders may use “shortcuts” when it comes to proper use of tea cultural best practices. These shortcuts may be as follows:

- Selling fertilizer or using it for vegetables and other crops in their home gardens;
- Not applying proper formula of NPK fertilizer. The soil conditions defer from place to place. Hence an analysis of the soil should be done to compensate for deficiencies;
- Not ensuring that twigs and branches from pruning are allowed to become compost. It may be taken for firewood;
- Anti-erosion measures for hill tea/drainage for swamp tea.

88. Setting up of a duly trained extension service staff for the tea programme and establishment of demonstration plots in the smallholders’ home gardens tea plantation will minimize the above-mentioned risks.

## VII. ASSURANCES AND DOCUMENTS TO BE SOUGHT PRIOR TO NEGOTIATIONS

89. The implementation of the reformulated tea component as detailed above relies upon the effective willingness of the private investor to fulfill his commitment with regards to the Nshili Tea Factory. Prior to any final decision from IFAD regarding this reformulated tea component and considering that the project will act as a financial investor in the Nshili Tea Company, the private investor and the GoR have to provide IFAD with the following relevant documents:

- (a) **Business Plan of the Factory:** This business plan will clearly indicate a production capacity for the tea factory sufficient to absorb the production of both the industrial bloc leased out by the private investor and the smallholders (leased out lands and home gardens). It is estimated that this production capacity should be at least of 3,500 tons per year. The business plan will also indicate the phasing of this production capacity with regards to machines and equipments. An initial production capacity of 2,000 tons could be envisaged but it should be raised to 3,500/4,000 tons 6 to 7 years after the factory has started its operations;
- (b) **Total Cost of the Factory:** The cost of the factory will be evaluated taking into account the targeted production capacity (3,500/4,000 tons);
- (c) **Marketing Plan:** A marketing plan will be worked out by the private investor indicating the type of production developed by the factory (CTC, Orthodox, organic tea) and the necessary measures implemented for quality control purposes. In addition, the marketing plan will also indicate the commercialization circuit that will be in force at the Nshili Tea Company as well as any investment related to commercialization and marketing (packaging, labeling);
- (d) **Financing Plan:** Based on the total cost of the factory, a financing plan will be worked out indicating the different sources of financing used for this investment. It will indicate the level of share capital and its final breakdown between different shareholders i.e. private investors (holding 70% of the shares), MIG and smallholders’ organization (each holding 15% of the shares). It will also indicate the terms and conditions of any borrowed funds (from commercial banks, donors) and any contribution in the form of current account from private investors;
- (e) **Financial Projection:** Based on the above mentioned business and financing plans, a 10-year financial projection will be worked out. These financial projections will include

several scenarios regarding the purchase price for green leaves with the current price of FRW 65/70 per kilo as being the worst case scenario;

- (f) **Leasehold Agreement:** 50-year leasehold agreement for the land and the plantations allocated to smallholders ‘free of charge’ at a symbolic price will be signed between the MINITERRE and the 12 smallholders’ zonal associations.

90. The whole set of documents will be passed on to IFAD before the end of October 2005. The private investor has already contracted a local consulting firm to finalize the projections related to the production capacity and the related total investment cost as well as to work out the financial projections.

91. In addition, at that date, both the GoR and the private investors will give IFAD their irrevocable acceptance on the prerequisites to PI’s proposal as previously mentioned (see above). The purpose of these prerequisites is to safeguard the interests of smallholders with regards to the Nshili Tea Company and the Nshili Tea Factory. In that respect, it is of utmost importance that any investment carried out by the private investors is clearly indicated. In the best case scenario for smallholders, leasing contracts for the industrial bloc land and tea bushes, as well as the purchase contract for the woodland and the former OCIR-Thé assets (buildings) shall be in the name of the private investor and not in the name of the Nshili Tea Company. In addition, any expense related to leased out land or purchased assets should be borne by the private investors not by the Nshili Tea Company. A different situation will undoubtedly lead to a drastic reduction in the company’s profit, thus reducing the dividends earned by the smallholders’ organization.

92. The 20-year leasehold agreement for the land conceded to the PI as currently discussed with the GoR represents a potential source of risk for smallholders and for the long-term sustainability of the factory/company. The Nshili tea concession has been planted in 1983 and its expected lifetime averages 40 to 50 years. Replanting tea bushes would normally take place in 2023/2033 while the leasehold agreement will come to an end in 2025/2026. The risk lies in the non-continuation of the leasehold agreement which will lead to the non-regeneration of the plantation by the private investor. Production supplied to the factory will become of less quality and lower yield, thus sharply impairing the financial profitability of the company (processing based exclusively on smallholders’ home gardens tea plantations). To circumvent this important risk, the project supports the setting up of a smallholders’ financial holding that will enable them to (a) purchase/lease out land that any other shareholder would no longer lease out and, (b) finance the necessary regeneration and rehabilitation work of those lands.

93. Once the whole set of above-mentioned documents have been reviewed by IFAD specialists and the prerequisites have been irrevocably agreed upon by both the GoR and the private investors, negotiations between IFAD and the GoR could start on the basis of an amended Loan Agreement as detailed in Appendix 5 taking into consideration the reformulated tea component.

94. In case of insufficient production capacity or uncertainty in the financing plan for the Nshili Tea Factory, the reformulated tea sub-component could be cancelled and the funds reallocated to other sub-components of the tea component (mainly to the smallholders’ financial holding). Really, there would be no point in developing tea production in smallholders’ home gardens in Nshili if the new factory is not able to absorb and process their green leaves in due time and diligence. Such a situation would lead to the same situation of Nshili smallholders suffering from heavy losses because of the absence of a processing plant.

95. With regards to Mushubi sub-component, discussions should be held between GoR, private investors, smallholders’ organizations and the project with a view to finalize the construction of a tea factory that will process green leaves in Mushubi. Failure to reach an agreement for this factory should be an important signal for the project and this sub-component should be put on hold. Once again, there is no point in developing new plantations if no factory can process their production. Saleable green

leaves from Mushubi plantations will be available for processing in mid-2009. Final decision related to the Mushubi factory should be made by mid-2007.

96. **Timetable.** The next steps are as follows:

- By the end of October, the GoR will have sent IFAD the relevant documentation above-mentioned;
- By November 15<sup>th</sup>, IFAD experts will have reviewed the documentation and made their comments and recommendations to IFAD based on the reformulation tea component main report;
- In case the documentation provides all necessary and relevant information satisfactory to IFAD with regards to the Nshili Tea Company, a Memorandum of Understanding (MoU) will be discussed and signed between IFAD and the GoR. This MoU will mention all agreements that have been discussed and signed between the private investor and the GoR. This MoU will be signed before the end of November 2005;
- In case the documentation is not satisfactory, IFAD will request additional information that will be provided by the GoR no later than the end of November 2005. This additional information will be reviewed by IFAD experts and, based on their recommendations, decision will be taken by IFAD to continue the Tea component or to drop it. A MoU will also be discussed and signed if IFAD is to continue the Tea component;
- An amended Loan Agreement will be proposed to the signature of IFAD and the GoR either in December 2005 or in January 2006;
- Disbursement of funds allocated on reformulated tea component budget lines will only start when the amended Loan Agreement has been signed by both parties.

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**APPENDIX 1: LOGICAL FRAMEWORK**

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS
<p><b>Main objective:</b> To increase and maximize poor rural households' income in a sustainable manner through the development and promotion of tea as well as to strengthen their capacities.</p> <p><b>Specific objectives:</b> Maximization of quality and quantity of tea products with a focus on <i>thé villageois</i>;</p> <p>Facilitation of women's participation in tea development activities;</p> <p>Development of efficient and democratically managed institutions regrouping smallholders and securing their full participation and empowerment in the tea industry.</p> <p><b>Strategy:</b> Provision smallholders with possibility of an effective participation in the development of the tea sector through:</p> <ul style="list-style-type: none"> <li>(a) Development of new plantations,</li> <li>(b) Organization of smallholders in a representative decentralized national institution and,</li> <li>(c) Financial investments in new and/or to-be-privatized tea processing plants.</li> </ul> <p><b>Expected Outcome by sub-components:</b></p>	<p>Grower prices paid to smallholders and incremental net income obtained from tea products by participating smallholder households.</p> <p>Increased yields in the different types of plantations.</p> <p>Share of incremental household income generated by the tea component under control of women.</p> <p>F.o.b. prices of tea products sold by the Nshili Tea Company.</p> <p>Quantity of black tea sold to 'Fair Trade' organizations and under labels with certificate of origin.</p> <p>Number of households assisted by the tea component that continue to be effective tea growers in their home gardens.</p> <p>Increase of size of tea plantations in smallholders' home gardens.</p> <p>Number and quality of tea growers associations, groups and cooperatives participating in the component.</p> <p>Numbers and socio-economic features of beneficiaries of the leased out OCIR-Thé plantation at Nshili.</p> <p>Number of participating households, of which women head of household. For Nshili.</p> <p>Number of nurseries and demonstration plots implemented.</p> <p>Cost of production for each nursery.</p> <p>Number of extension officers operating on smallholders' plantations and number of smallholders' zonal associations members trained as extension officers.</p> <p>Number of participating households, of which women head of household in Mushubi.</p> <p>Area of developed woodlots in Mushubi, by the Gikongoro district and by smallholders.</p> <p>Number of nurseries and demonstration plots implemented.</p> <p>Cost of production for each nursery.</p> <p>Number of extension officers operating on smallholders' plantations and number of smallholders' zonal associations members trained as extension officers.</p> <p>Local private micro-enterprises supplying smallholders with inputs, fertilizers and small equipments.</p> <p>Membership of zonal, local provincial and national smallholders' organizations.</p> <p>Financial resources collected for these organizations.</p> <p>Number of sensitization and information meetings.</p> <p>Membership of the smallholders' financial holding.</p> <p>Financial resources collected for the financial holding.</p> <p>Type and nature of additional investments in the tea sector.</p> <p>Dividends paid to the smallholders' financial holding.</p> <p>Number of sensitization and information meetings.</p> <p>Number of training courses provided by commercial bank.</p> <p>Dividends paid from various investments realized.</p> <p>Tons of green leaves and tons of firewood purchased by the</p>





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**APPENDIX 2: STAKEHOLDERS’ MATRIX/PROJECT ACTORS AND THEIR ROLES**

<b>Components</b>	<b>Sub-components</b>	<b>Project coverage</b>	<b>Perennial institutions involved</b>	<b>Potential contractors</b>	<b>Other partners in execution</b>
<b>Tea development</b>	<ul style="list-style-type: none"> <li>Tea development in Nshili District</li> </ul>	<ul style="list-style-type: none"> <li>Area based: Nshili district</li> </ul>	<ul style="list-style-type: none"> <li>Nshili Tea Company (private, ltd) to be created</li> <li>Provincial, District and lower local government administrations</li> </ul>	<ul style="list-style-type: none"> <li>OCIR-Thé</li> <li>MINAGRI-DRSA</li> <li>TWIN</li> <li>Plant equipment suppliers and private construction company</li> </ul>	<ul style="list-style-type: none"> <li>Primary zonal and local associations of smallholder tea growers</li> <li>Private investor</li> <li>MIG</li> <li>Extension officers</li> <li>PCU Tea component staff</li> </ul>
	<ul style="list-style-type: none"> <li>Tea development in Mushubi District</li> </ul>	<ul style="list-style-type: none"> <li>Area based: Mushubi district</li> </ul>	<ul style="list-style-type: none"> <li>Provincial, District and lower local government administrations</li> </ul>	<ul style="list-style-type: none"> <li>OCIR-Thé</li> <li>MINAGRI-DRSA</li> <li>TWIN</li> </ul>	<ul style="list-style-type: none"> <li>Primary zonal and local associations of smallholder tea growers</li> <li>Extension officers</li> <li>PCU Tea component staff</li> </ul>
	<ul style="list-style-type: none"> <li>Smallholders' organization</li> </ul>	<ul style="list-style-type: none"> <li>Gikongoro Province and then all provinces where tea is cultivated</li> </ul>		<ul style="list-style-type: none"> <li>TWIN</li> </ul>	<ul style="list-style-type: none"> <li>Primary associations of smallholder tea growers in other tea estate (13)</li> <li>International consultant tea growers organization specialist</li> <li>PCU Tea component staff</li> </ul>
	<ul style="list-style-type: none"> <li>Smallholders' financial holding</li> </ul>	<ul style="list-style-type: none"> <li>Nationwide</li> </ul>		<ul style="list-style-type: none"> <li>Rwandan commercial banks</li> </ul>	<ul style="list-style-type: none"> <li>Primary associations of smallholder tea growers in other tea estate</li> <li>International consultant</li> <li>PCU Tea component staff</li> </ul>

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Table 14: Economic Internal Rate of Return

**Table 1: Expenditure Accounts Breakdown**

	Base Cost				Physical Contingencies				Price Contingencies				Total Incl. Cont.				Base Costs + Price Cont. on Base Costs	Physical Cont. Plus Price Cont. on Physical Cont.
	For. Exch.	Local (Excl. Taxes)	Duties & Taxes	Total	For. Exch.	Local (Excl. Taxes)	Duties & Taxes	Total	For. Exch.	Local (Excl. Taxes)	Duties & Taxes	Total	For. Exch.	Local (Excl. Taxes)	Duties & Taxes	Total		
<b>I. Investment Costs</b>																		
A. Civil Works	-	2 000.0	-	2 000.0	-	-	-	-	-	-	-	-	-	2 000.0	-	2 000.0	2 000.0	-
<b>B. Vehicles and Equipment</b>																		
Equipments	9.5	2.9	2.7	15.0	-	-	-	-	0.1	0.2	0.1	0.3	9.5	3.0	2.8	15.3	15.3	-
Moyens de transport	93.3	20.9	25.1	139.3	-	-	-	-	0.9	1.1	0.5	2.5	94.2	22.0	25.5	141.8	141.8	-
<b>Subtotal Vehicles and Equipment</b>	102.8	23.7	27.8	154.3	-	-	-	-	1.0	1.3	0.5	2.8	103.8	25.0	28.3	157.1	157.1	-
D. Equity fund	150.0	6 456.6	-	6 606.6	-	-	-	-	-	-	-	-	150.0	6 456.6	-	6 606.6	6 606.6	-
<b>I. Study, Technical Assistance and Training</b>																		
Training	82.2	539.4	136.4	758.1	4.1	27.0	6.8	37.9	5.7	163.3	37.1	206.2	92.0	729.7	180.4	1 002.1	954.4	47.7
Technical Assistance and Studies	113.9	0.9	25.2	140.0	-	-	-	-	1.4	0.1	0.3	1.8	115.3	1.0	25.5	141.8	141.8	-
<b>Subtotal Study, Technical Assistance and Training</b>	196.1	540.3	161.6	898.1	4.1	27.0	6.8	37.9	7.1	163.4	37.4	208.0	207.3	730.7	205.9	1 143.9	1 096.2	47.7
J. Services	-	870.8	142.2	1 013.0	-	32.4	7.1	39.5	-	212.8	46.7	259.5	-	1 116.0	196.0	1 312.0	1 260.2	51.9
K. Fonds	-	300.0	-	300.0	-	-	-	-	-	-	-	-	-	300.0	-	300.0	300.0	-
L. Inputs	-	2 150.6	-	2 150.6	-	107.5	-	107.5	-	698.7	-	698.7	-	2 956.8	-	2 956.8	2 816.0	140.8
<b>Total Investment Costs</b>	448.8	12 342.1	331.6	13 122.5	4.1	166.9	13.9	184.9	8.1	1 076.2	84.7	1 169.0	461.1	13 585.2	430.2	14 476.5	14 236.1	240.4
<b>II. Recurrent Costs</b>																		
A. Salaries	-	298.9	65.6	364.6	-	14.9	3.3	18.2	-	75.5	16.6	92.0	-	389.4	85.5	474.8	452.2	22.6
<b>B. Operation and maintenance</b>																		
Maintenance of equipment	3.1	7.1	2.2	12.4	0.2	0.4	0.1	0.6	0.2	2.3	0.5	3.0	3.4	9.7	2.9	16.0	15.3	0.8
Vehicles maintenance	36.8	83.8	26.5	147.0	1.8	4.2	1.3	7.4	1.8	25.1	5.9	32.8	40.4	113.1	33.7	187.2	178.3	8.9
Annual expenses	-	41.0	9.0	50.0	-	2.1	0.5	2.5	-	13.5	3.0	16.5	-	56.6	12.4	69.0	65.7	3.3
<b>Subtotal Operation and maintenance</b>	39.9	131.9	37.7	209.4	2.0	6.6	1.9	10.5	2.0	40.9	9.4	52.3	43.8	179.4	49.0	272.2	259.2	13.0
<b>Total Recurrent Costs</b>	39.9	430.8	103.3	574.0	2.0	21.5	5.2	28.7	2.0	116.4	26.0	144.3	43.8	568.7	134.5	747.0	711.4	35.6
<b>Total</b>	488.7	12 772.9	434.9	13 696.5	6.1	188.4	19.1	213.6	10.1	1 192.6	110.6	1 313.4	504.9	14 153.9	564.7	15 223.5	14 947.5	275.9

**Table 2: Expenditure Accounts by Component (Base Costs and Totals including Contingencies)**

	Smallholder Tea Development								
	Tea development Nshili District	Tea development Mushubi District	Smallholders' Institutions	Smallholders' Financial Holding	Tea component coordination	Expenditure up to Dec 2005	Total	Physical Contingencies	
								%	Amount
<b>I. Investment Costs</b>									
A. Civil Works	2 000.0	-	-	-	-	-	2 000.0	-	-
<b>B. Vehicles and Equipment</b>									
Equipments	-	-	-	-	15.0	-	15.0	-	-
Moyens de transport	48.7	65.2	-	-	25.4	-	139.3	-	-
<b>Subtotal Vehicles and Equipment</b>	48.7	65.2	-	-	40.4	-	154.3	-	-
D. Equity fund	-	-	133.0	6 473.6	-	-	6 606.6	-	-
<b>I. Study, Technical Assistance and Training</b>									
Training	-	13.4	549.7	105.0	90.0	-	758.1	5.0	37.9
Technical Assistance and Studies	-	80.0	60.0	-	-	-	140.0	-	-
<b>Subtotal Study, Technical Assistance and Training</b>	-	93.4	609.7	105.0	90.0	-	898.1	4.2	37.9
J. Services	676.3	336.7	-	-	-	-	1 013.0	3.9	39.5
K. Fonds	-	-	-	-	-	300.0	300.0	-	-
L. Inputs	1 659.7	490.8	-	-	-	-	2 150.6	5.0	107.5
<b>Total Investment Costs</b>	4 384.8	986.1	742.7	6 578.6	130.4	300.0	13 122.5	1.4	184.9
<b>II. Recurrent Costs</b>									
A. Salaries	108.8	108.8	-	-	146.9	-	364.6	5.0	18.2
<b>B. Operation and maintenance</b>									
Maintenance of equipment	-	-	-	-	12.4	-	12.4	5.0	0.6
Vehicles maintenance	60.0	4.0	-	-	83.0	-	147.0	5.0	7.4
Annual expenses	-	-	-	-	50.0	-	50.0	5.0	2.5
<b>Subtotal Operation and maintenance</b>	60.0	4.0	-	-	145.4	-	209.4	5.0	10.5
<b>Total Recurrent Costs</b>	168.8	112.8	-	-	292.3	-	574.0	5.0	28.7
<b>Total BASELINE COSTS</b>	4 553.6	1 098.9	742.7	6 578.6	422.7	300.0	13 696.5	1.6	213.6
Physical Contingencies	125.2	36.5	27.5	5.3	19.1	-	213.6	-	-
Price Contingencies	803.1	215.6	164.1	19.7	111.0	-	1 313.4	4.7	62.3
<b>Total PROJECT COSTS</b>	5 481.9	1 351.0	934.3	6 603.5	552.8	300.0	15 223.5	1.8	275.9
Taxes	216.6	81.0	144.2	23.4	99.5	-	564.7	4.3	24.3
Foreign Exchange	49.4	111.4	141.0	150.0	53.0	-	504.9	1.3	6.5

**Table 3: Expenditure Accounts by Year (Base Costs and Totals including Contingencies)**

(US\$ '000)

	Base Cost					Foreign Exchange		
	2006	2007	2008	2009	2010	Total	%	Amount
<b>I. Investment Costs</b>								
A. Civil Works	-	1 000.0	1 000.0	-	-	2 000.0	-	-
<b>B. Vehicles and Equipment</b>								
Equipments	15.0	-	-	-	-	15.0	63.0	9.5
Moyens de transport	139.3	-	-	-	-	139.3	67.0	93.3
<b>Subtotal Vehicles and Equipment</b>	154.3	-	-	-	-	154.3	66.6	102.8
D. Equity fund	6 189.6	75.0	100.0	109.0	133.0	6 606.6	2.3	150.0
<b>I. Study, Technical Assistance and Training</b>								
Training	184.3	123.1	152.9	159.9	137.9	758.1	10.8	82.2
Technical Assistance and Studies	125.0	15.0	-	-	-	140.0	81.4	113.9
<b>Subtotal Study, Technical Assistance and Training</b>	309.3	138.1	152.9	159.9	137.9	898.1	21.8	196.1
J. Services	223.1	88.1	185.6	268.0	248.2	1 013.0	-	-
K. Fonds	300.0	-	-	-	-	300.0	-	-
L. Inputs	346.2	516.2	505.2	406.0	377.0	2 150.6	-	-
<b>Total Investment Costs</b>	7 522.4	1 817.4	1 943.7	942.9	896.1	13 122.5	3.4	448.8
<b>II. Recurrent Costs</b>								
A. Salaries	102.2	102.2	77.4	53.4	29.4	364.6	-	-
<b>B. Operation and maintenance</b>								
Maintenance of equipment	2.5	2.5	2.5	2.5	2.5	12.4	25.0	3.1
Vehicles maintenance	33.3	33.3	32.4	26.8	21.3	147.0	25.0	36.8
Annual expenses	10.0	10.0	10.0	10.0	10.0	50.0	-	-
<b>Subtotal Operation and maintenance</b>	45.7	45.7	44.9	39.3	33.8	209.4	19.0	39.9
<b>Total Recurrent Costs</b>	147.9	147.9	122.3	92.7	63.1	574.0	6.9	39.9
<b>Total BASELINE COSTS</b>	7 670.3	1 965.3	2 066.0	1 035.6	959.3	13 696.5	3.6	488.7
Physical Contingencies	45.1	43.1	46.4	42.2	36.9	213.6	2.9	6.1
Price Contingencies	55.7	151.8	284.1	370.2	451.6	1 313.4	0.8	10.1
<b>Total PROJECT COSTS</b>	7 771.1	2 160.3	2 396.5	1 448.0	1 447.7	15 223.5	3.3	504.9
Taxes	161.6	78.8	102.4	115.3	106.6	564.7	-	-
Foreign Exchange	366.2	33.7	27.7	51.6	25.6	504.9	-	-

**Table 4: Components by Financiers**

(US\$ '000)

	IFAD		Beneficiaries		Bank		Co-investors		The Government		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
<b>A. Smallholder Tea Development</b>															
Tea development Nshili District	2 907.9	53.0	357.4	6.5	-	-	-	-	2 216.6	40.4	5 481.9	36.0	49.4	5 215.9	216.6
Tea development Mushubi District	1 047.0	77.5	223.0	16.5	-	-	-	-	81.0	6.0	1 351.0	8.9	111.4	1 158.6	81.0
Smallholders' Institutions	657.0	70.3	133.0	14.2	-	-	-	-	144.2	15.4	934.3	6.1	141.0	649.0	144.2
Smallholders' Financial Holding	445.6	6.7	328.0	5.0	106.5	1.6	5 700.0	86.3	23.4	0.4	6 603.5	43.4	150.0	6 430.1	23.4
Tea component coordination	453.3	82.0	-	-	-	-	-	-	99.5	18.0	552.8	3.6	53.0	400.2	99.5
Expenditure up to Dec 2005	300.0	100.0	-	-	-	-	-	-	-	-	300.0	2.0	-	300.0	-
<b>Total PROJECT COSTS</b>	<b>5 810.8</b>	<b>38.2</b>	<b>1 041.5</b>	<b>6.8</b>	<b>106.5</b>	<b>0.7</b>	<b>5 700.0</b>	<b>37.4</b>	<b>2 564.7</b>	<b>16.8</b>	<b>15 223.5</b>	<b>100.0</b>	<b>504.9</b>	<b>14 153.9</b>	<b>564.7</b>

**Table 5: Disbursement Accounts by Financiers**

(US\$ '000)

	IFAD		Beneficiaries		Bank		Co-investors		The Government		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
Civil Works	-	-	-	-	-	-	-	-	2 000.0	100.0	2 000.0	13.1	-	2 000.0	-
Vehicles	128.8	82.0	-	-	-	-	-	-	28.3	18.0	157.1	1.0	103.8	25.0	28.3
Equity fund	445.6	6.7	461.0	7.0	-	-	5 700.0	86.3	-	-	6 606.6	43.4	150.0	6 456.6	-
Training	715.2	71.4	-	-	106.5	10.6	-	-	180.4	18.0	1 002.1	6.6	92.0	729.7	180.4
Studies and Technical Assistance	116.3	82.0	-	-	-	-	-	-	25.5	18.0	141.8	0.9	115.3	1.0	25.5
Services	535.6	40.8	580.5	44.2	-	-	-	-	196.0	14.9	1 312.0	8.6	-	1 116.0	196.0
Producers short term credit	300.0	100.0	-	-	-	-	-	-	-	-	300.0	2.0	-	300.0	-
Inputs	2 956.8	100.0	-	-	-	-	-	-	-	-	2 956.8	19.4	-	2 956.8	-
Recurrent Costs	612.6	82.0	-	-	-	-	-	-	134.5	18.0	747.0	4.9	43.8	568.7	134.5
<b>Total PROJECT COSTS</b>	<b>5 810.8</b>	<b>38.2</b>	<b>1 041.5</b>	<b>6.8</b>	<b>106.5</b>	<b>0.7</b>	<b>5 700.0</b>	<b>37.4</b>	<b>2 564.7</b>	<b>16.8</b>	<b>15 223.5</b>	<b>100.0</b>	<b>504.9</b>	<b>14 153.9</b>	<b>564.7</b>

**Table 6: Phasing of Crop Area**

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
<b>Industrial block</b>											
New planting		100	100								
Rehabilitation		100	165								
<b>Home garden</b>											
New planting		245	245	245							
<b>Nursery (plants)</b>											

**Table 7: Incremental Green Leaf Yield and Tea Made Production with Project**

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11-20
<b>Industrial block</b>											
New planting											
100 ha					1 071	2 835	4 454	5 994	7 105	8 460	8 460
100 ha						1 071	2 835	4 454	5 994	7 105	8 460
<b>Sub-total</b>					<b>1 071</b>	<b>3 907</b>	<b>7 289</b>	<b>10 449</b>	<b>13 099</b>	<b>15 565</b>	<b>16 920</b>
Rehabilitation											
100 ha			7 191	7 403	7 614	7 826	8 037	8 460	8 460	8 460	8 460
165 ha				7 191	7 403	7 614	7 826	8 037	8 460	8 460	8 460
<b>Sub-total</b>			<b>7 191</b>	<b>14 594</b>	<b>15 017</b>	<b>15 440</b>	<b>15 863</b>	<b>16 497</b>	<b>16 920</b>	<b>16 920</b>	<b>16 920</b>
<b>Home garden</b>											
New planting											
245 ha					982	2 599	4 083	5 495	6 513	7 755	7 755
245 ha						982	2 599	4 083	5 495	6 513	7 755
245 ha							982	2 599	4 083	5 495	6 513
<b>Sub-total</b>					<b>982</b>	<b>3 581</b>	<b>7 664</b>	<b>12 177</b>	<b>16 090</b>	<b>19 762</b>	<b>22 023</b>
<b>TOTAL (kg/ha)</b>			<b>7 191</b>	<b>14 594</b>	<b>17 070</b>	<b>22 927</b>	<b>30 816</b>	<b>39 122</b>	<b>46 110</b>	<b>52 247</b>	<b>55 863</b>

















**REPUBLIC OF RWANDA**

**SMALLHOLDER CASH AND EXPORT CROPS DEVELOPMENT PROJECT**

**TEA COMPONENT REFORMULATION MISSION**

**MAIN REPORT**

**APPENDIX 4: LOAN AGREEMENT TABLE  
CONTRADICTION WITH PRIVATE INVESTOR PROPOSAL – POSSIBLE SOLUTIONS**



**REPUBLIC OF RWANDA**

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**APPENDIX 4: LOAN AGREEMENT TABLE  
CONTRADICTION WITH PRIVATE INVESTOR PROPOSAL – POSSIBLE SOLUTIONS**

1. This appendix illustrates the unilateral deviations from the Loan Agreement signed between IFAD and the Government of Rwanda on February 7<sup>th</sup>, 2005 and details also the possible solutions that a reformulated tea component could include to avoid a cancellation of the tea component, thus leading to a reduction of IFAD loan amount.

Accord de Prêt (composante thé uniquement)		Changements constatés ou prévisibles	Solutions envisageables
Détail	Référence		
Sous la supervision de l'Agent principal du projet, les communautés du district de Nshili ont identifié et dressé la liste des bénéficiaires devant recevoir les parcelles dans le périmètre théicole de l'OCIR-Thé de Nshili, et le plan de distribution a été mis en place sur la base desdites listes.	7.01 (a)	La liste des 4,000 familles bénéficiaires a été dressée. Ces familles sont regroupées en 10 comités de zone de 400 familles chaque et en une coopérative. Chacune des 4,000 familles devait recevoir une parcelle de 0.25 ha du périmètre théicole de Nshili devant être privatisé. La majeure partie de ce périmètre (700 ha sur 965 ha) a été attribué à un investisseur privé qui financera la construction de l'usine de thé.	Les 4,000 bénéficiaires identifiés exploiteront collectivement au travers de leur comité de zone les 265 ha restant de la plantation OCIR-Thé. Le projet les aidera à développer 200 ha sur des terres provenant de la concession OCIR-Thé. Ces terres seront également exploitées collectivement. Pour éviter une chute des revenus ou un nombre inférieur de bénéficiaires par rapport à l'Accord de Prêt, le projet soutiendra les bénéficiaires à développer la culture de thé dans leurs propres parcelles (735 ha). Au total, le projet soutiendra la réhabilitation et le développement de 1,200 ha de plantations de thé : 0.25 ha pour 4,800 bénéficiaires soit les mêmes chiffres que dans l'Accord de Prêt.
L'Accord de Prêt de la BADEA a été signé entre l'Emprunteur et la BADEA	7.01 (e)	La BADEA devait financer la plus grande partie du coût de construction de l'usine ainsi que les coûts de raccordement de l'usine au réseau électrique national. La BADEA réserve sa réponse quant à la possibilité de financer l'investisseur privé et attend la suite donnée par le FIDA pour cette composante.	L'investisseur privé financera la construction de l'usine, de ses équipements et de son fonds de roulement par (a) le capital social pour 1/3 du montant total de l'investissement et, (b) recours à des emprunts bancaires à long terme pour 2/3 de l'investissement total (l'investisseur privé est actionnaire principal d'une banque commerciale implantée au Rwanda). L'Etat rwandais s'est engagé à financer le coût du raccordement de l'usine au réseau électrique national sur budget de l'Etat ou par recours à des fonds extérieurs. L'investisseur privé s'est également engagé à financer un générateur permettant à l'usine de fonctionner dans l'attente de la réalisation des travaux de raccordement.
Un projet de contrat avec TWIN a été rédigé et soumis aux commentaires de l'Emprunteur, du Fonds et de l'Institution coopérante.	7.01 (f)	Le contrat avec TWIN concernant la composante thé consiste essentiellement en (a) l'organisation et la formation d'associations/coopératives, (b) la promotion et l'accès au marché équitable et mise en place des mesures de contrôle et d'organisation nécessaires pour satisfaire aux obligations de ces nouveaux marchés et, (c) l'accompagnement et la formation des bénéficiaires notamment pour la gestion de l'usine et de la société créée à cet effet.	L'investisseur privé a déjà identifié un professionnel du secteur du thé qui deviendra le directeur de l'usine de thé de Nshili. TWIN a déjà organisé les bénéficiaires à Nshili et à Mushubi. Une condition préalable édictée par le FIDA avant acceptation de la proposition de l'investisseur privé et poursuite de la composante thé est l'accent devant être mis par la direction de l'usine et par le Conseil

			<p>d'Administration de la société sur la recherche de nouveaux marchés équitables et alternatifs plus rémunérateurs. La gestion de l'usine est assurée par le professionnel du thé identifié par l'investisseur privé. La direction de la société sera assurée par un Conseil d'Administration de 5 membres dont 1 représentera les petits producteurs, 1 représentera la société d'investissement du Gikongoro et 3 l'investisseur privé. La conduite commerciale de la société sera du ressort du Conseil d'Administration et du directeur qui en suivra les directives. TWIN assistera le représentant des petits producteurs en tant qu'observateur sans droit de vote aux réunions du Conseil d'Administration. Il assurera également la formation des membres élus de l'association locale des petits producteurs de thé en matière d'actionnariat (rôle, responsabilité et droit).</p>
<p>Introduire des mécanismes compatibles avec les procédures financières et des marchés équitables qui assurent aux cultivateurs une augmentation maximale de leurs prix, en vue de permettre aux ménages de paysans pauvres d'augmenter leurs revenus.</p>	<p>Annexe 1 Section 4 (a)</p>	<p>L'approche marché équitable est du ressort du Conseil d'Administration de la société et du directeur d'exploitation de l'usine de thé.</p>	<p>Parmi les conditions préalables devant être irrévocablement acceptées par l'investisseur privé figurent :</p> <ul style="list-style-type: none"> <li>• L'accent mis sur l'accès à des nouveaux marchés équitables et alternatifs plus rémunérateurs et sur toutes les mesures et procédures techniques et technologiques nécessaires pour satisfaire les exigences de ces nouveaux marchés ;</li> <li>• Un prix d'achat de la feuille verte uniforme pour la production en provenance du bloc industriel et des plantations des petits producteurs ;</li> <li>• Un système de détermination du prix d'achat de la feuille verte prenant en compte le prix de vente réel de la production de l'usine sur les marchés auxquels elle a eu accès.</li> </ul> <p>Toutefois, ce prix d'achat de la feuille verte devra également tenir compte des coûts de fonctionnement de l'usine, des dotations aux amortissements ainsi que du retour sur investissement espéré par l'investisseur (paiement de dividendes).</p>

<p>Maximiser la qualité et la valeur du thé vendu par les petits planteurs sur le marché international.</p>	<p>Annexe 1 Section 4 (b)</p>	<p>Aucun changement prévu.</p>	<p>Le projet soutiendra le renforcement des capacités des petits planteurs par l'intermédiaire d'un réseau d'agents agricoles financés dans un premier temps par le projet puis graduellement pris en charge par la fédération des petits planteurs. Ces agents agricoles auront pour mission de superviser les pépinières ainsi que les parcelles de démonstration et de former 4 membres de chaque comité de zone ayant pour mission d'apporter une assistance technique à tous les petits planteurs adhérents de leurs comités de zone. L'accès à des intrants de qualité, à des fertilisants et des petits équipements agricoles sera rationalisé et leur distribution sera confiée à des micro-entreprises soutenues dans le cadre du projet. Les agents agricoles auront également pour mission de veiller à la correcte utilisation des intrants, fertilisants et équipements agricoles pour une augmentation de la qualité et des rendements.</p>
<p>Développer des sociétés coopératives de planteurs de thé efficaces et gérées de façon démocratique et assurer leur participation et leur pouvoir d'action dans les entreprises de transformation et de vente.</p>	<p>Annexe 1 Section 4 (c)</p>	<p>Les petits planteurs seront réunis en associations zonales (comité de zone), locales (au niveau de Nshili), provinciales et enfin en une fédération nationale. Les petits planteurs seront également les uniques actionnaires d'une société d'investissement à capital variable. Le pouvoir d'action est réduit du fait de la participation plus faible que prévue (15% en lieu et place de 100%) dans le capital de la société de thé.</p>	<p>Le projet soutiendra le renforcement des capacités des associations créées pour assurer la représentation au niveau local, provincial et national des petits planteurs. Le projet par l'intermédiaire de prestataires de services s'assurera de la gestion démocratique de ces associations et de la représentativité des plus démunis en leur sein. Le projet capitalisera la société d'investissement à capital variable pour le compte des petits planteurs leur permettant ainsi de financer leur part dans le capital social de la société de thé de Nshili ainsi que d'autres usines de thé à privatiser ou à construire. Une banque commerciale assurera la formation des membres élus aux organes de gouvernance de la société d'investissement et les accompagnera dans leurs prises de décision durant les premières années. La pérennité financière des associations zonales, locales, provinciales et de la fédération nationale sera assurée par des cotisations et contributions fixes des membres.</p>

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			La pérennité de la société d'investissement sera assurée par les contributions annuelles au capital des membres ainsi que par les dividendes encaissés sur les investissements réalisés.
Faciliter la participation des femmes pauvres chef de ménage dans le développement des activités liées au thé.	Annexe 1 Section 4 (d)	Sans changement.	Le projet conserve comme objectif d'atteindre au minimum 30% de femmes pauvres chef de ménage parmi les bénéficiaires des actions de la composante thé.
Développer des entreprises privées de transformation et de commercialisation rentables et viables financièrement contrôlées par des coopératives de producteurs.	Annexe 1 Section 4 (e)	70% du capital social de la société de thé est détenu par un investisseur privé qui espère en tirer un retour sur investissement appréciable. La société d'investissement formée par les petits planteurs ne détient que 15% de ce capital social, loin de la minorité de blocage permettant de peser sur toutes les décisions de la société.	La rentabilité financière de la société de thé dépend de la qualité et des rendements des plantations tant celles attribuées à l'investisseur privé que celles attribuées ou développées par les petits planteurs. Les actions entreprises par le projet (réseau d'agents agricoles, micro-entreprises assurant la distribution d'intrants et de fertilisants sur la base de micro-crédit, la formation technique, les parcelles de démonstration, etc.) sont de nature à pérenniser financièrement la société. Le projet et TWIN assisteront les petits planteurs à assurer leur rôle d'actionnaire au sein du Conseil d'Administration (formation ad hoc et siège d'observateur sans droit de vote au CA).
Permettre aux sociétés coopératives de base de mettre en place un système de crédit viable et pérenne au profit de leurs membres.	Annexe 1 Section 4 (f)	Sans changement.	Le projet soutiendra le développement d'un réseau de micro-entreprises de prestations de services en amont et aval de la production théicole. Le financement des services et matériels fournis par ces micro-entreprises privées et locales se fera grâce à un système de micro-crédit adapté. Ces micro-crédits individuels seront remboursés par prélèvement direct sur le produit de la vente de feuilles vertes par chaque petit planteur. Le prélèvement effectué par l'usine sera transféré aux micro-entreprises concernées.
<b>Nshili</b>			
Privatisation des biens d'OCIR-Thé dans le district de Nshili, province de Gikongoro. La plantation sera divisée entre 4,000 bénéficiaires paysans pauvres vivants dans la zone, dont 30% seront des femmes chef de	Annexe 1 Section 5/B1a	Le Gouvernement rwandais a décidé d'attribuer 700 ha de la concession d'OCIR-Thé à un investisseur privé. Les 265 ha restant sont attribués aux petits planteurs locaux. Les terres de l'actuelle concession seront louées à l'investisseur privé et aux petits planteurs.	Le leasing des terres de la concession aux petits planteurs se fera à l'aide d'un bail emphytéotique d'une durée de 50 ans minimum et à titre gratuit (ou au franc symbolique). Les terres concédées aux petits planteurs ne seront pas attribuées individuellement (trop grande parcellisation)

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ménage.			mais seront attribuées à 12 associations de zone des petits planteurs (400 membres). Chaque association exploitera sa parcelle (22.08 ha) collectivement selon le souhait des petits planteurs (exploitation et commercialisation). Le projet s'assurera du respect de l'attribution de 30% des terres aux femmes pauvres chef de famille.
Création de 200 ha de plants de thé sur les terres de la plantation pour environ 800 bénéficiaires	Annexe 1 Section 5/B1b	Sans changement	Les terres ou seront développées les nouvelles plantations seront louées aux petits planteurs dans les mêmes conditions que pour les plantations actuelles. Les 12 associations de zone seront les attributaires de chacune 16.67 ha exploités collectivement (exploitation et commercialisation).
Etablissement d'une nouvelle société privée de Thé pour construire, posséder et gérer une nouvelle usine de transformation de thé en provenance de la plantation privatisée de OCIR-Thé. La société sera financée au moyen d'un montage financier qui assurera une structure saine du capital et, plus tard, sa prise de contrôle par les groupements de producteurs de thé.	Annexe 1 Section 5/B1c	Le Gouvernement rwandais a confié la création de la société de thé et la construction de l'usine de transformation de thé à un investisseur privé. Un tour de table comprenant l'investisseur privé, la société MIG (société d'investissements de Gikongoro) et les petits planteurs a été finalisé.	Le coût de l'usine (bâtiments industriels, machines et équipements, fonds de roulement) sera financé à 1/3 par le capital social et à 2/3 par crédit bancaire long terme. Le capital social est réparti comme suit : 70% détenu par l'investisseur privé, 15% détenu par la société MIG et 15% détenu par les petits planteurs. Ces 15% seront détenus par la société financière des petits planteurs détenue à 100% par les petits planteurs et financée à sa création par le Fonds. Une clause entre associés de la société de thé permettra à la société financière des petits planteurs de racheter les parts des actionnaires partants ou de souscrire prioritairement à toute augmentation de capital. Les petits planteurs détiendront 1 siège au Conseil d'Administration de la société de thé (sur 5) et pourront recevoir l'assistance et l'appui lors des réunions du CA d'observateur(s) sans droit de vote.
Le raccordement de la nouvelle usine au réseau électrique national	Annexe 1 Section 5/B1d	Sans changement.	L'Etat rwandais s'est engagé à financer le coût du raccordement de l'usine au réseau électrique national soit sur son budget soit sur ressources extérieures. L'investisseur privé financera également un générateur pour les besoins de l'usine dans l'attente de la fin des travaux de raccordement.
L'acquisition des connaissances nécessaires pour gérer la société et pour assister les membres des	Annexe 1 Section 5/B1e	La venue d'un investisseur privé ne permettra pas à brève échéance la prise de contrôle de la société par les petits planteurs.	Des actions de formation seront dispensées aux membres élus des organes de gouvernance de chaque association de petits planteurs ainsi qu'aux membres

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groupements à acquérir une expérience suffisante pour prendre le contrôle de la société.			élus des organes de gouvernance de la société financière des petits planteurs. Ces formations spécifiques permettront à ces membres d'acquérir l'expérience nécessaire pour participer aux prises de décisions stratégiques et opérationnelles concernant la société de thé et son usine de transformation. Une prise de contrôle par les petits planteurs ne pourrait s'envisager que lorsque son retour sur investissement aura été suffisant.
La réhabilitation de 965 ha de la plantation industrielle d'OCIR-Thé et la continuité des services de vente des feuilles vertes aux autres usines et de fourniture des intrants agricoles jusqu'à ce que la nouvelle usine soit complètement opérationnelle.	Annexe 1 Section 5/B1f	Sans changement.	Environ 600 ha de plantations ont déjà été réhabilités et seront attribués à l'investisseur privé. Sur les 365 ha restant de l'actuelle concession, 265 ha seront attribués aux petits planteurs et le projet financera l'intégralité des coûts de réhabilitation jusqu'à ce que ces plantations soient de nouveau opérationnelles et que leurs feuilles vertes puissent être transformées (1 an). Les 100 ha restant, attribués à l'investisseur privé, seront réhabilités par ce dernier à ses propres frais. Le projet financera également l'achat d'un nouveau camion aménagé pour le transport des feuilles vertes à l'usine de Mata dans l'attente de l'opérationnalité de l'usine de Nshili. Ce camion permettra de réduire les pertes dues aux mauvaises conditions de stockage et de transport prévalant actuellement. Le camion géré par l'association des petits planteurs de Nshili servira par la suite à la collecte des feuilles vertes des différentes associations de zone.
Les services de TWIN de nature i) à prêter son concours en matière de création et de formation des coopératives et en matière de classement et de certification de la qualité du thé ; et ii) à faciliter la vente du thé sur les marchés de commerce équitable et des autres marchés les plus rémunérateurs.	Annexe 1 Section 5/B1g	TWIN a déjà assisté les petits planteurs dans la création de coopératives et à déjà assuré les formations ad hoc à leurs membres. La commercialisation du thé produit par l'usine de Nshili sera dorénavant décidée par la direction de la société (Conseil d'Administration et directeur industriel) qui mettra également en place les ressources et contrôles nécessaires pour assurer le classement et la certification de la qualité du thé produit.	Les institutions créées par TWIN seront transformées en associations de zone (ex-comité de zone) et en association des petits planteurs de Nshili (ex-coopérative). Ces associations seront à la base du développement d'une fédération nationale des petits planteurs de thé du Rwanda, supportée par le projet. Grâce au siège qu'ils détiennent au Conseil d'Administration, les petits planteurs participeront aux prises de décision concernant la commercialisation du thé produit. Un préalable devant être accepté par le gouvernement et

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			l'investisseur privé stipule que la direction de l'usine devra en priorité rechercher l'accès à des marchés équitables et alternatifs plus rémunérateurs et mettra les moyens et ressources nécessaires pour satisfaire leurs exigences particulières.
La réhabilitation des maisons de l'OCIR-Thé, endommagées durant la guerre, en habitations pour le personnel de l'usine de transformation devant être construite près de la plantation.	Annexe 1 Section 5/B1h	Certaines maisons ont déjà été réhabilitées par le projet. L'investisseur privé rachète les actifs d'OCIR-Thé comprenant entre autres les maisons.	L'investisseur privé acquiert les actifs d'OCIR-Thé et prend à sa charge le coût de leur rénovation.
Les tests et l'adaptation des technologies de production du thé venant d'autres pays.	Annexe 1 Section 5/B1i	Sans changement.	Des parcelles de démonstration (2 par zone - 24 au total) seront financées par le projet. La responsabilité de leur gestion incombera aux petits planteurs locaux sous l'étroite supervision des agents agricoles. Ces parcelles de démonstration permettront le test et la diffusion de nouvelles techniques et technologies en matière de production de thé.
La mise à disposition de crédits à long terme à travers les IFP.	Annexe 1 Section 5/B1j	Sans changement.	Sans changement.
Le préfinancement des actions des sociétés coopératives jusqu'à ce que celles-ci aient généré suffisamment de profits et distribué des dividendes suffisants pour permettre aux actionnaires de racheter leurs parts.	Annexe 1 Section 5/B1k	Montage rendu caduque par la venue de l'investisseur privé.	Dans un premier temps, le Fonds capitalise une société d'investissement des petits planteurs au niveau national (ces derniers capitaliseront cette société par un système de contributions annuelles). La société financière sera détenue à 100% par les petits planteurs. Les ressources financières non investies de la société d'investissement seront déposées dans un compte spécifique ouvert dans une banque commerciale, cette dernière formera les membres élus aux organes de gouvernance de cette société d'investissement (contribution de la banque à la composante). Cette société d'investissement participera au tour de table de la société de thé de Nshili et détiendra 15% des actions et disposera d'un siège à son CA. Les dividendes reçus par la société d'investissement sur son investissement dans la société de thé de Nshili seront capitalisés. La société prendra également des participations dans les sociétés constituées pour la privatisation des usines de



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			thé existantes ou dans des sociétés nouvelles de transformation de thé. A terme, la société d'investissement pourra également investir dans des activités en amont et en aval des usines de transformation de thé.
La création, si nécessaire, de sociétés de vente et d'exportation de thé entre les coopératives et les opérateurs du commerce équitable (dont TWIN) en vue d'assurer la continuité du système de contrôle de qualité et de vente à l'achèvement de l'engagement financier du fonds.	Annexe 1 Section 5/B11	Caducue du fait de la venue de l'investisseur privé.	Comme précédemment indiqué, un préalable devant être accepté par le gouvernement et l'investisseur privé stipule que la direction de l'usine devra en priorité rechercher l'accès à des marchés équitables et alternatifs plus rémunérateurs et mettra les moyens et ressources nécessaires pour satisfaire leurs exigences particulières.
<b>Mushubi</b>			
L'appui technique, logistique et financier nécessaire à la plantation d'au moins 1,200 ha de thé dans le district de Mushubi.	Annexe 1 Section 5/B2a	Sans changement. 4 pépinières sont déjà opérationnelles et 30 ha ont déjà été plantés.	Sans changement.
L'établissement de 500 ha de plantations de bois de chauffe, dont 200 ha seront établis sur le terrain du District et 300 ha à des paysans en lots individuels afin de répondre à leurs demandes, pour alimenter une usine de transformation de thé qui sera construite dans le District avec d'autres sources de financement.	Annexe 1 Section 5/B2b	Sans changement. Activité en cours de réalisation.	Sans changement.
Une étude de faisabilité sur l'introduction de thé biologique dans les nouvelles plantations.	Annexe 1 Section 5/B2c	Etude réalisée.	Le marché du thé biologique reste très confidentiel et nécessite des investissements très lourds en matière de suivi et de contrôle de la production afin de satisfaire aux exigences spécifiques de ces nouveaux marchés. Les conclusions de l'étude ne sont guère favorables à un tel développement dans l'état actuel du marché.
La création, si nécessaire, de sociétés de vente et d'exportation de thé entre les coopératives et les opérateurs du commerce équitable (dont TWIN) en vue d'assurer la continuité du système de contrôle de qualité et de vente à	Annexe 1 Section 5/B2d	Sans objet.	La construction d'une usine de transformation de thé à Mushubi se fera très vraisemblablement suivant le même montage financier que celui prévalant à Nshili (les petits planteurs pourraient toutefois bénéficier de 34% des actions de la société). La gestion de l'usine sera confiée par les investisseurs à

l'achèvement de l'engagement financier du fonds.			un professionnel du secteur qui assurera également la commercialisation du thé. Lors de la constitution de la société et dans le pacte d'actionnaires, référence peut être faite aux marchés équitables et alternatifs et aux moyens et ressources à mettre en œuvre pour y accéder.
<b>Conditions préalables aux décaissements</b>			
Aucun retrait ne sera effectué au titre de la catégorie I (Génie Civil) avant que : • L'Emprunteur n'ait préparé la documentation nécessaire pour le transfert du parc immobilier d'OCIR-Thé Nshili à la CTN, dès la création de cette dernière.	Annexe 2 Section 5 (b)	Caduque par suite de la venue de l'investisseur privé.	Fonds alloués à cette ligne budgétaire feront l'objet d'une réallocation sur d'autres lignes budgétaires dans le cadre de la mission de reformulation de la composante thé.
Aucun retrait ne sera effectué au titre de la catégorie IX (Contrats prestations de service) avant que : • Des parcelles individuelles n'aient été attribuées à tous les bénéficiaires dont au moins 30% de femmes chefs de ménage ; • Un droit d'usufruit n'ait été délivré à tous les bénéficiaires ; • Les coopératives de bénéficiaires n'aient été légalement constituées ; • Un contrat n'ait été signé avec TWIN.	Annexe 2 Section 5 (d)	L'attribution par le gouvernement rwandais de 700 ha à un investisseur pour la constitution de son bloc industriel et la sécurisation de son investissement modifie les conditions d'attribution des parcelles aux bénéficiaires.	La liste des 4,000 bénéficiaires a été établie et validée par les autorités locales. Ces 4,000 bénéficiaires ne pourront se partager que les 265 ha restant de la plantation actuelle, suite à l'attribution de 700 ha à l'investisseur privé, ainsi que 200 ha de terres ou seront développées des plantations de thé. Afin d'éviter une parcellisation trop importante et non rentable des terres entre 4,800 bénéficiaires (0.097 ha par bénéficiaire), ces parcelles seront attribuées sur la base d'un bail emphytéotique aux associations de zone créées par le projet (ex-comités de zone). Les activités d'exploitation de ces parcelles seront réalisées collectivement, de même que la commercialisation des feuilles vertes produites. Le projet veillera à ce que 30% de femmes chefs de ménage soit membre des associations de zone. De même, ces femmes seront prioritaires pour effectuer les travaux dans les plantations louées ou dans le bloc industriel. Des décaissements ont déjà été effectués sur la catégorie IX bien que les conditions de décaissement n'aient pas été remplies.

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**APPENDIX 5: INDICATORS**

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### SMALLHOLDER CASH AND EXPORT CROPS DEVELOPMENT PROJECT REFORMULATION MISSION OF THE TEA COMPONENT

#### APPENDIX 5: INDICATORS

1. The list of indicators to be used for the evaluation of the performance and impact of the reformulated tea component includes 4 sets of indicators, as follows:

- (a) Indicators related to tea production;
- (b) Indicators related to households' income;
- (c) Indicators related to component beneficiaries' empowerment;
- (d) Beneficiary tracking, with particular attention to the participation of women, and women head of households.

2. **Indicators Related to Tea Production:** These indicators are distinct for Nshili and Mushubi and include:

- Quantity of green leaves produced per year and on the different plantations (industrial bloc, rehabilitated leased out plantations, developed leased out plantations and smallholders' home gardens) as well as by smallholders' zonal association (SZA);
- Increase in yields on the different plantations (broken down by SZA);
- % of good quality green leaves supplied to the tea factory (by type of plantation and SZA);
- Total production of the factory (by type of different tea grades);
- Evolution of the price paid for green leaves supplied to the tea factory (by quality);
- Factory turnover, net margin, operating costs and net profit;
- % of production sold to Fair Trade Organization Network;
- Number of person-month used in industrial bloc and leased out plantations;
- Evolution of the daily wages in industrial bloc and leased out plantations;
- Number of vacancies (per type of plantation and per SZA);
- Number of additional ha planted with tea in home gardens (number of households and SZA);
- Kilos of agricultural inputs and fertilizer used (by type of plantation and SZA);
- Number of plucking cycles (per type of plantation and SZA).

3. **Indicators Related to Households' Income.** These indicators are distinct for Nshili and Mushubi and include:

- Breakdown of income per household, taking into consideration women head of household (by type of income i.e. net income from home garden, net income from rehabilitated and developed leased out cultivated collectively, wages as daily worker in leased out plantations, wages as daily worker in industrial bloc, salary as unqualified staff at the factory);

- Micro-credit amount for agricultural inputs, fertilizer and small equipment extended by micro-enterprises;
- Additional income from other crops cultivated in home garden;
- Number of households using labor force external from the household in their home garden (person-month) by gender of head of household, by SZA.

4. **Indicators Related to Component Beneficiaries' Empowerment.** These indicators include:

- Membership in smallholders' zonal, local and provincial associations, and in the national Federation (broken down by gender);
- Membership of the Smallholders' Financial Holding (by province, tea estate and gender);
- Amount of each members' contribution to the local association and to the financial holding in % of income from tea and in % of total income;
- Number of SZA members trained as extension agents by project recruited extension officers;
- Number of days of training provided by extension officers to each SZA;
- Total number of days of training received by elected members of smallholders' association at each level;
- Number of nurseries implemented in smallholders' home gardens (by SZA and gender of the head of the household);
- Total number of days of training received by elected members of the financial holding provided by a commercial bank;
- Total amount of financial holding resources invested in tea factories and % of share capital held;
- Dividends earned by the financial holding (by investment);
- Number of national or provincial meetings, workshops on tea sector development attended by smallholders' representatives.

5. **Beneficiary Tracking.** These indicators include:

- Total number of beneficiaries (by sub-component, by activity and by gender);
- Breakdown of workload by type of plantation (home garden, leased out plantation, industrial bloc), by gender and by SZA;
- Number of persons gainfully employed in household;
- Improvement to the living conditions of the family;
- Increase in the number of days of attending school by the children;
- Improvement of housing;
- Improvement of sanitation and health.

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## **REPUBLIC OF RWANDA**

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#### **APPENDIX 1: LOGICAL FRAMEWORK**

##### **I. TERMS OF REFERENCE FOR MANAGER TEA COMPONENT**

1. The manager of the tea component of the PCU must have extensive experience and qualification in tea cultivation, production and management. He/she should also be able to guide and direct the formation of the tea smallholders into development associations. Past experience in organizations of such activities would be considered as additional qualifications.

2. He/she will work under the overall direction of the Project Coordinator of PDCRE. He/she will serve for a full term of the project, but initially will be placed on contract for one year. The period will be renewed for the full term after one year on the evaluation of the performance on the recommendations by the UNOPS supervision mission at the end of year 2006. He/she will be responsible for the following activities:

- Planning and implementation of the tea component;
- Detailed implementation programme for the tea component using Critical Path Analysis techniques (this programme will be subdivided into quarterly, bi-annually and annually with performance indicators in-built for monitoring). The programme will contain a detailed operational plan for nursery development, tea new planting in the smallholder home gardens and in the estate block including mother bushes to be established;
- Contribute to better understanding of small-scale tea growers practices and constraints in order to develop appropriate technical recommendations suitable for the prevailing economic circumstances;
- Formulation of smallholder tea growers' economic models to depict sensitivity and possible reactions by the growers to varying costs of inputs against expected incomes received at farm level;
- Evaluation of Socio- political and economic aspects affecting farm level decisions;
- Investigation and assessment of the minimum size of economic unit holding for a small-scale tea grower;
- Carry out economic surveys for the farming systems within the tea growing areas and determine the gross margins of tea in comparison to other farm enterprises;
- In liaison with ISAR and other related regional research organizations, evaluation of factors retarding the adoption of the technical recommendations as well as suitable ways in which the adoption of the technical recommendations by the tea growers can be accelerated;
- Evaluation of how to formulate a suitable fertilizer supply scheme to the tea growers;
- Develop participatory monitoring system for the smallholder tea development activities with process monitoring of the service providers;

- Train the tea extension/development officers, develop criteria and demarcate areas to be served by the extension/development officers;
- Provide continuous guidance to their field work and undertake periodic supervision of their field extension programmes;
- Manage and improve the concept of providing extension support to smallholders by means of demonstration plots to be established in the zones of the primary tea development associations;
- Provide guidance to the primary, provincial tea smallholder development associations and assist to strengthen these organizations. Attend the annual forums of the associations;
- Prepare reports as may be required from time to time.

## **II. TERMS OF REFERENCE FOR TEA EXTENSION/DEVELOPMENT OFFICERS**

3. The extension/development officers will have an agricultural background at least with Diploma qualifications. Any person having experience in tea cultivation and previous extension knowledge will be exempted from the Diploma qualification. However in such circumstance the candidate should have at least minimum high school completion qualifications. The work station of the extension officers would be in Okongoro province.

4. Each extension/development officers would be responsible for the supervision of an area of operation and will have a certain number of households under his/her supervision. Prior to start of work the selected candidates will undergo an extensive training in tea cultivation and organization of farmer associations. Annual re-training would follow.

5. Extension/development officers would undertake the following:

- Assist smallholders in land preparation, nursery management, fertilizer application, planting, pruning and plucking and all other agronomic practices connected with tea;
- Periodically they will undertake soil testing in the tea smallholder lands and recommend appropriate fertilizer mixtures;
- Advise on proper soil conservation methods when tea is grown in steep inclines;
- They will in collaboration with future research improve plucking rounds from 14 days widely practiced to 7-10 days. They will also advise the smallholders on plucking heights, and plucking standards;
- The extension/development officers will be responsible for the nursery development and train smallholders to establish their on farm nurseries for future expansion of the home garden areas and there by reduce the cost of in-filling and new planting;
- They will assist in organizing farmers into primary, provincial associations and, thereby, strengthen the organizations;
- They will periodically check the accounts of the associations, take part in observer/advisory capacity at the monthly meetings of the tea smallholder development associations;
- Assist in participatory monitoring of the project interventions and send reports to Manager Tea Component in PCU from time to time;
- Assist in the development of the tea infilling, new planting and rehabilitating in the industrial block that is collectively worked by the smallholders. They will also assist in the woodlot improvement;



- Establish the demonstration plots in the home gardens of progressive farmers. Use these blocks to provide extension and advisory support to group extension programmes. Establish a certain day of the week/month to visit the demonstration plot regularly so that the other farmers could meet the extension/development on this particular day for advise;
- Maintain a field record book and inform the management for any successes, problems and shortcomings of the smallholder tea development programme for instant solutions; and
- Carry out any other duties and responsibilities assigned to them either by the immediate field supervisor or by the staff at the PCU.

### **III. TERMS OF REFERENCE FOR SERVICE PROVIDERS**

6. Service provider/s of qualified and suitable local or national NGOs or consulting firms will be engaged with the prior concurrence of IFAD. The terms of the reference for the assignments will include, but not necessarily limited to the following tasks:

- Carry out a base line survey, setting up a data base and identify key areas where the data of the base line survey could be used;
- To organize smallholders into associations;
- Orientation and training of smallholders in areas appropriate for strengthening membership of such associations in private partnership;
- Develop training manuals that could be used in replicating the formation of smallholder associations in the other tea growing areas. The terms of the reference for the assignments will include, but not necessarily limited to the following tasks; and
- Prepare reports as may be required from time to time.

### **IV. TERMS OF REFERENCE FOR TECHNICAL ASSISTANCE ON SMALLHOLDERS' INSTITUTIONS DEVELOPMENT**

7. Smallholder Institutions Development Specialist will have extensive background and experience on developing farmer organizations. A holder must have an advanced degree in Social Sciences and with experience in building farmer partnerships with private sector. Experience in tea smallholder organizations in Kenya (KTDA) or Sri Lanka (TSHDA) would be an added qualification.

8. The specialist would be required for 2 months in Year 1 and another 2 months in Year 2. The terms of reference will include the following tasks:

- Advise on the reorganization of the tea smallholder cooperatives in Nshili into primary tea smallholder development associations;
- Develop a similar institution in Mushubi area and replicate it into smallholders supplying to Mata tea factory;
- Set up a provincial tea smallholder development association in Okongoro province;
- Plan and prepare the blue-print for the formation of the Federation of Tea Smallholder Development Association for Rwanda;
- Draw up a Five Year Development Plan 2006-2010 for the Federation of Tea Smallholder Development Association taking into account the possible formation of a similar

institution for coffee smallholders and later possible amalgamation into a Federation of Cash-Crop Smallholder Development Association;

- The specialist will return in the second year to report on the 1st year's progress and assist in reviewing and revising the Five Year Development Plan in the light of the first year's experience.

**REPUBLIC OF RWANDA**

**SMALLHOLDER CASH AND EXPORT CROPS DEVELOPMENT PROJECT**

**REFORMULATION MISSION OF THE TEA COMPONENT**

**MAIN REPORT**

**APPENDIX 7: FIELD VISITS - MAIN OBSERVATIONS AND LESSONS LEARNT**

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## **REPUBLIC OF RWANDA**

### **SMALLHOLDER CASH AND EXPORT CROPS DEVELOPMENT PROJECT REFORMULATION MISSION OF THE TEA COMPONENT**

#### **MAIN REPORT**

#### **APPENDIX 7: FIELD VISITS - MAIN OBSERVATIONS AND LESSONS LEARNT**

##### **I. BACKGROUND**

1. The decision of the Government to accept a private investor as a major share holder who will invest 70% of the costs of the construction of the tea factory was conveyed to the mission at discussions held in Kigali before the mission went to Nshili to interact with the beneficiaries. The mission was also informed of the government's decision to allocate 600 ha land that is being plucked at present and another 100 ha from the estate that requires rehabilitation due to negligence over the past few years. OCIR The had established tea in the area in 1983 in order to help the poor subsistence farmers in this area to obtain an income by way of providing opportunities to work in the estate. For the past 23 years the main income of the people in Nshili had been from the estate having worked as casual workers. Apart from the income they get from the estate, majority families have approximately 1 ha of land which they traditionally cultivate. But due to lack of financial resources, and extension support only a part of the land is being cultivated with food crops, such as: maize, yams, millet which is used for household consumption. Only a few farmers have surplus production to sell and that is also in the local market which is situated far from the village.

##### **II. VISIT TO NSHILI**

2. In Nshili the mission interacted with the farmers in order to understand what has taken place during the past few months and also to obtain their perception about the tea development programme of the project. With the start-up of PDCRE, the farmers who are presently working in the tea estate in Nshili, has been briefed about the tea component. In response to the request of the project 4 000 farmers from the area have set up a cooperative. They have also segregated into 10 zonal branches of this cooperative with 400 members each. TWIN has conducted several training programmes for the members of these zones. 40 members from each zone had attended the training programmes. The main focus of the training sessions had been: (a) Sensitization of the farmers about the programme; (b) organization of the farmers into an organization and registration it under cooperative law; election of office bearers of the zones and the general body; training the office bearers in cooperative management. Since the subcomponent has been stalled TWIN has temporarily stopped their involvements pending a decision on the future of the tea sub-component.

##### **III. THE FARMER ORGANIZATION**

3. The total membership which is 4 000 has been organized into 4 zones of 400 members each. The members are grouped into zones based on the locations of the households in the area. Each zone has elected a committee consisting of 5 members, namely: president, vice president I, vice president II, secretary and a treasurer. The zonal committee and 5 others represent each zone in the general body of the cooperative. The general body has a coordinating committee consisting of 100 members, of whom an executive committee consisting of 20 members is elected. The president, vice president I, vice president II, secretary, treasurer, and an audit consisting of three members have being elected from the members of the executive committee. The rest are members (13) of the executive committee. Out of

these 20 members 7 are females. One female member is holding a position in the executive committee. There is no membership fee collected at present from the membership.

#### **IV. PERCEPTION OF THE MEMBERS**

4. The general opinion of the members who took part at the discussion with the mission (25 members) is that the estate land should continue to be owned by the government. The members were also aware that a major portion of this land has been offered to a private investor who would be constructing a tea factory in Nshili although originally the land has been promised to be given to them. The members indicated that what ever the balance land that would be offered to them, they would work collectively on the block of land. Of those who were present there were a few who indicated that at one stage the cooperative should be the owners of the factory and that it should manage it. It was clearly evident that the majority of the members were convinced that the government's present proposal would solve the deadlock of the tea development programme of the project and they would be able to process the tea in the factory, continue to get more work from the land and there by increase their income. By no means, smallholders' interviewed want to own land by way of fragmentation of the estate.

5. The members also indicated that the private lands in their home gardens are not fully cultivated due to lack of capital, know-how and also proper markets. The members were willing to improve their home gardens if assistance is given to them in the form of extension support and inputs. The lack of a factory in Nshili to process the estate leaf has not motivated the farmers to grow tea in their home gardens although they have seen farmers growing tea in the adjoining areas. It is the view of the mission that at Appraisal has been too ambitious to make these estate workers/subsistence farmers to own and manage the factory with a short period of 5 years. The Appraisal envisaged that each farmer would own 0.25 ha of land from the tea bearing estate. Appraisal does not describe how these individual blocks of 0.25 ha from the estate would be owned and managed by the individual farmers. This idea was totally rejected by the government at all our discussions held prior to undertaking the field visit. The mission fully endorse the view expressed by the government that fragmenting the estate land would lead to loss of tea crop due to demarcations into small parcels. The perception of the members was to immediately have a factory constructed to process the leaf at Nshili, to financially support them to expand their home gardens under tea and provide training and extension support for tea cultivation.

6. During training by TWIN about 20 members have visited SORWATHE tea factory to understand the working of the factory which depends on smallholder's leaf which constitutes about 80% of the present factory intake.

#### **V. VISIT TO MUSHUBI**

7. The Appraisal envisaged the establishment of organic tea blocks in the smallholder home gardens in Mushubi to maximize the income of the target group beneficiaries who cannot obtain a substantial income from their traditional home gardens due to the high acidity of the soil in this area. A service provider has been commissioned to study the future of the organic tea and the feasibility of Rwanda entering the market. The project intends to finance establishment of (a) 800 ha of fallow land, (b) 200 ha of marginal land and (c) 200 ha of other district land allocated to poor returnee HHs. At an average land holding of 0.25 ha 4 800 HHs would be benefit from the tea cultivation.

8. The study on organic tea production in Mushubi has been completed while the soil survey has not yet started. The results of the study on organic tea production indicate that it may not be feasible to produce organic tea under the prevailing global market requirements. The project has taken note of these recommendations and is now going ahead with normal tea development for future CTC

manufacture. The project has started developing tea nurseries required for the future planting programme in Mushubi. Already 5 nurseries have been established. The capacity of each nursery varies from 1.2 to 0.4 million plants.

9. The construction of the structures and raising plants in the nurseries are being undertaken by the members of the cooperatives formed in Mushubi area. The membership of the cooperatives varies from 60 to 140 members. The project has awarded labour contracts with each of these cooperatives. In Bisharara the cooperative set up for this purpose has 62 members of whom 32 are females while 30 are males. Each worker earns a daily wage of RWF 250 to 300 while the project pays the cooperative at the rate of RWF 400 for each person day thereby the cooperative gains RWF 100 per person day for the supply of labour. Thus the cooperative has accumulated a total sum of RWF 250 000 as savings. Similarly the cooperative set up in Gifoujuue with 140 members has obtained the labour contract to work in the nursery. Of the total membership there are 50 males and 80 females. Although there is not much of training and capacity building for the cooperatives had not been done so far, each cooperative has selected a committee with a group of elected office bearers. The provision of technical services for the nurseries has been contracted to OCIR-Thé, and each nursery has a technical officer who provides technical assistance and supervises their daily work.

## **VI. ISSUES AND LESSONS LEARNT**

10. In Nshili it was evident that the farmers have not been adequately consulted in designing the sub-component at Appraisal. Majority of the farmers traditionally have land and cultivate different crops, the products of which are sufficient for home consumption. The majority of these farmers found employment as daily workers in the estate. They were concerned about the low prices for tea, negligence of some sections of the estate due to low intake at Mata which resulted in the reduction of number of days of employment for them. As a result their income was badly affected. None of them were looking forward to own land from the Nshili plantation. Their only expectation was to see a factory built in Nshili so that the green leaf from the plantation could be sold as a result they would have continued work in the plantation and in the factory. Due to lack of capital and in the absence of processing facilities in Nshili none of the beneficiaries have started growing tea in the home gardens. Therefore it was too ambitious to fragment land of the industrial block and the smallholders to own and manage the tea factory within a short spell of time. Those farmers who were interacted were ignorant of owning shares of a company.

11. Both cooperatives established in Nshili and Mushubi were for specific needs of the project and not formed as a result of the initiative of the beneficiaries. This was evident even when the first tea cooperative had been organized in 1964 in Rushaki-Bungwe and Umugi wa Byumba districts in the Byumba province. It has been set up to initially to supply the scared labour for the estate and to Mulindi factory. This has organized by the OCIR The. It was observed that both at Nshili and Mushubi the members of the cooperatives do not have a clear vision and a focus of their future strategy of being together. Therefore it is important that the members are initially convinced as to the purpose of their coming together into an association with general and specific objectives such as empowerment and also enhancement of their income. They should be convinced that they are benefited by working together. In order to achieve this, these organizations should be brought under a very strong institutional framework. Also they need to be trained and the progress evaluated through out the implementation period of the project. The baseline information of the HHs should be used as guidance in all these assessments.