Chapter 2

Status Report

The Role of Kenya Tea Development Agency Limited in The Small-scale Tea Holder Development in Kenya

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Abstract

The Kenya Tea Development Authority (KTDA) was formed in 1964 to take over the functions of the Special Crops Development Authority (SCDA), which had been set in 1960 to promote tea growing by indigenous Kenyans (Africans). KTDA realised tremendous growth, raising tea productivity in 1964 to 2000A.D. from 148.9 kg made tea (mt) ha^{-1} year^{-1} to 2100 kg mt ha^{-1} year^{-1}, area under smallholder farmers from 4,700 ha to 91,000 ha, number of growers from 19,000 to 450,00 and tea factories from 2 to 45. KTDA was privatised to Kenya Tea Development Agency Limited (KTDA Ltd) in 2000. The core business of KTDA (and KTDA Ltd) aimed at helping smallholder tea farmers to manage tea agronomic and processing activities, marketing and selling produced black tea and providing support services to promote smallholder tea business. KTDA Ltd is now a major producer of black tea and is probably the single largest tea producer in any one country.

Introduction

Tea (*Camellia sinensis*) was introduced in Kenya in 1903 but commercial farming of the crop started in 1924 in the estates sector that was run by white settlers. African farmers were not allowed by law to grow tea, until the dawn of independence when legislation was repealed for the indigenous people to commence tea growing in 1963. However, experimental smallholder tea cultivation started in 1950. With the success of the experimental tea growing, in 1960 the colonial government created the Special Crop Development Authority (SCDA) to promote growing of tea by Africans under the auspices of the Ministry of Agriculture. After independence in 1963, Kenya Tea Development Authority (KTDA) was formed through legal notice No.24 of 1964. It took over the liabilities and functions of SCDA to promote and foster the growing of tea in small-scale farms which were previously said to be unviable in view of expertise required and the costs accrued in the plantation sector.

There was tremendous growth of the small holder tea development from 1964 to 2000 under KTDA, then a parastatal organisation. Tea yield rose from 148.9 Kg made tea 2,100 Kg made tea per hectare, while area under tea increased from 4,700 ha to 91,000 ha and the number of smallholder tea growers rose from 19,000 to 450,000. The KTDA acquired only two factories but developed 43 more during the same period. Arising from the success, the KTDA was privatised and acquired new status namely Kenya Tea Development Agency Limited, (KTDA Ltd) in 2000.

The Kenya Tea Development Agency

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limited was incorporated on 15th June 2000 as a private company under (Cap 486) law of Kenya. It is one of the largest private tea management agencies in the world, currently with 56 functional processing factories under its management [1]. At present the growing of tea by small-scale sub-sector in Kenya has created a niche in the global tea trade. It has over the period continued to be a producer of some of the very high quality black CTC teas in the world.

The core busineses of KTDA both as a parastatal and/or KTDA Ltd as a private management agency have remained the same. In tea production, KTDA Ltd purchases materials for tea seedling propagation on behalf of the smallholder tea farmers. Although KTDA used to establish and manage tea nurseries for the smallholder tea farmers to purchase planting materials from, this is a role that KTDA Ltd has now relegated to the farmers themselves. It was realised that it is more cost effective and convenient to train the smallholder tea growers to establish and manage their own tea nurseries. This reduced the cost of transporting seedlings to different parts of the country and also reduced the number of seedling plants which were lost due to the transportation on bad roads. Consequently, KTDA Ltd discontinued the management of its own nurseries and embarked on training smallholder tea farmers to establish and manage their own nurseries. KTDA used to and KTDA Ltd continues to procure fertilisers on behalf the smallholder tea farmers. The fertilizers are then distributed to the farmers using a credit scheme. The scheme ensures that smallholder tea farmers who enrol for the facility have fertilizers available on time and at a fair price. The tea cultivation and growing is a difficult task if it is not properly supervised. KTDA Ltd supervises smallholder tea growing and harvesting of green leaf using qualified extension staff. After the smallholder tea farmers have plucked the green leaf, KTDA Ltd purchases from them and transports the leaf for processing into black tea in the KTDA Ltd managed smallholder tea farmers' factories.

A major task of KTDA Ltd is the development of adequate processing capacity for processing the green leaf. KTDA Ltd ensures that all harvested leaf is taken to factories and processed into black tea. Upon production of the black tea, KTDA Ltd markets and sells all the black tea on behalf of the smallholder tea farmers.

In addition to the above KTDA Ltd also provides other services to the smallholder tea growers. These services include: revenue collection and payment to the farmers, management of financial resources, corporate development and services, technological development and research, development of information systems and technology, and publicity and image enhancement.

Mission and vision of KTDA Ltd

The mission of the KTDA Ltd is to “provide effective management services to the tea sector for efficient production, processing and marketing of high quality teas and investing in related profitable ventures for the benefit of the shareholders and other stakeholders”. It also has a vision to be “the leading management and marketing company of high quality tea products in the world”.

Performance

Having taken over the assets and liability of KTDA, the agency (KTDA Ltd) is today the single largest producer and exporter of made tea in Kenya accounting for 28 percent of Kenyan export earnings and

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being the largest exporter of black tea in the world [2]. Its predecessor, the Kenya Tea Development Authority had at its inception inherited 2 processing factories with 19,000 growers from SCDA who were cultivating 4,700 hectares of tea and producing 2.8 million Kgs of green leaf annually. After three and half decades, the agency now manages 56 factories with 450,000 growers cultivating over 91,000 hectares of tea producing in excess of 750 million kgs of green leaf annually (Figures 1 and 2). Average farm holding in this sub-sector is 0.22 hectare per household [1].

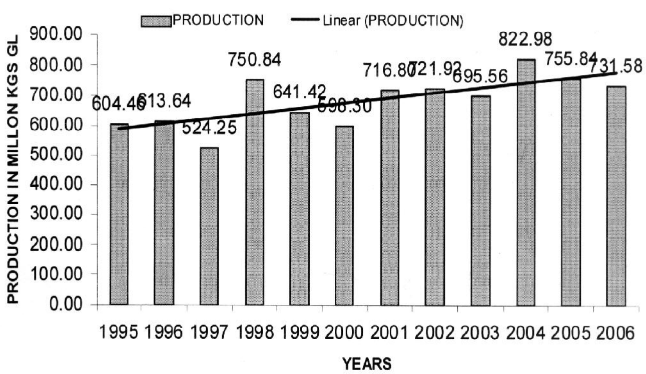

Figure 1: Small Holder production of green leaf from 1995 to 2006
(Source: KTDA and KTDA Ltd Annual Statistics)

The small holder sub-sector average annual productivity of green leaf increased from 597.7Kgs per hectare in 1964 to 8,240Kgs per hectare, in 2006 while average made tea productivity increased from 148.9 Kgs to 2,100 Kgs made tea per hectare in the same period [1]. Today the smallholder sub-sector produces over 60% of the total tea produced in Kenya which is the third largest producer of black tea in the world.

KTDA makes green leaf payment to the smallholder tea farmers on regular monthly basis, with interim second payment after every six months and final payment at the end of the financial year. All money accruing from the leaf produced is paid to the farmers less production costs [2, 3]

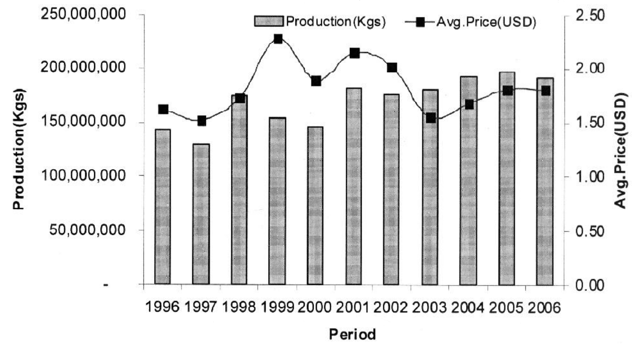

Figure 2:- KTDA and KTDA Ltd's tea production and average prices (USD) per kg for 1996 to 2006. Source: KTDA and KTDA Ltd Annual Statistics

Importance of tea to the Kenya Economy

Tea contributes 4% of the Gross Domestic Product (GDP). More than 4 million Kenyans (farmers, employees, traders and their families) are directly or indirectly supported by the tea industry and allied activities. Tea contributes over KShs 40 billion of foreign exchange annually. This therefore makes KTDA Ltd one of the highest contributors of revenue to Kenya Revenue Authority [4] and the single highest foreign exchange earner.

Strategies for achieving KTDA Ltd mandate and performance record

Organisational structures

The apex organ of KTDA Ltd is the Board of Directors, comprising the Chairman, the Managing Director, 12 elected growers' representatives, each representing a catchments area operationally referred to as zone. The Chairman who is a grower representative from one of the zones is elected from the twelve. The board develops corporate policies and directs the operation of the Agency.

The 56 factories through their boards of directors own Kenya Tea Development Agency Ltd as a company. The Agency therefore provides management services to all factory companies through a mutual

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management agreement at a commission or management fee.

The organisation has five major divisional structures to deliver various services through the factories which are the focal points of operation with the farmers. The five divisions are:- Operations; Marketing and sales; Human Resources and Administration; Finance and Information Communication Technology divisions. The Operations Division is in charge of production, processing, Marketing and Sales Division deals with marketing and sales of all made tea in various market outlets. Human Resources and Administration Division is in charge of human resources and administrative issues; Finance Division handles all financial resources and matters; and Information Communication Technology Division is responsible for development of information systems.

Factory organisation structure

The smallholder tea farmers are organised in a structured grouping around leaf collection centres that they construct and manage themselves. The farmers around these centres elect five committee members to manage these centres in terms of cleanliness, leaf quality, registration of farmers and general maintenance.

All farmers from the leaf collection centres elect six directors to the board of the factories that is responsible for developing policies and guiding operation of the factories. The factories in turn are grouped in zones comprising of between 3 to 7 factories to form operational catchments or zones. Directors from each zone elect one director to represent the farmers at the KTDA Ltd board. There are twelve such operational zones within the Kenya smallholder tea sub-sector. This arrangement means that farmers who own the processing factories also own KTDA Ltd through their factory boards.

The Agency seconds management staff to all these factories to deliver the required services, that cover general management of the factory unit, processing of green leaf, extension services to farmers, leaf transportation and other support services.

Organisation policies

In order to achieve its mission and vision, the Agency board has evolved several policies to guide service delivery to all factories under its management. The policies cover all its core business areas. This paper only highlights those policies which help the small-scale tea farmers achieve sustainable tea production and the general agricultural operation policies.

Good agricultural practices (GAPs)

The achievements highlighted earlier have been possible because farmers have been encouraged and educated to follow the established good agricultural practices. In this regard, the agency has in place the policies that guide the staffs and farmers when implementing good agricultural practices(GAPs) [6] in areas including:- registration of growers; site selection for tea planting; nursery establishment and management; tea planting; soil conservation; field management of mature tea (bringing young tea into bearing, plucking, and pruning); plant nutrition (fertilizer, and manure application); pest and diseases management; inter-cropping; research and education of the growers.

Sustainable tea production

The Agency has policies to guide farmers to achieve sustainable tea production. Sustainable tea production is farming of tea in responsible manner while

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enhancing profitability, well being of the people and the environment for now and the future. The sustainable Production parameters that KTDA Ltd emphasises include soil fertility, pests and diseases management, biodiversity, product value, energy use, water management; soil and human capital and local economy.

Soil fertility.

The soils must remain fertile to support the growth and productivity of the tea plant. This is achieved by judicious use of organic manure and appropriate inorganic fertilizers, and reduction of soil loss through soil erosion by instituting appropriate soil conservation measures. KTDA Ltd has developed policies on tea planting and fertilizer usage to help smallholder tea farmers.

Pests and diseases management

Pests and diseases must be managed by use of methods that do not militate against the environment and human safety. Methods such as cultural, biological as well as integrated pest/disease management practices are the cornerstone of sustainable agriculture. It is the policy of KTDA Ltd not to use any chemical on mature tea and not to inter-crop tea with any other plants. Pests and diseases are controlled through biological, cultural or integrated pest management methods. Fortunately for tea growing in Kenya, there are no serious pests and diseases out breaks that warrant wide spread application of pesticides or other chemicals.

Biodiversity

The tea crop must have genetic diversity (clones/cultivars with different resistant capability) to withstand unfavourable climatic conditions as well as pests and diseases. Planting of indigenous trees is encouraged around tea farms. The surrounding habitat must be qualitative and quantitatively conducive to the biotic and abiotic habitation. KTDA Ltd has a policy on planting selected high yielding mixed clones and promotion of aforestation projects.

Product Value

The tea farming must be profitable as an enterprise to sustain both present and future generation. This should include planting of high yielding and high quality clones/cultivars. KTDA Ltd policies on plucking standard of two leaves and a bud and plucking cycle of three to four rounds per month as well as established fertilizer credit scheme to help farmers achieve high quality leaf and quantity. Production of black tea from finely plucked leaf leads to KTDA Ltd teas fetching better prices than most competitors in the market.

Energy

Energy use must be efficient in the course of the tea production. Renewable source of energy like fuel wood are encouraged as this also leads to reduction in environment pollutants e.g. carbon dioxide (CO^2) and other greenhouse gases. The KTDA Ltd therefore encourages planting of trees. KTDA Ltd requires the factories to raise tree seedlings within their catchments to supply smallholder tea farmers, particularly those who are supplying factories with fuel wood for processing.

Water Management

Efficient water use in both the processing factories and in irrigating land is very important. Wastewater management and disposal of effluent is taken seriously by KTDA Ltd. Renewable water supplies will ensure sustainable tea production by

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conserving water catchments areas. All KTDA Ltd managed factories have wastewater and effluent treatment plants. Farmers are required not to plant eucalyptus trees on the riparian areas and water catchments.

Social and Human capital

Humans are the source of labour and management in agricultural production and their social welfare as well as the way they are treated at work both in the factory and farms is important for the sustainability of production process. All KTDA Ltd managed factories uses tri-partite agreement through the collective bargaining agreement (CBA) to handle the affairs of unionised employees.

Local economy

Sustainable agricultural production like in tea must support local economy by improving infrastructures such as roads, electricity, and hospitals and creating jobs for the local people. Through funds such as tea cess, feeder roads within rural tea growing areas are repaired and maintained.

Analysis of the baseline data has shown that KTDA farmers have attained an overall sustainability level of above 75% (Figure 3). Looking at individual parameters (Fig 3) put on a scale of 0-10 (0-100%) it is only energy where these farmers are doing poorly below 5(50%). [1]

Growers Education

The established good agricultural practices are disseminated to the smallholder tea farmers through extension services staff. These are based both at the factories and at the leaf collection centres level, where one supervisory staff covers between 10-15 collection centres using motorbikes. The KTDA Ltd extension staff have been using conventional extension methods of demonstration, field visits and field days. However the Agency is now introducing a new extension methodology called "Farmers Field School (FFS)" in order to push small-scale farmers to achieve higher growth and sustainability in all areas particularly green leaf production and especially on energy area where KTDA Ltd has not been doing well.

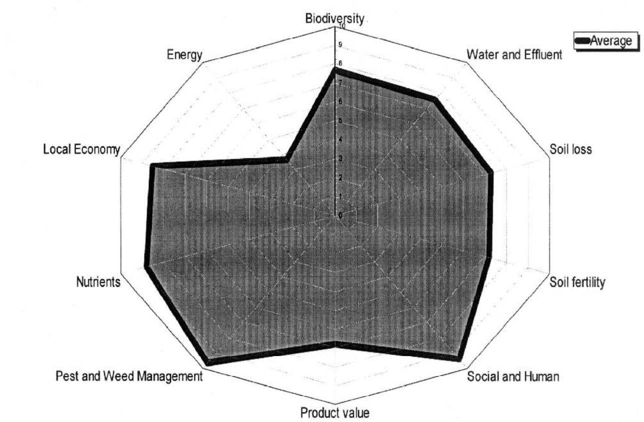

Figure 3: The 2006 KTDA Ltd farmers' ability to meet or comply with the sustainable agriculture practices parameters.
Source: KTDA Statistics (2006)

Farmer Field School (FFS) is a participatory approach to extension. It is a group extension methodology, a school without walls where the field is the primary learning venue. Farmers are organised in groups of 30 farmers to form a school. Farmers learn by discovering the problems that hinder them from achieving their production goals and experiment on the best methods of solving them. It involves experimentation, discussion and decision-making by the farmers themselves and the extension staff become facilitators and not teachers. Farmers become experts by conducting their own field studies and learn by doing. The training is based on comparison studies (different treatment) that they conduct on their own, with the extension staff as facilitators. The

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methodology is different from the conventional method of train and visit and demonstration approach, where the extension staff are the experts and give instruction on what is to be done. This approach is farmer friendly and adoption of technology rate is higher

Challenges

There are several challenges facing small-scale tea farmers in Kenya. Some of these challenges are discussed herein.

Population increase

Population increase in tea growing area is putting a lot of pressure on land that is resulting in sub-division of land into uneconomical land holdings. This has net effect on the individual farmer's income. Currently the average land size per household is 0.22Ha. Statistics show that there has been tremendous increase in number of growers as a result of the sub-division as compared to expansion in tea growing area due to limited land for further expansion [Figure 4]

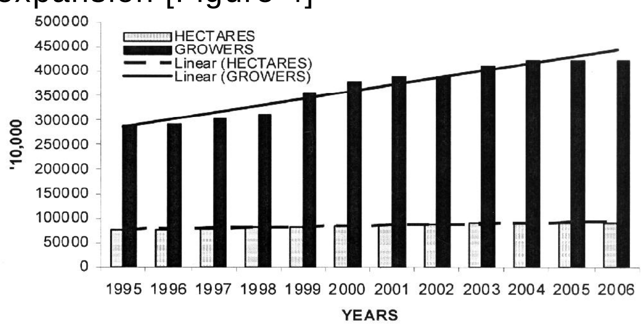

Figure4: planted tea area in hectares and number of growers from 1995 to 2006.
Source: KTDA Annual Statistics (1995-2006)

The sharp increase in the number of growers between 1995 and 2006 is not the result of tea expansion but it is mainly due to sub-division of tea plots. Uneconomical land size means these farmers practice subsistence tea production, giving them only supplementary income. Over 70 % of small scale farmers are in this category and earn less than one US$ per day [7].

2. Rising costs of production

There has been steady increase in costs of production both at the factory and at farm level. Major costs are fuel, electricity, labour, fertilizer and other inputs. The escalating costs of production coupled with declining tea prices has seriously affected farmer's income. [Fig.5,6,7,8]. Due high costs of production farmers end up getting only 30% (Table 1) of the tea revenue [7]3.

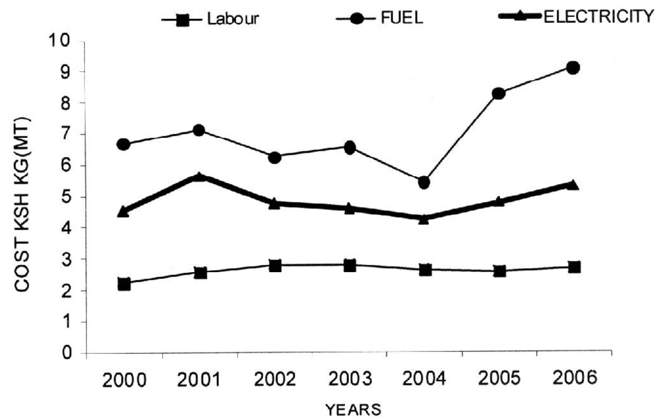

Figure 5: Average factory cost of energy and labour from 2000 to 2001.
Source: KTDA Ltd Annual Statistics (2000-2006)

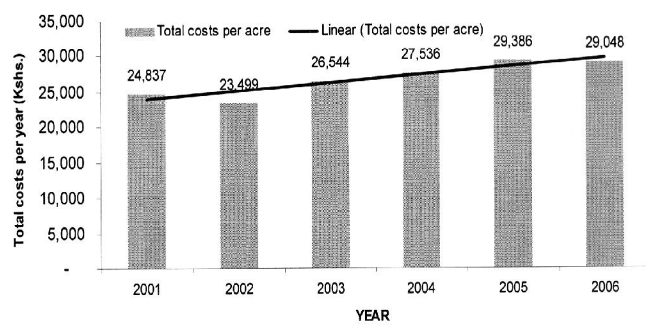

Figure 6; Changes in costs of smallholder tea production from 2001 to 2006
Source: KTDA Ltd Statistics (2001-2006)

3. Over production of tea in the World

There has been over production of tea in the world outstripping consumption by 3% and this has depressed world tea prices by 23 percent in 2004 over the peak price of 2000, net result being low income fromt tea to the farmers from tea [3] [Fig.7, 8]. From year 2001 the net farm income has been

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marginally decreasing due adverse economic factors as shown by the trends.

Table1: Distribution on cost of production and net farm income as % of gross income

Factory/Farm Costs & Income	% of total
Farm labour	28%
Fertiliser inputs	08%
Leaf collection	06%
Manufacturing costs	08%
Packing	04%
Semi variables	03%
Administration	06%
Financial costs	06%
Cess	01%
Net farm income	30%

Source: KTDA Ltd Statistics

4. Unfavourable exchange rates.

The Kenya Shilling has been very strong. This strengthening of Kenya Shillings has resulted in reduction of the tea farmers' income

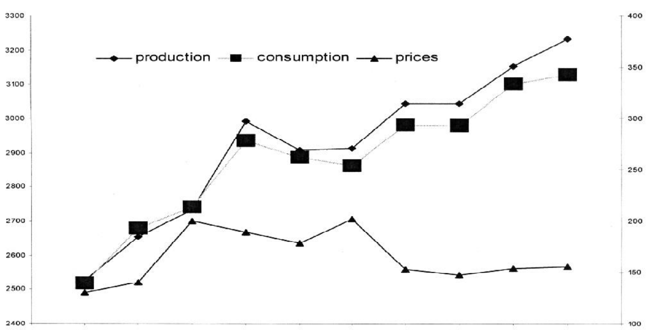

Figure7: World tea production (MT), price (US$ cents) and tea consumption (MT) from 1995 to 2006
Source; International Tea Committee (ITC) Bulletin of Statistics (2005)

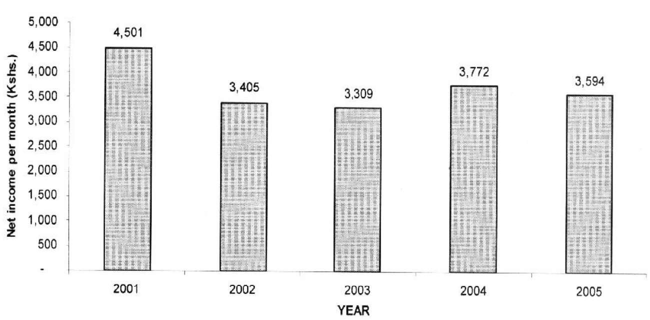

Figure 8: Average net tea farm income per acre per month.
Source: KTDA Ltd Statistics

5. Limited processing capacity

In some factories, the capacity has been lower than the available leaf. This lowers the productivity of the farmers who might be forced not to pluck regularly due to lack of space in the factory.

6. Competition from cheaper and low quality tea

There has been an upsurge in the amounts of low quality teas in the world. KTDA Ltd teas continue to compete with these cheap and low quality teas in the world market. This has tended to lower the price realisation of KTDA Ltd teas.

7. Lack of tea value addition

Over 90 percent of the teas from smallholders in Kenya are sold in bulk without any value addition. This lack of value addition translates into the smallholder tea farmers realising low returns from their produce. More producers are moving away from bulk exports to value added products.

8. High cost of market development

The cost of tea promotions and advertising is very high. KTDA Ltd has therefore to minimise and enhance returns to farmers.

9. The speciality tea market is growing.

The speciality tea market is growing. This is led by the growth of green tea production and consumption as well as orthodox and other speciality tea varieties.

Addressing the challenges

KTDA Ltd has put several activities in place to address these challenges. These include, but are not limited to:-

a. KTDA Ltd sources inputs like fertilizer directly from the manufactures to cut down on middle-men costs. The

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reduced expenditure enables more money to reach the smallholder tea farmers.

b. There is continuous identification through research of better clones/ cultivars that will give high yield and quality and allow for extension to other speciality tea products. KTDA Ltd continues to introduce appropriate and efficient processing technology (continuous fermentation units (CFU), high capacity CTC, and driers to improve the efficiency and reduce labour cost.

c. Attempts are being made at establishing of mini-hydroelectric power projects with in the smallholder factories catchments.

d. With the continuous increase in price of oil, KTDA Ltd is introducing and using fuel wood as a cheaper alternative source of energy as compared to oil. All factories are required to raise 150,000 tree seedlings annually to meet this requirement.

e. Product diversification is in top gear. KTDA Ltd has started the production of green and orthodox teas.

f. There is also investment in the area of tea value addition to reduce reliance on bulk tea export and improve return to the farmer.

g. KTDA Ltd is also involved in International Organisation for Standardisation (ISO) certification and other quality image building activities.

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