

REPORT ON SMALL-SCALE TEA SECTOR IN KENYA.



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TABLE OF CONTENTS

	<i>Page</i>
1.0 BACKGROUND INFORMATION	1
1.1 Christian Partners Development Agency.....	1
1.1.1 Introduction	1
1.1.2 Institutional Objectives	1
1.1.3 Programmatic Focus	1
1.1.4 CPDA’s Implementation Strategies	3
1.2 SOMO.....	3
1.3 Tea Farming In Kenya	3
1.3.1 Introduction	3
1.3.2 The Small-scale Tea sector in Kenya.....	6
1.3.4 Tea marketing	8
1.3.5 Tea value Addition.....	10
1.4 The Problem Statement	10
1.5 Context of the Research	10
2.0 RESEARCH METHODOLOGY	11
2.1 Background Information Gathering.....	11
2.2 Desk Research.....	11
2.3 Research Tools Design.....	11
2.4 Field Research	12
2.4.1 Farmer Interviews	12
2.4.2 Stakeholder Interviews	12
2.5 The Stakeholders Forum	15
3.0 RESEARCH FINDINGS.....	16
3.1 Management and Corporate Matters.....	16
3.1.1 Information flow	16
3.1.2 Inefficiency in KTDA	16
3.1.3 Farmer representation	16
3.1.4 Mismanagement along the supply chain	16
3.1.5 Relationship between farmers and factory management.....	17
3.1.6 Policy status	17
3.1.7 Transparency at Mombasa Tea Auction	17
3.1.8 Status of strategic management	17
3.2 Production matters.....	17
3.2.1 Cost of production	17
3.2.2 Effect of the length of the supply chain	18
3.2.3 Cost of inputs	18
3.2.4 Extension and other services to farmers.....	18
3.2.5 Staffing at the Tea Collection Centres	19
3.2.6 Transportation	19
3.2.8 Materials at TCC.....	20
3.3 Legal Issues	21
3.3.1 Ownership of assets and resources	21
3.3.2 Regulatory statutes	21
3.4 Economic / Trade matters	21
3.4.1 Tea sub-sector performance	21
3.4.2 Tea trading.....	22
3.4.3 Value addition.....	23
3.4.4 Alternative tea markets.....	23
3.5 Environmental Issues	23
3.5.1 Environmental Impact Assessment	23
3.5.2 Quality control	24
3.5.3 Tree planting	24

3.6	Social Issues	24
3.6.1	Civil society involvement.....	24
3.6.2	Union of tea farmers.....	25
3.6.3	Relationships farmers and KTDA employees.....	25
3.6.5	Employment and procurement at the factory level.....	25
4.0	CONCLUSIONS AND RECOMMENDATIONS	26
4.1	Conclusions.....	26
4.2	Recommendations.....	26

ABBREVIATIONS

ACP	Africa, Caribbean and Pacific
CHWs	Community Health Workers
COTECA	Coffee and Tea Campaign
COTEPA	Coffee and Tea Parliamentary Group
CoP	Cost of Production
CPD	Continuing Professional Development
CPDA	Christian Partners Development Agency
CSR	Corporate Social Responsibility
DTI	Dutch Tea Initiative
EATTA	East Africa Tea Traders Association
EIA	Environmental Impact Assessment
ERS	Economic Recovery Strategy
GoK	Government of Kenya
ILO	International Labour Organisation
KHRC	Kenya Human Rights Commission
KTDA	Kenya Tea Development Agency (<i>Formerly: Kenya Tea Development Authority</i>)
KTGA	Kenya Tea Growers Association
KUSSTO	Kenya Union of Small-scale Tea Owners
MDG	Millennium Development Goals
MTA	Mombasa Tea Auction
NEMA	National Environment Management Authority
NGO	Non Governmental Organisation
NTDC	Nyayo Tea Development Corporation
PRSP	Poverty Reduction Strategy Paper
SACCO	Savings and Credit Cooperative
SCDA	Special Crops Development Authority
SCM	Supply Chain Management
SOMO	Stichting Onderzoek Multinationale Ondernemingen (Centre for Research on Multinational Corporations)
TBAs	Traditional Birth Attendants
TBK	Tea Board of Kenya
TCC	Tea Collection Centre
TOR	Terms of Reference
TRFK	Tea Research Foundation Of Kenya
UNFECC	United Nations Framework Convention on Climate Change
WWEN	Western Women Empowerment Network

Foreword

This is a report on research undertaken on the tea sector in Kenya targeting the small-scale tea farmers who contribute over 60% of tea production in Kenya. The research was carried out from April to July 2007 and embraced key stakeholders in the Supply Chain and Value Addition process in both the local and the export market.

The stakeholders who participated were: the farmers, the Government of Kenya, the Tea Board of Kenya (TBK), the Kenya Tea Development Agency (KTDA), various Tea Packers/Brokers/Buyers, the Tea Brokers Association, the Kenya Union of Small-Scale Tea Owners (KUSSTO), the East African Tea Traders Association (EATTA)/the Mombasa Tea Auction, Mudete Tea Factory and Chebut Tea Factory.

The research was prompted by the growing concern on tea pricing at the international markets against the farmer/worker welfare on the farms. The farmers and workers, who are at the bottom of the Supply Chain have been neglected and ignored to the point that their participation in decision making almost non-existent, and therefore not equitably sharing in accruing profits. Ironically, this contravenes the requirements of the major world conventions which seek to address the general state of human livelihoods viz; the Millennium Development Goals (MDGs), the Poverty Reduction Strategy Papers (PRSPs), Economic Recovery Strategy (ERS), The United Nations Framework Convention on Climate Change (UNFCCC) and The Kyoto Protocol, to mention but a few.

One of the key objectives of the Christian Partners Development Agency (**CPDA**) is to promote sustainable livelihoods in Kenya, especially those depending on Agriculture which is the mainstay of the Kenyan economy. Tea is a major export cash crop and holds potential to improve the living standards of small-scale farmers in Kenya. CPDA works in 3 provinces of Kenya including Vihiga District of Western Province which was earmarked for this research.

In view of this CPDA was glad to partner with the Centre for Research on Multinational Corporations (**SOMO**) on this research. The research report will therefore, be useful not only as a guide but also as a fundamental benchmark for reviewing major programs in the tea sector in Kenya as part of the worldwide campaign to improve tea pricing and farmer/worker welfare.

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March 2008

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Acknowledgement

CPDA sincerely thanks every institution and individual who contributed towards making this research a reality. Much of the information gathered will be very useful, pertinent and corroborative; and will elicit action on matters of the tea sector, particularly on small-scale tea farming which contributes more than 60% of the tea production in Kenya.

Specifically, CPDA expresses gratitude to the Centre for Research on Multinational Corporations (**SOMO**) for funding this research. Subsequently CPDA also thanks SOMO for selecting and showing confidence in CPDA to conduct the research in Kenya.

Further appreciation goes to the Research Team that worked with and on behalf of CPDA for their excellent work in spite of the time constraints.

All the stakeholders who participated in this research are also acknowledged. These include: the Government of Kenya, through the Department of Agribusiness of the Ministry of Agriculture and Rural Development. Others were small scale farmers in Vihiga District, Kenya Tea Development Authority (KTDA), the East Africa Tea Traders Association (EATTA) and the Mombasa Tea Auction, the Tea Brokers Association, the various tea brokers/ buyers/ packers, Mudete Tea Factory, Chebut Tea Factory, Kenya Union of Small Scale Tea Owners (KUSSTO), the Provincial Administration in Vihiga District for support and Chavakali High School for providing the venue for the stakeholders' forum.

The CPDA Research Team

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1.0 BACKGROUND INFORMATION

1.1 Christian Partners Development Agency

1.1.1 Introduction

This report contains results of a research commissioned by SOMO and conducted by CPDA according to the detailed terms of Reference. The report is a combination of field work and desk study of the Small scale tea sector in Kenya. **Christian Partners Development Agency (CPDA)** is an NGO operating in 3 provinces of Kenya with its headquarters in Nairobi. The NGO was established in 1985 as a loose association of philanthropists who were inspired by Christian values of caring for the underprivileged. At that time, CPDA coordinated the collection and distribution of relief supplies from well wishers to hunger stricken communities in Makueni district. In 1993, CPDA was formally registered as an NGO under the National NGOs Coordination Act of 1993 thereby broadening the framework for pursuing a hitherto nascent vision. The organisation's core project areas are Vihiga District in Western Province, Makueni District in Eastern Province and Narok District in Rift Valley Province, all in Kenya.

The mission of CPDA is to uplift the living standards of the people through partnership, capacity building and development programs that empower them to respond more effectively to their needs.

1.1.2 Institutional Objectives

CPDA pursues 6 broad objectives as follows;

- ❖ Building the capacities of grassroots communities to participate meaningfully in governance and demand for their rights.
- ❖ Assisting communities improve food security and food sovereignty.
- ❖ Broadening programs support to include HIV/AIDS, gender and human rights as cross-cutting themes in all CPDA programmes.
- ❖ Strengthening partnership and collaboration frameworks with diverse stakeholders for effective delivery and visibility.
- ❖ Lobbying and advocating for affirmative policy changes and actions at all levels.
- ❖ Continuously strengthening CPDA's accountability standards and improving her resource base.

1.1.3 Programmatic Focus

CPDA implements two categories of programmes in furtherance of its mandate. These are:

A. Integrated Food Security and Sustainable Livelihoods

This project seeks to improve food security and ensure sustainable livelihoods through a multi-pronged intervention focusing on:

i) Sustainable Agriculture Project

The main activities under this program include crop diversification, promotion of high value horticultural crops and initiation of community agricultural extension schemes. Similarly, livestock, fish and poultry farming are encouraged with emphasis on efficient utilization of the small farm sizes. The Dairy Goat Project was launched in 2002 and targeting all the six divisions of Vihiga District.

ii) Community Health & Nutrition Project

This is an initiative through which CPDA trains Community Health Workers (CHWs), Traditional Birth Attendants (TBAs) and peer educators to promote health education within the community and hence promote best practices in community health and nutrition.

iii) Gender and HIV/AIDS Project

Under this project CPDA has in the last three years been involved in awareness creation, sensitization and behaviour change advocacy focusing especially on women and youth as the most vulnerable group. This component is being implemented in Vihiga and Narok Districts.

iv) Water & Sanitation Project

This project focuses on the improvement of domestic water supply and quality to mitigate the effects of waterborne and water related diseases in the community. This is done through sanitation education and provision of potable water to needy sectors of the community

B. Governance and Democracy Programme

The purpose of this programme is to create an informed society that can demand for democratic practice at all levels and participate in governance issues. The main projects under this include Alternative Leadership Project, Women Civic Empowerment Project and *the Alternative Forum Newsletter*.

i) Alternative Leadership Project

The overall objective of this programme is to entrench community participation in governance and democratic processes thereby creating an informed society that can demand for democratic practices at all levels and participate in governance. Through a unique mobilization strategy popularly known as "*the bungenes*" or the neighbourhood assemblies, this programme seeks to demystify leadership; promote principles of transparency and accountability in governance and enhanced gender balance and responsiveness in grassroots development processes. Neighbourhood Assemblies have become a viable forum for articulation of community concerns as well as a primary unit for delivery of bottom-up development interventions, governance and other initiatives toward self-reliance.

ii) Civic Education Project

Under this project in collaboration with other development partners CPDA empowers women from all social-cultural dimensions on various development issues related to good governance; i.e. human rights, constitutionalism, poverty reduction and HIV/AIDS.

iii) The Alternative Forum Newsletter

This is a quarterly newsletter produced in conjunction with CPDA partners. This project has been going on for the last five years. The objective is to provide a forum for information, education, and experience sharing within and outside the project areas. The newsletter presents an opportunity for articulation of ideals of democracy and good governance considering that they affect the whole society particularly ordinary *wananchi* (people) day to day lives while linking their concerns and priorities with national development.

Our production is 1000 copies for each quarter; these newsletters are circulated to all Members of Parliament, Diplomatic Missions in Nairobi, local and international Development Partners and several subscribers.

1.1.4 CPDA's Implementation Strategies

In working with communities and other stakeholders to realize its mission, CPDA employs strategies that empower communities and promote equity and social justice at the grassroots level. A collaborative and participatory process is used relying on the community's own resource persons as well as established community groups. Similarly, CPDA collaborate with relevant government departments, religious organizations, the corporate sector, NGOs and CBOs operating in similar areas of concern. This reduces the possibility of duplication while enhancing exchange of ideas, experiences, lessons learnt and best practices on programme implementation.

Lobbying and advocacy forms a major plank in CPDA's approach to development. In this regard, CPDA fights for the rights and represents the views of marginalized groups. This includes children, women and the elderly who are unable to represent themselves. This is done through the analysis of policies that have negative impact and development of campaign strategies to attract and enlist public interest and support. For instance, CPDA has made high profile contribution to the National Coalition on MDGs, the Global Call of Action against poverty, the national debt cancellation and affirmative action campaigns through direct involvement and material contribution.

1.2 SOMO

Funding for this research was provided by **SOMO** which is an acronym for *Stichting Onderzoek Multinationale Ondernemingen* [Centre for Research on Multinational Corporations]. This is an independent Netherlands based research and consultancy organization founded in 1973. SOMO researches on multinationals and the effects of their policies and operations in the Global South. In addition, SOMO conducts research on consequences of globalization in general. The organisation has expanded the scope of its research to other issues such as human rights, environment, corruption and competition.

1.3 Tea Farming In Kenya

1.3.1 Introduction

The history of tea in Kenya dates back to 1903 when a European settler, Mr. G. W. Cain introduced the first tea plants in Limuru area of Central Kenya. The early settlers and the colonial government restricted tea and coffee growing to large-scale farmers and multinationals, ostensibly to maintain quality. However the main reason was to lock out locals (*read Africans*) from the then very lucrative cash crop farming. Kenya's attainment of independence in 1963 saw the passing of various Land Reform Bills which have had far reaching impact on agriculture. Tea growing for instance was made open to the local farmers. The crop has since spread across the country and is currently an important economic mainstay for many small holder farmers.

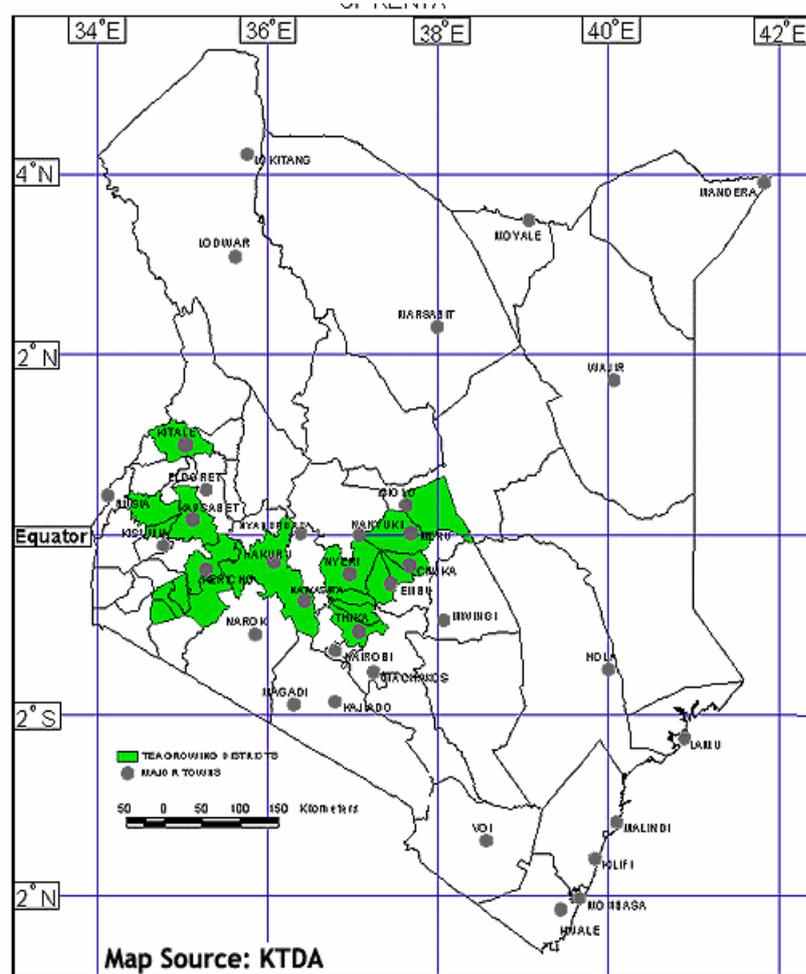
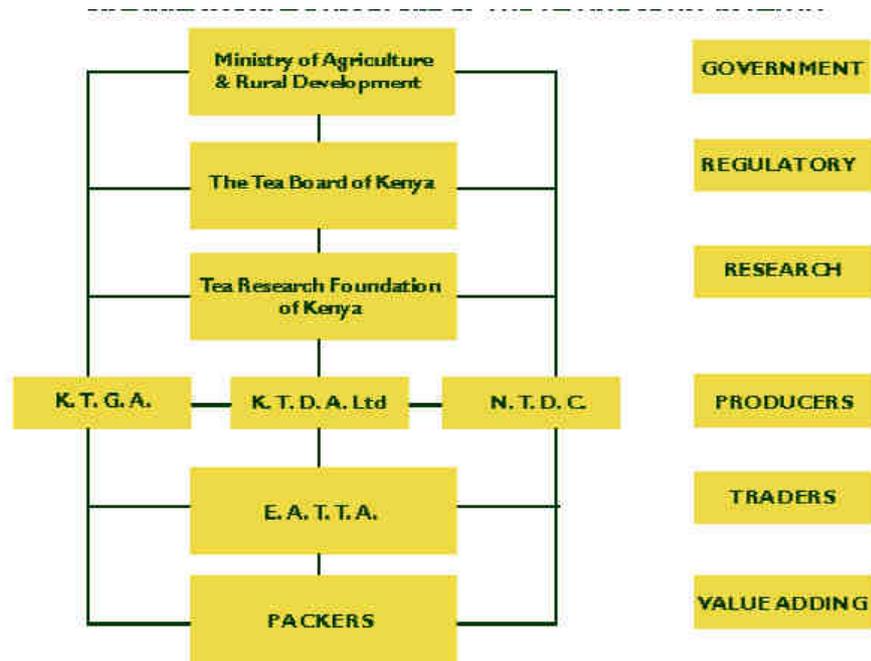


Figure 1: Map of Kenya showing tea growing areas (Source KTDA, 2006)

Currently there are about 420,000 small-scale tea farmers in Kenya who have traditionally and by law been under the control of KTDA. The KTDA promotes the plucking of two leaves and a bud, resulting in Kenya producing some of the best teas in the world (*it's better than what is produced by the plantations that employ other plucking methods*).

The control, management and organization of the Tea Industry in Kenya is structured as shown in Figure 2 below. It is important to note that the Civil Society Organisations (CSO) does not feature anywhere in the chart which makes it very difficult for NGOs to intervene on behalf of small-scale farmers.

Figure 2: The Structure of the Tea Industry in Kenya



Source: Tea Board of Kenya

Key Institutions and Their Role in the Tea Industry

The Tea Board of Kenya, www.teaboard.or.ke

The tea industry operates under the Tea Act (Cap 343) and Agricultural Act (Cap 318) of the laws of Kenya. While the former is vested with regulatory services, the latter is more managerial overseeing the whole process of production as a technical arm. Small-scale tea farming in Kenya was placed under The Kenya Tea Development Agency-KTDA (**formerly; Kenya Tea Development Authority**).

Currently the small-scale farmers account for 60% of all the tea produced in Kenya. The large scale tea plantations are still under the control of big multinationals. This is so because the locals were not able to purchase the large and expensive Tea Estates at independence. Table 1 shows area and production figures from 1963 up to 2006 with 5 years intervals except for special years.

The Table below gives a chronological picture and history of small-scale tea growing in Kenya, at five years interval except for special years when something notable happened. Some of the important dates and what happened then are:

1963:

- The year of Kenya’s independence.
- The tea industry is liberalised and small-scale tea growers allowed to cultivate the crop for the first time.
- Special Crops Development Authority (SCDA) is converted into Kenya Tea Development Authority (KTDA).
- -KTDA mandated to run the small-scale tea industry.

1972:

- Milestone in acreage. The small-scale tea acreage surpasses that of estate growers.

1988:

- Milestone in production. The small-scale tea growers' production surpasses that of estate growers.

Table 1: Area and Production of Tea in Kenya for the period 1963 to 2006

Sector/ Year	Smallholders		Estates		%age by small-scale farmers	
	Ha	Kilograms	Ha	Kilograms	Ha	Kilograms
1963	3,527	311,980	17,921	17,770,383	16.4	1.7
1965	5,429	796,011	19,327	19,027,163	21.9	4.0
1970	17,985	5,976,425	22,289	33,101,169	44.7	19.4
1972	26,493	13,129,006	23,268	40,193,463	53.2	24.6
1975	37,205	17,915,222	24,337	38,814,557	60.5	31.6
1980	50,691	33,980,009	25,850	55,913,349	66.2	37.8
1985	56,505	71,339,025	27,322	75,764,529	67.4	48.5
1988	57,693	84,692,559	29,109	79,337,869	66.5	51.6
1990	67,041	109,996,712	29,977	87,011,557	69.1	55.8
1995	80,355	138,945,451	32,201	105,579,709	71.4	56.8
2000	85,083	145,546,258	35,313	90,739,810	70.7	61.6
2005	92,682	197,721,429	48,633	130,776,195	65.6	60.2
2006	95,779	191,177,061	51,297	119,400,981	65.1	-

Source: TBK, 2007

Ha = Hectares

1.3.2 The Small-scale Tea sector in Kenya

a) Contribution of Small holder tea growers

Small-scale tea farming in Kenya has had a remarkable history and growth. First introduced and allowed by law in 1963 it has steadily risen and currently there are 422,000 small-scale tea farmers in Kenya. In terms of area under tea and production the small-scale tea farmers have also surpassed that of the large estates (Table 2).

Table 2: Summary comparison of Area under tea and production in 1963 and 2006

Sector/Production		1963	2006	% increase
Small-scale Tea Farming	Area (Ha)	3,527	95,779	2,716%
	Production (in Kg)	311,980	191,177,061	61,279%
Estate Tea Farming	Area (Ha)	17,921	51,297	286%
	Production (in Kg)	17,770,383	119,400,981	672%

However, an analysis of the production figures tells a different story. The increase in production by small-scale farmers is mainly due to expansion in hectareage rather than better agronomic and processing skills/technology. For instance in 1972 smallholder hectareage surpassed Estate hectareage but it was not until 1988 when Smallholders surpassed Estates in production (see colour highlights in Table 1 above). Yet the actual per hectare production figures have remained higher on the estates as compared to the small-scale farmers (Table 3). Therefore the reasons for the low yields on the small-scale tea farms need to be carefully studied.

Table 3: Comparison of production in 1972, 1988 and 2006

Production/Sector	Production in Kilograms per hectare		
	1972	1988	2006
Small-scale farmers	496	1,468	1,996
Estates	1,727	2,726	2,328

Further analysis shows that in 1972, small scale farmers contributed only 37.3 % of tea produced that year while in 1988, their contribution had increased to 51.6%.

In 2006, the contribution of small scale tea farmers was 61.6% while that of estates was 38.4%. It would be interesting to know if the same increase was realised in terms of revenue to the small holder farmers.

Information from TKB reveals that the country absorbs only 5% of the total amount of tea produced. This implies that 95% of the tea is exported either directly or through the Mombasa Tea Auction. Table shows that there was a phenomenal increase (58,214%) in the amount of exported tea produced by small scale farmers. Over 84% of Kenya tea is sold through the Mombasa Tea Auction. The remaining 10% is sold directly.

Table 4 Summary comparison of Area under tea and production in 1963 and 2006

Sector/Export		1963	2006	% increase
Small-scale Tea Farming	Exported (Kg)	296,381	172,537,298	58,214%
Estate Tea Farming	Exported (Kg)	16,881,864	113,430,932	672%

Ironically, the returns to the small-scale farmers have historically remained lower than that for the plantations and other big producers. This is attributed to the high management fees charged by KTDA, the many taxes imposed on small-scale tea farming, the high cost of production (see also section 3.2.1), the long and inefficient supply chain and general mismanagement. The situation is made worse by the fact that the small-scale farmers have remained at the bottom of the hierarchy in terms of participation, influencing and contribution to decision making in the sector. Although both the KTDA and the estate tea fetch similar prices on the world markets, the participation of many players who have to get a share and management problems along the KTDA supply chain reduce the payments to small-scale farmers. For instance the factory building programme involved a great deal of capital investment that KTDA carried out on behalf of the farmers. Though this was necessary, the farmers were totally kept out of the process. This led to expensive loans whose burden of payment was passed on to the farmers. A second example is the commission paid out to Tea Brokers by KTDA. The rates are decided solely between KTDA and the brokers with the farmers completely out of the picture, yet these charges are deducted from tea payments to the farmers.

As a consequence of these and many other bad decisions and poor business practices the average return to the farmer has remained dismal with tea factories paying an average of USD 0.21 per Kg of green tea leaf collected in spite of Kenyan tea fetching an average of USD 1.72 per Kg on world markets in the last 8 years (see Table 4 below). The low payments to farmers are beginning to negatively affect production. This was evident in some areas where tea farms are being neglected and in some extreme cases tea bushes uprooted. However this affects production at household level since tea is one of the stable cash crops in Kenya. However, such practices should awaken the industry leaders that all is not well in the small holder tea sub-sector.

Table 4: Comparative Tea Auction Prices by Country of Origin in USD per Kg

Country	2006	2005	2004	2003	2002	2001	2000	1999
Kenya	2.02	1.56	1.55	1.54	1.49	1.61	2.12	1.88
India	1.76	1.63	1.72	1.49	1.40	1.60	1.72	2.01
Sri Lanka	1.91	1.84	1.78	1.54	1.56	1.62	1.77	1.64
Burundi	1.61	1.13	1.41	1.43	1.34	-	-	-
Rwanda	1.94	1.55	1.69	1.56	1.47	-	-	-

Source: Tea Board of Kenya, July 2007

On the other hand, the declining trends in quality have been blamed on inappropriate laws and policies, bad governance and management in tea controlling/regulating bodies, poor husbandry practices by farmers, mismanagement of tea factories and corruption and collusion along the Supply Chain.

The private companies involved in the production of tea attain higher returns because of the limited number of players in the marketing chain. In addition, they employ good business practices and high level of management. The main concern in the estates is the condition low wage for the labourers (tea plantation workers).

The green leaf pricing has been evolving but is variable from factory to factory and is pegged on of tea produced. The changes in prices have been as follows, in the eighties farmers were earning Ksh 4.50 per kg per month and a single bonus at the end of the year that was variable but always below 10 shillings for all the KTDA factories. Table 5 gives changes in prices received by farmers at different periods.

Table 5: Evolution of green leaf tea prices per kg

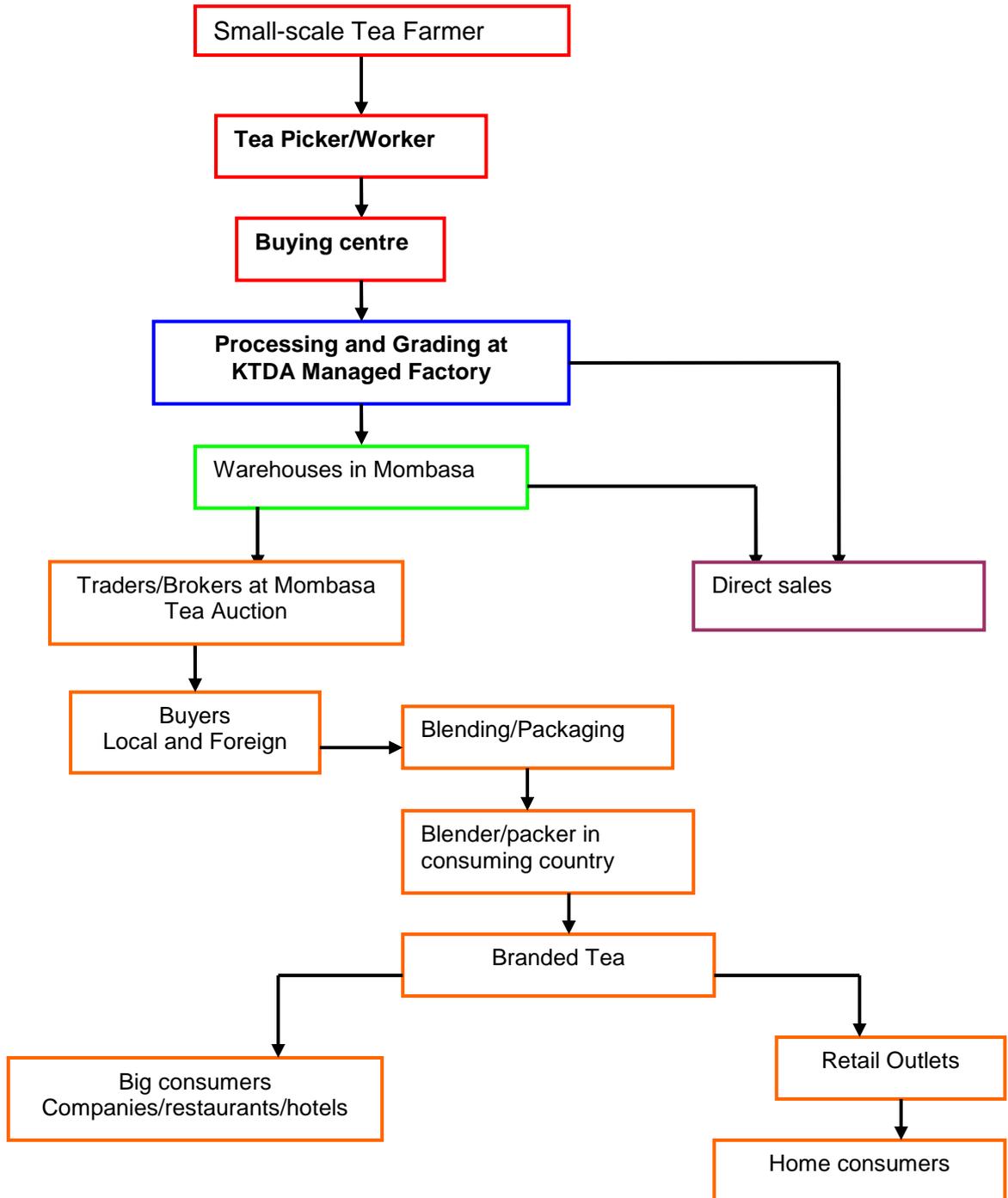
Period/year	Monthly payment (Kshs)	1 st Bonus payment (Kshs)	2 nd bonus payment (Kshs)
1973	0.50	-	
1992	4.50	-	
2000?	6.00		
2007?	10.50	5.00	8-26

1.3.4 Tea marketing

The emergence of global trade allows for liberalization towards demand driven economy. Many stakeholders, among them, Civil Society Organizations, continue to advocate for human rights, social justice and good governance towards mainstreaming these into trade and livelihoods of producers. Embracing and enforcing the various world/UN conventions, particularly the ILO convention, environmental and trade protocols will level the playing ground in pricing and social returns for the Small-scale farmers in the tea industry. To be effective this should be done across the Supply Chain which is shown in Figure 3.

The supply chain shown below is quite lengthy and therefore necessitates a critical review in order to identify gaps and bottlenecks, find solutions for them to help establish genuine and more authentic pricing of tea on the world market with special consideration to small-scale tea farming at the local levels.

Figure 3: Small-scale Tea Supply Chain in Kenya



1.3.5 Tea value Addition

The supply chain shown above has 12 cost centres who share from the revenue generated from the sale of tea. Value addition on tea starts at the factory where processing and grading are done. After grading, most of the tea is sold in bulk, either directly or through the auction. Traditionally Kenya tea has been sold to the market in bulk form and is much sought after by leading tea companies to blend and add taste to the most respected tea brands in the world. The second stage of value addition takes place at the blending and packaging stage (Level No. 8). These are mainly foreign based since most of Kenyan tea is destined for the export market. Kenya can earn more from her tea through value addition and therefore more efforts should be made to promote value addition before exporting. In the last few years, Kenya has increased the volume of value added tea sales to about 12 percent. Invariably most of the benefits accruing from value addition activities/processes are reaped elsewhere and the Kenya tea farmer remains impoverished. To this end it is worth noting that Dubai is fast emerging as a key tea buying, blending and packaging centre for Kenyan tea.

1.4 The Problem Statement

The current world real tea prices are on the decline due to overproduction (supply in excess of the demand) which has led to producers receiving low returns. Consequently, the situation has negatively affected working conditions and livelihoods of *small-scale farmers* and *plantation workers* in tea producing countries since they depend mostly on the commodity. There is need for drastic improvements in the social, ecological, economic and working conditions in this sector. The research done in Kenya was to provide information on the impact of low prices in the world market on the farmers and other players in the supply chain in the Kenyan context.

The broad goals of the research were:-

1. To document factors that impact positively or negatively on the small-scale tea industry in Kenya.
2. To identify presence or lack of Corporate Social Responsibility, CSR practices along the tea supply chain.
3. To make recommendations that will inform decision making to bring about positive changes.

1.5 Context of the Research

The current low market prices of tea are negatively affecting the working conditions and livelihoods of plantation workers and small-scale farmers in tea producing countries. This group is at the bottom of the Supply Chain, relegated and neglected with no say in decision making and therefore little share in profits. The relationship of small scale tea producers and players in the tea sector at production level (producers, KTDA employees such as Tea collection centre clerks, drivers and management of KTDA) are not well understood. How the existing relationships and interactions influence on quality and motivation of the small scale producers for better returns is one of the constraints being addressed by the current study. With the above questions in mind, Christian Partners Development Agency (CPDA) was funded by SOMO (Centre for Research on Multinationals) to undertake this research. The study results will also contribute to the global concern on how to improve the social, ecological and economic conditions of the key stakeholders in the tea sector. Therefore, CPDA was commissioned to undertake the research focusing on Small-scale tea farming while the Kenya Human Rights Commission (KHRC) focused their research on Large-scale tea farming.

2.0 RESEARCH METHODOLOGY

2.1 Background Information Gathering

The research work commenced by gathering relevant information in the tea industry and defining the methodology and the scope the research would take. In broad terms this involved; *Desk Research, Research Tools Design, Field Research, Stakeholders Forum, Analysis of Research Findings and Report Writing.*

2.2 Desk Research

This provided useful background information and important insights and guidelines for the design of the research tools and the subsequent field research. Relevant literature, policy statements, industry reports, media publications, company reports and the internet were used in this process. All the materials and sources used in the research are acknowledged and included in the list of references.

2.3 Research Tools Design

The tool of choice for the field research was face to face administered questionnaires. A total of 8 questionnaires were designed to represent the major stakeholders in small-scale tea farming in Kenya. Each questionnaire was designed separately focussing on different but pertinent key issues. These are summarized in Table 5 while the Sample questionnaires are included in Appendix 3a-f.

Table 5: Research Tools Design based on Thematic Issues/Parameters

Research Tool	Key Issues Addressed
Small-scale tea farmers questionnaire	<ul style="list-style-type: none"> • Capacity: Production Methods, technology used, type of tea, method of picking. • Supply Chain Management (SCM): Green Tea Leaf Delivery, procurement, Sales, Payments. • Labour issues. • Environmental issues. • Ownership and legal issues. • Trade issues.
Tea factories questionnaire	<ul style="list-style-type: none"> • Capacity: Production methods, technology used. • Supply Chain Management (SCM) Tea collection, procurement, internal systems, and sales. • Labour issues • Policy development • CSR • Company profiles and business practices • Environmental issues • Legal issues • Trade issues
KTDA questionnaire	<ul style="list-style-type: none"> • Supply Chain Management (SCM): Tea Collection, Procurement, Internal Systems, Sales. • Labour issues • policy development • CSR • Company profile and business practices • Environmental issues • Legal issues • Trade issues
Tea Board of Kenya questionnaire	<ul style="list-style-type: none"> • Company profile and business practices • Marketing of tea/ trade issues • Tea research • Policy development • Legal issues
Mombasa Tea Auction questionnaire	<ul style="list-style-type: none"> • Company profile and business practices • Marketing of tea/ trade issues

Research Tool	Key Issues Addressed
	<ul style="list-style-type: none"> • Legal issues
Independent Tea Buyers questionnaire	<ul style="list-style-type: none"> • Company profile and business practices • Marketing of tea/ trade issues • Procurement issues • Legal issues
Tea Packers questionnaire	<ul style="list-style-type: none"> • Company profile and business practices • Marketing of tea/ trade issues • Production and trade mark issues • Legal issues
KUSSTO questionnaire	<ul style="list-style-type: none"> • Supply Chain Management (SCM) Green tea leaf delivery, procurement, sales, and payments. • Labour issues • Environmental issues • Ownership and legal issues • Trade issues

2.4 Field Research

The field research was conducted using a combination of the following methods; Interviews, Observations, Tape recording, Photography and Stakeholders' forum. The field research programme is included as Appendix 13.

2.4.1 Farmer Interviews

The Research area selected was Vihiga District in Western Province of Kenya, approximately 400 km North-West of Nairobi, the Capital City. The District was selected for the following reasons;

- Vihiga District occurs within agro-climatic zones I-III which is representative of other tea growing areas in Kenya. Besides, the district provides high quality tea.
- The District has had a long history of small-scale tea farming compared to other districts in Kenya; with the first small-holder tea farms in this District having been cultivated in 1966.
- CPDA has ongoing agricultural programmes in the District. This therefore made it easy and economical to mount the research since the research team used the already existing CPDA structures on the ground.
- The District is served by Mudete Tea Factory which is run and managed by KTDA. Small-scale tea farmers are spread throughout the 6 divisions of the district with the majority being in Sabatia Division. Therefore Sabatia division was chosen as the principle sample area. In the sample area 20 Tea Collection Centres (TCC) were selected. For each of the TCCs 3 representative farmers were chosen as follows;

Farmer category 1: "small size" -tea on less than 0.5 acres of land.

Farmer category 2: "medium size" -tea on approximately 1 acre of land.

Farmer category 3: "large size" -tea on more than 1 acre of land.

Therefore a total of 60 farmers were targeted (i.e. 3x20) and out of these 59 were interviewed representing **98.3%** of sample size.

2.4.2 Stakeholder Interviews

A stakeholder mapping was carried out to determine every player in the tea industry in Kenya. Further analysis of the stakeholders was done to single out those with the greatest impact on the growth and sustainability of small-scale tea farming. Key considerations were those with control or interest in the following;

- Regulatory mandates,

- Production influence/control,
- Trade,
- Social empowerment and Environmental concerns.

For the purpose of this research the following stakeholders were selected¹;

a) The Tea Board of Kenya (TBK)

The Tea Board of Kenya was established on 13th June 1956, under the Tea Act CAP 343, Laws of Kenya. Its mandate is to regulate growing, manufacture, trade and to carry out research and promotion of tea. Under the Tea (Amendment) Act of 1999, TBK's mandate was revised to include the following:-

- License tea manufacturing factories
- Carry out research on tea.
- Register growers, buyers, brokers, packers, management agents and any other person dealing in tea.
- Promote Kenya Tea both in the Local and International Markets.
- Collect and document information dealing with tea.

To discharge its mandate TBK works closely with the Government through the Ministry of Agriculture and Rural Development and all organizations which serve the tea industry.

These included: -

- Tea producers/growers
- Members of the tea trade
- Tea councils, associations and trade associations
- Government Ministries
- Agriculture state corporations and other statutory Boards
- Research institutions
- Policy makers
- Civil society and trade unions
- Opinion leaders
- Suppliers of goods and services to the tea industry
- Development partners
- Local and international agriculture and business media

b) Tea Research Foundation of Kenya (TRFK)

The Tea Research Foundation of Kenya is the technical arm of TBK. It is mandated to carry out research on tea and advise growers on the control of pests and diseases, improvement of planting material, general husbandry, yields and quality.

c) Nyayo Tea Zones Development Corporation (NTZDC)

This is a state corporation established to manage the tea belts around forests to create buffer zones meant to protect the forests from human settlement/encroachment.

d) The Kenya Tea Development Agency (KTDA)

The Kenya Tea Development Agency was incorporated on 15th June 2000 as a private company under CAP 486 of laws of Kenya. Formerly KTDA existed as an authority by Legal Notice No. 42 of 1964 under the Agriculture Act CAP 385, Laws of Kenya, in which it took over liability from the Special Crops Development Authority

¹ The Managing Director at TBK and the Administrative Secretary/Manager at EATTA-Mombasa Tea Auction were both not cooperative and hence their interviews failed. As a result, the research team was unable to access important information and statistics from these two organizations.

(SCDA). KDTA's major responsibility is to foster the development of small-scale tea growing in Kenya. Specifically it is mandated to do the following:-

- Purchase materials for propagation of seedlings and sell them to growers
- Establish and manage tea nurseries
- Procurement of fertilizer and other inputs
- Supervise tea cultivation by growers
- Supervise the growing and harvesting of green leaf
- Purchase green leaf from farmers
- Revenue collection and make payments to growers
- Corporate development and services
- Technological advancement and research
- Development of Information and Communication Technology
- Marketing and Publicity

e) *Tea factories*

Currently there are 54 KTDA managed factories across the country. Their mandate is to process green leaf tea purchased from the farmers. *A list of the factories is included as Appendix 9*

f) *The East Africa Tea Trade Association (EATTA)*

This association stemmed from the former London Tea Auction. The Export Auction system was launched in Nairobi in November 1956 and later shifted to Mombasa in 1969. This was for reasons of convenience in the expanding tea trade, available capacity for warehousing and the handling and shipping of tea. Operationally EATTA is better known as The Mombasa Tea Auction.

EATTA is a voluntary organization which brings together Tea producers, buyers (exporters), brokers, packers and warehouse men. Its primary functions are to:

- To promote the interests of the tea trade in Africa
- To foster closer working relations among members
- To establish facilities for the orderly sale of teas of African origin in a centralized format in the international auctions at Mombasa
- To facilitate the settlement of disputes within the trade
- To collect and circulate statistics and trade information and to maintain such records as may be of assistance to members in the conduct of their business affairs
- To act as a link between the trade, governmental and other related bodies.

g) *Tea Brokers*

There are 12 registered companies who operate as Tea Brokers at the Mombasa Tea Auction (appendix 12). They facilitate the sale of tea on behalf of producers. The brokers have formed an association whose membership is by application to EATTA. Applying companies should subscribe to producer principles and have good financial standing. The companies may also be required to provide bank guarantees as security for tea placed for sale. They are also required to be independent and impartial.

Their primary functions are:

- To taste tea for the purpose of quality verification.
- Evaluation of tea quality based on seasons and prevailing market conditions.
- Make recommendations for improvements on tea quality.
- Determining the best price for respective qualities of tea.
- To visit the factories in order to consult and advice on manufacture and quality.

- To discuss the weather, production patterns and market trends in relation to other tea auctions in the world and recommend suitable strategies for the future.
- To visit and liaise with warehouses to ensure that the tea is received, handled and stored in a professional manner.
- Address claims by buyers as to the quality and quantity of the tea purchased.
- To address areas of concern in their profession forging closer ties with other members of the trade and to agree on representation to the association.

h) Tea Buyers

This defines persons or companies who buy tea for export or local purposes. In most cases the tea buyers operate through local agents.

i) Tea packers and blenders

They blend and pack tea as household brands as well for corporate consumer chains.

j) Tea SACCOs

These are the Tea Savings and Credit Corporative Societies. They mainly provide financial services to tea farmers registered with them.

k) KUSSTO

The Kenya Union of Small Scale Tea Owners is a registered tea farmers' organization whose main objective is to look after the welfare of small-scale tea farmers.

l) Kenya Tea Growers Association (KTGA)²

This is an association of mainly the Estate/Plantation Tea producers. Details on names of stakeholders and organisations interviewed are provided in Appendix --

2.5 The Stakeholders Forum

After the field research a forum for information sharing, discussion and feedback was held. It was a participatory stakeholders meeting whose major aim was validation of the research findings. The forum was held on Friday 15th June 2007 at Chavakali, Vihiga District. A total of 120 participants attended representing different stakeholders invited. However key stakeholders who did not attend included buyers, brokers, KTDA headquarters although they were invited. The detailed workshop timetable is included in Appendix 13.

² Because of the scope of this research the following were not interviewed; TRFK, NZTDC and KTGA

3.0 RESEARCH FINDINGS

The analysis method used reflected the main thematic issues for research as outlined in the TOR provided by SOMO. The analysis was also informed by the issues presented and discussed at the stakeholders' forum which is presented as *Appendix 8*.

3.1 Management and Corporate Matters

3.1.1 Information flow

Information flow and sharing within the sub-sector is poor or in some cases completely lacking. There seems to be a general apathy and bureaucratic red tape in the system. Farmers being at the bottom of the SCM are most disadvantaged; receiving little information from the major corporate stakeholders. Their contribution and feedback hardly reaches the top, and if it does then it is usually distorted and not acted upon.

Examples:

- *Procurement and Tea pricing details are not easily available to all. The researchers had difficulties in obtaining this information and instead were subjected to a lot of buck-passing.*
- *Determining the cost of production proved a futile exercise because of conflicting pieces of information from KTDA, TBK, other stakeholders and even the farmers themselves.*

3.1.2 Inefficiency in KTDA

KTDA's mandate is that of an agent only but in certain cases the organization seems to overstep this mandate. Worse still KTDA operates as a LIMITED Company, a status which shields it from direct public scrutiny. This situation has led to corrupt and non-transparent practices. (*Daily Nation Newspaper; Wednesday 27th June 2007*). This has led to dissatisfaction among the farmers and other Stakeholders including the Tea Brokers Association. It has culminated in a bill being tabled in parliament seeking to revert back KTDA to statutory control. (*Daily Nation Newspaper; Thursday 4th July 2007*).

3.1.3 Farmer representation

Farmer representation and participation at KTDA, TBK and EATTA is lacking, poor or compromised. There is absolutely no farmer representation at TBK and EATTA while at KTDA it is through regional directors who are largely ineffective or compromised.

3.1.4 Mismanagement along the supply chain

There is a general perception of corruption and mismanagement along the Supply Chain. For instance, KTDA charges a management fee which it determines itself without consultation with the farmers. Consequently a large proportion of earnings end up being used at the KTDA level instead of directly benefiting farmers. The procurement system is also not transparent, particularly on fertilizer sourcing. The farmers then buy the same from the KTDA factories at exorbitant prices compared to the prevailing market rates. In addition the amount of fertilizer supplied to each farmer is usually not commensurate with his/her agronomic needs. Most of them receive excessively more than they need and the cost is forcefully deducted from their annual payments³.

³ These findings are corroborated by the Coffee and Tea Campaign (COTECA) report on corruption in the tea industry.

3.1.5 Relationship between farmers and factory management

The relationship between farmers and their factories is poor. This was quite evident during the farmer interviews and the stakeholders' forum where there was open hostility between the farmers and The Mudete Tea Factory Manager. This was corroborated by the KUSSTO representative who cited similar cases in other tea growing areas.

3.1.6 Policy status

CSR policies and practices are non-existent in the small-scale tea industry in Kenya. KTDA purported to have a CSR policy but when probed further a comprehensive policy was found to be lacking. What KTDA has in place is some form of welfare for its own staff but no tangible farmer/community CSR policy.



Figure 3.1 One of the SACCOs the farmers are forced to join

3.1.7 Transparency at Mombasa Tea Auction

The operational management of Mombasa Tea Auction (MTA) is not clearly known to the farmers. The farmers do not receive any trade information from MTA and hence all transactions at the auction are unknown to them. Whereas the buyers, brokers, KTDA, TBK and the estate producers have access to this information, the small scale farmer is poorly informed on the same. This in effect makes the MTA operate like a closed members club. Visitors to the MTA, including the research team and the farmers are treated with a lot of suspicion and non-cooperation.

3.1.8 Status of strategic management

A Strategic Plan for the small scale tea sub-sector is lacking. KTDA claimed to have one but at the same time could not avail one to the research team. Based on this limitation, it was not possible for the research team to establish if the tea industry has any substantial long term plans or the industry.

3.2 Production matters

3.2.1 Cost of production

The cost of production (COP) of Kenyan tea is considered high when compared to other tea producing countries. This is causing uncertainty in the future of tea farming in Kenya and it could be sad if this industry collapsed the way the South African tea industry did. The cost of production in Kenya is USD 1.33 per Kg of made tea. This compares poorly with other tea producing countries like Vietnam (USD 0.81 per Kg), Indonesia (USD 0.58 per Kg), Rwanda (USD 1.32 per Kg), Uganda (USD 1.20 per Kg), Tanzania (USD 1.16 per Kg), Malawi (USD 1.14 per Kg) and Zimbabwe (USD 1.11 per Kg).

The main factors contributing to the high cost of production are; high labour demand, high cost of farm inputs particularly fertilizers, high cost of energy/fuel at the factories, high cost of transport due to poor road and rail transport system and numerous taxes and levies. A comparative analysis is summarised in Table 8.

Tea is a high labour demand crop because of the activities that have to be undertaken. Labour is needed for plucking that should be done at least once a week,

weeding, fertilizer and manure application, tipping and pruning that are necessary for high yields. Most small holder farmers use family labour although casual labour is engaged during peak production periods. Children are engaged in the tea farms during weekends or during holidays when they are not going to school. The actual amount of time spent depends on the size of plot and is guided by the schedule provided by the KTDA factory serving each region. In many parts of Kenya daily labour is paid dismally (50 -100 KES, about 0.7-1.5 USD), depending on the area. The same payment is used for labour used to pluck tea in the small scale farms. On some parts of the country, tea pluckers are paid on weight basis, which implies that one has to be good to receive a reasonable pay in a day. From focus group discussions, it was established that the rate of payment to tea pluckers is KES 4-5 per kg of Greenleaf. With an average of 15 kilograms per day⁴, this translates to between KES 60-75 per day (about 1 US \$). The low payments are due to poor tea payments at factory level. Table 6 gives comparative cost of production in different tea producing countries. Tea production takes the third place in terms of total costs among the major tea producers.

Table 6: Kenya's cost of production compared to other countries (USD/Kg of made tea)

PRODUCER	Field Cost	Factory Cost	Sales Cost	Overhead Cost	Total Costs
SRI LANKA	0.00	0.00	0.00	1.89	1.89
INDIA	0.84	0.52	0.11	0.16	1.63
KENYA	0.78	0.28	0.10	0.16	1.33
RWANDA	0.90	0.11	0.21	0.10	1.32
UGANDA	0.64	0.22	0.12	0.21	1.20
TANZANIA	0.58	0.22	0.14	0.22	1.16
MALAWI	0.55	0.28	0.21	0.10	1.14
ZIMBABWE	0.69	0.23	0.02	0.16	1.11
VIETNAM	0.61	0.12	0.04	0.04	0.81
INDONESIA	0.00	0.00	0.00	0.58	0.58

Source: TECHNOSERVE, Tanzania Tea Competitiveness Study (2007)

3.2.2 Effect of the length of the supply chain

From the Supply Chain diagram above (Figure 3), there are 12 cost centres from the farm level to the eventual tea consumer. Transactions between and among these levels incur certain costs which contribute to the overall cost of tea production. This is supported by information in Table 6 where the difference between field production and total cost at point of sale is 0.55 USD. Using the 2007 payment rate, it can be established that what farmers are getting is actually lower than the field cost KES 32.5 (10.5+5+17), equivalent to 0.50 USD per kilogram.

3.2.3 Cost of inputs

Farmers perceive the fertilizer prices imposed by KTDA to be high. There was a general feeling that KTDA should subsidise the fertilizer prices. On the other hand it was expressed that the SACCOS should get involved in the buying and distribution of fertilisers for the benefit of the farmers.

3.2.4 Extension and other services to farmers

Farmers do not practice modern agribusiness techniques in tea farming. This is as a result of very little support and limited extension services particularly from KTDA. The SACCOS do not also adequately serve the farmers and in addition the farmers

⁴ The labourers hired in the small scale tea farms are not permanent but are also involved in other activities. This makes their efficiency in tea plucking lower than that of plantation workers.

are forced to join without their consent. Mechanisms should be initiated where other stakeholders contribute to provision of needed services. Some of the stakeholders who could participate are the buyers, packers, blenders, and TBK through the Tea Research Foundation.

Small-scale tea farming in Kenya is expanding resulting in less and less availability of extension services. The effect of this is an overall decline in quality of tea and hence low returns to producers and other industry players.

3.2.5 Staffing at the Tea Collection Centres

Farmers reported that they are poorly served at the tea collection centres because of inadequate number of clerks. Because of this some tea is not received and hence uncollected since the clerks have to move between many TCCs in a day. In such a situation the farmer loses time and potential income.

3.2.6 Transportation

Poor transportation methods used lead to further losses of green tea leaf while in transit. One reason for this is because the factory had few green leaf tea collection trucks. This caused the factory to use alternative means of transportation that are not suitable for ferrying green leaf tea⁵. A case was observed with Mudete Tea Factory where a partially closed truck was used to ferry green tea (*Figure 3.2*). This inevitably leads to withering losses of the green leaf in transit to the factory. Secondly, because of few tea collection trucks green tea is collected long after it has been delivered to the TCCs. Because of the long wait, the tea withers before delivery to the factory.

Figure 3.2 An inappropriate truck (left) for transport of green leaf and one of a properly designed track (right) (**Photo taken at one of the TCCs**).

3.2.7 Loss and corruption



Allegations of theft of tea along the Supply Chain need to be investigated. During the stakeholders forum a case of theft of processed tea from Mudete Factory was raised.

The stolen tea disappeared into another country and the insurance has not yet compensated the farmers despite long cries and follow-ups by them. This pointed something to us concerning corruption at the insurance level and Factory/KTDA level in respect to the insured risk. Apart from factory/KTDA level, most tea theft occurs

⁵ A properly fabricated truck for green leaf tea transportation has hooks where the tea carrier bags are strung to allow air circulation and avoid heat accumulation that may lead to withering of the green leaf before it reaches the factory. The tea is also protected from direct sunshine and rainfall

at the TCCs as a result of a combination of factors. The most common are as follows;

- The weighing scales at the TCCs are either faulty or “doctored”. Measurements done at the TCCs do not tally with on-farm measurements. The falsification of green leaf weights is a clear indication of theft and results in losses to the farmers.
- Farmers are deducted a mandatory 2 kg from every bag weighed yet the weighing bag is hardly 0.5 kg. The factory allows a maximum weight of 16 kg per bag. This means that a farmer delivering more than 16 kg of green tea will have to divide it into several batches, each not exceeding 16 kg. The result is multiple deductions hence more losses/theft.
- Weight of tea is recorded as round figures of 1, 2, 3, 4 etc. Any fractions are ignored or rounded downwards. This is a direct loss to the farmer and provides an opportunity for theft.



Figure 3.3: A typical Tea Collection Centre (TCC). The farmers want the TCCs to provide more services.

3.2.8 Materials at TCC

Most of the tea collection and weighing bags are old and worn-out, occasioning losses to farmers (Figure 3.3).

Figure 3.3: On the left the Research Team Leader is holding a bag in good condition while on the right a farmer is displaying an old worn-out bag like those frequently used for tea collection and weighing.



3.3 Legal Issues

3.3.1 Ownership of assets and resources

Legal ownership of "KTDA" Factories and other properties is not clear. On paper the factories are owned by the farmers, yet no dividends are paid to the farmers for every successful year of trading. Other KTDA properties do not benefit the farmers as well.

On the other hand farms are predominantly owned by men in Kenya because of the traditional land ownership tenure. However the tea earnings are considered family earnings in most cases, and in some cases the factories issue payments directly to women (wives, daughters etc). Access to the tea earnings by women is not always guaranteed since men have the upper hand in the control of the earnings.

In the latest development in Kenya, women are recognised owners of land in instances where the spouse dies. The legal system allows the land title deed to be transferred to the woman. There are no restrictions on the expansion of tea farms at individual level. The land put under tea depends on crop preference and perception of competitiveness.

3.3.2 Regulatory statutes

The existing statutes regulating small-scale tea growing are inadequate, not clear or need to be reviewed.

3.4 Economic / Trade matters

3.4.1 Tea sub-sector performance

The small scale tea sub-sector has had phenomenal growth and has been fairly successful. The success of the small holder tea sub-sector can be attributed to the quality of green leaf produced by the farmers compared to the estate production. Further the success was due to the fact that in the eighties, the other major cash crop in the Kenya, that is coffee, deteriorated so much due to gross mismanagement that many farmers turned to the more promising alternative that is tea. In fact many coffee farmers uprooted their coffee to plant tea due to shortage of land for tea expansion.

Tea was a top foreign exchange earner until tourism and horticulture overtook it. Over 60% of Kenyan tea is produced by the small-scale farmers under KTDA. In the first three decades (60s, 70s and 80s) after independence, the industry was well run and farmers promptly received good prices for their tea. This became a big motivator and with the active support and encouragement from the government, more and more small-scale farmers went into tea growing or expanded their tea acreage. On the other hand the Kenyan teas consistently maintained high quality mainly because of the two leaves and a bud tea picking style KTDA insisted on. KTDA itself was better managed, production and processing of tea being well organised. Although the marketing by TBK/KTDA was not well structured, Kenyan tea still found ready buyers in its traditional markets in Britain, Netherlands and other countries in Europe.

In the last decade there has been government interference in KTDA, culminating in KTDA being converted into a private company. It was hoped that this would make KTDA more efficient and transparent in its operations based purely on business principles. Unfortunately this was not realised. KTDA become more and more corrupt

and less and less efficient. The Companies Act itself has shielded KTDA from direct public scrutiny. KTDA is now controlled by a small club of powerful elite businessmen who enjoy political patronage. The law stipulates that KTDA is to act as an agent for the small-scale tea farmers; unfortunately it has abrogated ownership and total control in all the factories. They also control the processing of tea, tea trading and acts as an insurer and a Bank for all the money due to the small-scale farmers.

Tea Board of Kenya on the other hand has not served the tea farmers well. It has not delivered on its role of providing agronomic support and marketing of Kenyan tea because of its ineffective marketing strategies. The collapse of the London Tea Auction also dealt a big blow to Kenyan tea since it meant that new markets had to be found. Increased production and competition, particularly on value addition from other countries, has made it more and more difficult for TBK.

Globally there is overproduction and oversupply of tea on the international markets. This together with poor and cheap quality teas from other countries has led to a drop in world tea prices. Kenya being a leading producer and exporter has been directly affected.

As mentioned above tea has lost its top position as a foreign exchange earner in Kenya. The Kenyan shilling has also strengthened against the US dollar resulting in less and less returns to the small-scale farmer. All these internal and external factors are beginning to impact negatively on small-scale tea farming in Kenya.

3.4.2 Tea trading

According to the KTDA briefs, the tea produce by the small scale farmers has four market outlets. These are Mombasa tea auction that absorbs 75% of the tea, the Kenya Tea Packers limited (KETEPA) that takes 7% of the tea, Direct sales, (overseas and local) that takes 15% and factory door sales that takes 3% of total produced tea⁶. This shows that Mombasa Tea Auction dominates the tea-buying scene in Kenya. The small-scale tea farmers who contribute 60% of tea play no role in its trading and neither do they have access to trade information from MTA. For example the commission rates for Tea Brokers at the auction are pre-determined and negotiated with KTDA with no farmer representation. The process of determining these rates need to be all-inclusive and transparent. The producers and buyers are not represented yet the costs are passed to them. The rates should also reflect prevailing market trends.

Other private tea sales at Mombasa and at the factories are shrouded in secrecy. Little information is available on these. For example, it was evident that there were door sales at Mudete Tea Factory yet this was played down by management and is not reported in company records (Figure 3.4). This raises the possibility of corruption. Secondly, factory door sales undoubtedly bring down the overall cost of production and trading. This ought to be highlighted and the benefits passed on to the farmers.



Figure 3.4: Factory door sales at Mudete Tea Factory; not clearly regulated giving rise to loopholes for collusion and corruption.

A system should urgently be developed where the small-scale farmers (e.g. through unions or associations) should

Direct sales are based on prevailing Mombasa Tea Auction prices. Generally, prices of tea are not constant but change weekly depending on the supply and demand in the auction

have a direct relationship with the tea buyers. This will help farmers know who their principle buyers are and what quality and quantity they require. Through direct sales, farmers exercise their bargaining power with buyers and are able to negotiate terms and prices. They also have the certainty of future orders to enable planning and investment.

3.4.3 Value addition

Value-addition on Kenyan tea is still at very low levels. The supply chain diagram shown on page 16 shows that nearly all the value addition on Kenyan tea is carried out by enterprises far removed from the farmers. Most of the Kenya tea is exported with little value added resulting in the tea fetching poor prices on the international markets.

3.4.4 Alternative tea markets

KTDA has not fully utilised the alternative and emerging tea markets in the world, particularly in USA, Australia, Dubai and Sudan. This is expected to open up new markets for Kenyan tea especially now that the London Tea Auction has closed down. Also most importantly, KTDA/TBK could position Kenyan tea as premium tea because of its high quality. This will then ensure better prices and returns to the farmers.

3.5 Environmental Issues

3.5.1 Environmental Impact Assessment

Environmental Impact Assessments are hardly done. National Environment Management Authority (NEMA) has not carried out comprehensive EIAs on small-scale tea growing and the KTDA factories. The research team was unable to get any EIA reports from any of the stakeholders apart from one incomplete report presented by Chebut Tea Factory.



Figure 3.5: Terracing is one method the farmers use for soil conservation and water retention/control.

The long term usage of fertilizer has definite effects on the environment and the farmers but remains unknown. No studies have been done to determine the potential impacts. Some farmers are successfully turning to organic production of tea. However most are still forced to collect synthetic chemical fertilizers from the factories.



Figure 3.6: A farmer applying compost manure to the tea bushes. Also notice the rich banana crop in the background

3.5.2 Quality control

Introduction of useful standards in the tea industry is necessary. Standards should be jointly agreed between buyers and factories/farmers and be locally appropriate covering issues of importance to the farmer. Cost of the audits and the suggested improvements should be covered by buyer or by price premiums. Key issues to be considered in development of standards are CSR, ILO conventions, Fair-trade policies, Environmental sustainability, Health standards, human rights and non-exploitative engendering of the tea sector.

3.5.3 Tree planting

The KTDA factories rely on wood fuel for energy generation. The wood is bought from the local community resulting in a lot of tree-cutting. Unfortunately KTDA does not have any tree-planting or a forestation programme.

3.6 Social Issues

3.6.1 Civil society involvement

CSO involvement in the tea sector is lacking. Only recently, was an NGO called Partners In Tea Initiative (PITI) launched. Although PITI has been active in the last few months by working with KUSSTO and COTEPA, it has not received much support from the KTDA, TBK and other corporate organisations in the sector. PITI has been holding talks with SASINI Tea Company (a leading estate producer and exporter) to introduce and promote CSR initiatives in the tea growing areas. This initiative is yet to materialise.

Although some big companies have some CSR activities, these fall short of comprehensive CSR policies and practices for their workers and the neighbouring communities. On the other hand, the small-scale tea sub-sector in Kenya does not have any CSR initiatives. Therefore the farmers and the tea growing communities do not benefit in any way from the tea companies/tea factories and other corporates in this sector.

3.6.2 Union of tea farmers

KUSSTO has not received the needed support from the Government and other key stakeholders. KUSSTO officials, awareness and activities are confined to only one of the tea growing zones. Even in this zone the organization has had very little impact because of direct interference by KTDA and some arms of the government. This has therefore limited KUSSTO's influence and effectiveness at the national level.

3.6.3 Relationships of farmers and KTDA employees

The relationship between farmers, the factory and particularly the TCC clerks is extremely poor. The TCC clerks harass the farmers and they are involved in collusion of green leaf theft. This is particularly evident at the weighing points where not all the delivered green leaf is entered in the farmer records. *This has left big questions, for instance: where do the extra kilograms go? Are these received at the factory? If so, under whose name or in whose records can they be found?*

It is worth noting that during the stakeholders' forum the Mudete Factory Manager was very defensive of these clerks. Unfortunately farmers openly disagreed with him with some providing clear evidence of green leaf theft and mistreatment by the TCC clerks.

3.6.5 Employment and procurement at the factory level

Employment and procurement practices do not favour the local community next to the factories. For instance, the farmers and the community around Mudete Tea Factory bitterly complained about this. They cited cases where personnel at the

factory were all from other communities even for job cadres that could be filled by locals. Similarly businesses in the locality are not given opportunities to supply goods and services to the factory. All these factors have led to poor development in their community. The people now feel disenfranchised.



Figure 3.7: Green tea wastage/spillage witnessed by the research team at a collection centre

4.0 CONCLUSIONS AND RECOMMENDATIONS

4.1 Conclusions

Generally it can be concluded that the small holder tea sub-sector has grown tremendously since Kenya gained independence. The production and management of the crop has been fairly better managed compared to coffee that competes for area in parts of the country. The payments to farmers have also grown from 50cents in the early seventies to the current monthly payment of KES 10.50 [0.15 USD] per kg.

Despite the seemingly satisfactory performance, the management of the small holder tea sub-sector has been affected by mismanagement and corruption at the factory and higher levels. This has diminished the returns to the producers further reducing their potential earnings.

At the farm level tea farms are well managed throughout the year since picking is done every month. However, services to farmers (extension and at the TCC) are not satisfactory. There is need to assist farmers through lobbying for the concerned organisations to improve on service delivery.

4.2 Recommendations

On strengthening farmer associations

Strengthening of farmer associations/unions is urgently required particularly KUSSTO which is registered to operate in the whole country but because of vested interests and external interference it has been confined to one zone only. It is recommended that leadership training be offered to provide desired leadership in the country. Awareness creation of the rights of farmers should be given support for effective participation in tea sector activities.

In the same light, management bodies should enlist more farmer representatives to allow the views and concerns of producers to be aired and considered before any key decisions are made.

On tea marketing

- The sale of tea should be diversified, not to be restricted and monopolised by Mombasa Tea Auction. This has led to situations of underhand deals, collusion and arm twisting by the big multinationals. Individual factories should be encouraged to sell a certain percentage of their tea on the open market through other channels. This will increase competition both in terms of production (*hence quality*) and at the market (*hence better prices*). Factory door sales should also be mainstreamed into the trading system and made more transparent.
- There is need to introduce more innovative Value-Addition techniques on tea produced by the small-scale farmers.
- More focused marketing of Kenyan tea should be directed to the emerging markets with special attention on new trends in tea consumption.
- To improve returns to the farmers more marketers need to be licensed in addition to TBK.

On farmers welfare

- In order to improve the welfare of small-scale farmers CSR should be made an integral part of doing business for all the Tea stakeholders. All the stakeholders and corporate bodies should initiate comprehensive CSR programmes either jointly or singly.
- A system should urgently be developed where the small-scale farmers (e.g. through unions or associations) should have a direct relationship with the tea buyers. This will help farmers know who their principle buyers are and what quality and quantity they require. If sales are direct, the farmers have bargaining power with that buyer and are able to negotiate terms and prices. They also have the certainty of future orders to enable planning and investment.
- There should be a CSR benchmark specifically targeting players producing and trading in tea under small scale farming. This benchmark should provide clear trail of being audited and monitored.
- The relationship between farmers with their factories should be strengthened. Farmers need to have greater ownership and management stake in the factories. This will enable them to receive a sustainable price and negotiate effectively with factory management and by extension KTDA.
- Extension services and support to the farmers from factories and other stakeholders should be enhanced.

On standard in the tea industry

Introduction of useful standards in the tea industry is necessary. Standards should be jointly agreed between buyers and factories/farmers and be locally appropriate for covering issues of importance to the farmer. Cost of both audit and suggested improvements covered by buyer or by price premiums.

On the role of SACCOs

The SACCO mandates should be reviewed to make them more sector-oriented. In addition their management should be streamlined and made participatory and all-inclusive.

On the role of Civil Society Organisations

The CSOs should be encouraged to work in the tea sector. This will help in exposing malpractices in addition to educating and empowering all the stakeholders, particularly the small-scale tea farmers.

Further research

To remove perceived bias in the research findings, there is need to replicate the research work on the same scale in one or two more tea growing regions of Kenya. On the same note, the research team should be given an opportunity to conduct an assessment of the marketing process in one or two other countries selling their tea through Mombasa Tea Auction. This will provide information for a comparative analysis.

On policy and way forward

- There is need to engage policy makers and carry-out country-wide farmer and stakeholder education, sensitization and discussions on the status of small scale tea sub-sector based on the research finding. The awareness and sensitisation is expected to emphasise on the areas of transparency, farmers' rights, involvement in decision making and effective participation. The process could also include the findings of a task force report on the tea industry by the Kenya government. This can effectively be done through the

involvement of civil society organisations who were involved in the research presented in this report. With the necessary resource support, the process is to be conducted using various forums and activities to address the concerns raised in this report and other recent events in the small-scale tea industry with a view to charting the way forward. All the activities are expected to lead to improved small holder tea farmer participation.

- There is need to carry out a detailed value chain analysis of tea by first establishing the key payers along the value chain and possible contacts. These should then be informed of the study and its contribution in streamlining and improving the role of the small holder producers. What value is added and the cost incurred at each point will also be established during the study.

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