



KERICHO COUNTY ASSEMBLY

SECOND ASSEMBLY-SECOND SESSION

**REPORT OF THE ADHOC COMMITTEE ESTABLISHED TO INVESTIGATE INTO
THE CHALLENGES FACED BY SMALLHOLDER TEA FARMERS CASE OF
TOROR SATELITE AND TEGAT TEA FACTORIES**

KERICHO COUNTY

10TH APRIL, 2018

CLERK'S CHAMBERS

KERICHO COUNTY ASSEMBLY BUILDING

KERICHO

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Abbreviations

| | |
|-------|--|
| AGM | - Annual General Meeting |
| CEO | - Chief Executive Officer |
| CSR | - Corporate Social Responsibility |
| CSR | - Corporate Social Responsibility |
| EATTA | - East Africa Tea Trade Association |
| GDP | - Gross Domestic Product |
| ICT | - Information Communication Technology |
| JFK | - James Finlay Kenya Limited |
| KALRO | - Kenya Agricultural Livestock Research Organization |
| KPLC | - Kenya Power and Lighting Company Limited |
| KRA | - Kenya Revenue Authority |
| KTDA | - Kenya Tea Development Agency |
| KTGA | - Kenya Tea Growers Association |
| TRI | - Tea Research Institute |
| TRIEA | - Tea Research Institute of East Africa |

1.0 Preface

Mr. Speaker Sir, the Adhoc Committee was established through a motion tabled by Hon. Bernard Mutai and debated in the House on 6th of March 2018 to investigate on the challenges faced by small holder tea farmers (*see annexure 1 a copy of motion tabled by Hon. Benard Mutai*). This was occasioned by a boycott to pluck and supply green leaf tea to Toror tea factory by the smallholder tea farmers of Toror tea catchment area.

1.1 Establishment of the Adhoc Committee

Pursuant to Article 185,195 and 196 of the constitution and Section 9 of the County Government Act and the Kericho County Assembly Standing Orders an Adhoc Committee was formed on the 6th of March 2018 to look into the challenges faced by smallholder tea farmers of Toror tea factory.

The mandate of the Adhoc Committee included investigating the relationship between Tegat and Toror tea factories, the bonus variances paid by KTDA in various KTDA regions and that it reports back to the house within 14 days.

1.2 Membership of the Committee

1. Hon. Gilbert Ngetich – Chairman
2. Hon. Paul Chirchir – Vice Chairman
3. Hon. Cheruiyot Bett – Member
4. Hon. Benard Mutai – Member
5. Hon. Erick Koskei – Member
6. Hon. Eric Bett – Member
7. Hon. Collins Biegon – Member
8. Hon. Evans Kibet – Member
9. Hon. Beatrice Tonui – Member
10. Hon. Betty Koech – Member
11. Hon. Eric Korir – Member
12. Hon. David Rono – Member

13. Hon. Emily Kerich - Member

Secretariat to Adhoc Committee

1. Lynne Chepngeno - Committee Clerk
2. Nancy Bon - Hansard Reporter
3. Brian Langat - Legal Officer
4. Abraham Langat - Research Officer
5. Julius Kurgat - Commissionaire
6. Raymond Koros - Procurement Officer

1.3 Mandate of the Committee

The mandate of the Adhoc Committee was to investigate and report back to the assembly on the following issues;

- I. The relationship between the Tegat Tea Factory and Toror Tea factory ;
- II. The requirements for a factory to be autonomous;
- III. The number of farmers that supply their tea to Tegat tea factory and Toror tea factory respectively;
- IV. Breakdown of all assets and liabilities of Tegat and Toror Tea Factory;
- V. The total amount owed by Toror tea factory to Tegat tea factory;
- VI. Damages/Losses incurred by Toror Tea Factory and farmers to date as a result of the on - going strike;
- VII. The terms of agreement between KTDA and Toror tea factory and the amount to be paid by Toror tea factory to KTDA as management fee;
- VIII. The total bonus paid to the farmers supplying tea to Toror tea factory and criteria used by KTDA to arrive at that amount;
- IX. The relationship between Litein tea factory and Chelal tea factory;
- X. The total number ,names and location of satellite tea factories in west of rift region and east of rift region; and

- XI. The amount of bonus paid to farmers in west of Rift Region and east of rift region.

1.4 Legal Framework

The Adhoc Committee on its investigations and proceedings relied on the following pieces of legislation;

- i. Constitution of Kenya 2010;
- ii. County Government Act 2012;
- iii. Transition to devolved government Act 2012;
- iv. Intergovernmental Relations Act 2013;
- v. The Crops Act, 2013;
- vi. The Companies Act, 2015;
- vii. Agricultural Food and Authority Act, 2013;
- viii. Competition Act, 2010;
- ix. The County Assembly Standing Orders

2.0 Overview of the tea industry in Kenya

China is the leading producer of tea in the world followed by India and Kenya. Kenya produces about 450 million kilograms of made tea annually and it is the largest producer of tea in Africa. There are two categories of tea producers in Kenya namely large scale tea producers and small holder tea producers. Kenya is also the largest exporter of tea in the world.

Tea was first introduced in Kenya in the year 1903 by G. Caine and was planted in Limuru. The commercialization of tea was started in 1924 by Malcolm Fyers Bell, who was sent out by Brooke Bond to start the commercial estates. Kenya has become a major producer of black tea. Kenyan tea is one of the top foreign exchange earners, alongside tourism, horticulture, and coffee.

In 2017, the tea exports earned Kshs 129 billion and Kshs 15 billion from the local sales. This constituted 7 % of the GDP and supports over 6 million people. Kenya produced 439 million kilograms of made tea in 2017, of this output 56 % was from the smallholder tea farmers while 44% was from the multinationals and other tea growers and producers.

The task of managing smallholder tea farmers has been assigned to Kenya Tea Development Agency (KTDA). It manages 68 tea factories and serving over 500,000 smallholder tea farmers who have cultivation of over 100,000 ha. In terms of the local market, 60 - 65 % of the Kenyan tea is from Kenya Tea Development Agency factories.

In the year 2017, Kericho County produced 84,080,533 kilograms of made tea as compared to 93,116,171 kilograms of made tea the previous year. The current planted acreage is 42,305 ha (*See annexure 2 a list of tea production by counties*). Kericho County is the leading producer of tea in Kenya. With the support of all the stakeholders in the tea industry, tea production and tea trade as a scheduled crop has the capacity to improve on the livings standards of people in the west of rift if and only if tea production is taken as a business.

The fourth schedule part II of the Constitution of Kenya 2010 devolved Agriculture function and as such the Department of Agriculture, Livestock and Fisheries should take up the roles of improving on tea production, product diversification, value addition and marketing of made tea.

3.0 Committee Proceedings

The committee held its first meeting on 7th March 2018, where it drew up a programme on the places to visit and the people to be interviewed. The main focus was on the terms of reference. The committee immediately embarked on its core business by holding several meetings in the following areas:

3.1 Togat Tea Factory

Togat Tea Factory Co. Ltd. was incorporated under the Companies Act (Cap 486) by registrar of companies on October 1971. In 1974 James Finlays handed it over to KTDA. The factory is situated 7 km off Cherote (Kaptebeswet) junction south of Kericho - Kisumu road in Kapsuser ward, Belgut Sub - County of Kericho County.

The factory is headed by the Factory Unit Manager, who oversees all the operations of the company covering factory operations, leaf collection logistics, extension services, information and communication technology and accounting. Below the factory unit manager are the line managers as per the company organizational structure.

The company is a limited liability company with six board of directors elected directly by the Shareholders and one nominated gender director. The Board authors corporate policies governing the conduct of company business. Basic operational unit is the leaf collection centre owned by a group of growers within a locality.

The Adhoc committee members organized for a meeting with the management of Togat Tea Factory. In attendance were Regional Manager KTDA - Region 5, senior factory managers and Togat Tea factory board members. The meeting discussed at length the relationship between Togat Tea factory and Toror tea factory. The committee noted that Togat and Toror tea factories are one and the same thing since Togat owns toror by 1 share (100%).

The committee members proceeded with its program by visiting Toror Tea Factory on a fact finding mission. Togat has 26,997 out growers out of which 21,569 are active and the difference are the inactive members who most of them are assumed to have passed on and their shares still lying unclaimed. The committee was informed that the total number of shares issued for Togat is 50,080,572 shares. Commercial share register submitted to the committee showed that there are 45,198,314 shares.

The committee engaged the management agency, employees and the directors on various issues on Tegat and Toror. Some of the issues were referred to the head quarters of KTDA for deliberations. The management of Tegat had also recommended that all issues of Toror be handled and discussed at Tegat Tea Factory (*See annexure 3 a copy of letter from Godana - regional manager*).

3.2 Toror Tea Factory

Toror Tea Factory Company is a satellite Factory of Tegat Tea Factory and was established in the year 2006 and completed in the year 2008. The Factory is situated in Kericho County, Ainamoi Sub-County about 8 kms from Kericho town. The main objective of Toror tea factory is to manufacture and market C.T.C black teas that are safe for human consumption.

Upon completion, trial runs started on 20th January 2009 up to June 2009 under the management of the Mother Factory (Tegat). It started full commercial operations on 1st July 2009 and tea produced started being sold under Toror Tea Factory at the tea auction.

The current organizational structure of Toror comprises of Board of Directors who also double up as directors at Tegat Tea Factory representing six electoral areas and one nominated gender director. The Board is headed by a Chairman appointed amongst the board members. Toror is managed by Kenya Tea Development Agency under a management team headed by a Factory Unit Manager who oversees the overall operations of the company.

There are four departments in Toror tea factory namely, production whose function include manufacturing and factory operations; Field Services whose functions includes leaf collection and tea extension services; ICT which is specifically concerned with information, communication and technology functions; and Accounting whose main function is the preparation of management and financial accounting.

The committee members on arrival at Toror Tea factory were met by a huge crowd of smallholder tea farmers. Toror Tea factory at this point had a contingency of police officers manning its gates and they sent away the members of the Adhoc committee and the public. The Adhoc committee members managed to calm the situation and sought for an alternative venue to address the farmers.

After addressing the farmers and assuring them of support, the committee sought audience with the factory management for the second time but was met with rebellion and frustrations and police intimidation. Nonetheless, a brief meeting was convened outside the factory premises at the parking lot.

The committee observed the behavior of managers at the Toror tea factory and condemned the management for lack of respect to the local leadership and a committee of the County Assembly.

3.3 Committee meeting on 8th March 2018

The Adhoc committee conducted a meeting with a team of lawyers with an effort of seeking legal counsel on its mandate and to get a way forward on approaching various stakeholders in the tea value chain. The committee also sought clarification on the legal paths that the committee should take in order not to attract suits, given that tea is cash crop and can draw reaction from small holder tea farmers and the various stakeholders in the tea value chain.

3.4 Meeting with the KTDA Board and senior management.

The Adhoc committee convened a meeting with the top leadership organ of KTDA. Present in the meeting were the group CEO KTDA Holdings limited, KTDA board of directors led by the chairman of the board, senior management team, members of the Adhoc committee of the county assembly and its secretariat. This is one of the meetings that the Adhoc committee considered a success. The committee deliberated on the following issues;

- The determinants of pricing of tea include; volume of made tea, price of tea, growing condition, altitude, rainfall patterns and exchange rates. Every factory will derive a unique price depending on the market forces.
- The books of accounts for Toror and Tegat tea factories are prepared separately and consolidated.
- There is a policy in KTDA that all factories can do up to 20% direct sales and 80% sales through the auction. For a factory to do direct sales, it has to be consistent in terms of quality and supply of made tea. For instance Momul Tea factory and Imenti tea factory have been consistent over time in quality of made tea.
- The chairman of the board of KTDA holding limited alluded that for competition among factories to be encouraged, it is important that farmers be paid bonuses per factory i.e. Toror and Tegat tea factory to declare and pay bonuses separately. The practice currently is that the Toror factory tea bonus and Tegat factory tea bonus are averaged to arrive at a figure that disadvantages the factory that has declared high bonus amount.
- The committee learnt that Tegat tea factory has been using one auditor to audit its books of accounts for the last 15 years. The auditor audit books of accounts for Tegat and Toror tea factories. The various factory boards in subsequent AGMs appoint an auditor.
- The company secretary for KTDA Holdings limited doubles up as a company secretary for all the factories of KTDA. The role of a company secretary are statutory in nature including keeping records of the company, custodian of the company seal, custodian of titles and other legal documents of the company and providing legal advice to the company. The board of each company appoints the company secretary.
- A request was made to the KTDA board to consider making KTDA satellite factories independent.

- The shareholders of a tea factory are classified into two; Class A & B shareholders. Class A are the governance shares and class B are commercial shares. Class A shareholders are those tea farmers delivering tea to the factories. Their shareholding is dependent on the number of kilograms of tea delivered. Class A shareholding is for purposes of voting. Class B shareholders are those who participated in the construction of the company. Some funds were deducted from their monthly pay for purposes of constructing a factory.
- The board of directors for every factory determines the dividends to be paid to shareholders and decides on whether to pay interim bonus or not. The dividends are paid per share. The management agency had made recommendations to the directors to pay the interim bonus of between zero to 5 kshs per kilogram.
- The board of region five led by the directors resolved that satellite factories be build and that farmers were consulted before such an investment decision was made. The licensing of the factory is issued by the Tea Directorate.
- For a factory to be autonomous, there are certain legal and technical issues that must be addressed first. For instance in the case of Toror and Tegat tea factories, Tegat owns Toror by 1 share.
- The committee was informed that the transfer of shares from one factory to another is not possible by law but one can continue earning dividends from the shares one owns at any tea factory.
- After lengthy deliberations, it was resolved that KTDA embark on making each factory independent through the payment of bonuses separately so as to enhance competition. It was also agreed that the management agent be given time (of about 12 months) to look into making the satellite factories independent. All the stakeholders in the tea industry should embrace dialogue and spirit of cooperation and collaboration for the interest of the smallholder tea farmer.

3.5 Meeting at EATTA

EATTA stand for East Africa Tea Trade Association is a premier international organization representing 10 African countries and running the largest tea auction in the world in Mombasa. EATTA is a limited company by guarantee meaning they serve the interests of the members. EATTA has 80 producers, 10 packers, 18 warehouses, 82 exporters/buyers, 11 brokers and 4 associate members as sub-associations. EATTA is run by a 14 Member Board of Directors. Out of the 14 Board Members, 7 are from Kenya. Each sub association is represented at the Board level by a director. The four associate members are Uganda, Tanzania, Rwanda and Burundi. EATTA has one independent director representing the gender parity.

The breakdown of representation is as follows:

| S.No. | Sub – Association | No. of Directors |
|-------|---|------------------|
| 1. | Producers – Large scale and small scale (One for each) | 2 |
| 2 | Packers | 1 |
| 3 | Warehouses | 1 |
| 4 | Exporters | 3 |
| 5 | Buyers | 1 |
| 6 | Uganda | 1 |
| 7 | Tanzania | 1 |
| 8 | Rwanda | 1 |
| 9 | Burundi | 1 |
| 10 | Independent Director | 1 |
| 11 | Managing director, secretary to the Board | 1 |
| Total | | 14 |

Research Office, Kericho County Assembly.

Blending of tea may be considered as one of the strategies to correct prices of tea in Market. For instance the blending done by KETEPa, Chai Trading and some KTDA factories have resulted into meeting the market demand hence fetching high prices. Each factory is allowed to pick two brokers, one selling in the morning and one in the afternoon because of price fluctuations.

The brokerage fee is negotiated between the producers, brokers and the buyers. As it is now, the producers pay the broker 0.75% of the value of tea sold, the buyer pays 0.5% of the value of tea sold. This consolidates to 1.25% of the value of tea sold at auction. Initially the producer paid 1% but this was reduced to 0.75% in the year 2004 as a result of market liberalization. The tea price at the auction is determined by past prices, the quality, demand/supply and market intelligence.

3.6 Tea Auction

The members visit to EATTA culminated into a visit to the tea auction in Mombasa on 20th March 2018. Mombasa tea auction is the largest tea auction in the world bringing together more than 80 buyers. Tea auction operate in real time facilitated by ICT support systems. The auction is soon operating on e-auction platform. Tea traded at the Auction on 20th March 2018 with the following prices;

| S. No | Factory Name | Grade | Price per kg in \$ |
|-------|--------------|-------|--------------------|
| 1. | Kabianga | PF1 | 2.00 |
| 2. | Tilya | PF1 | 2.22 |
| 3. | Imenti | BP1 | 3.30 |
| 4. | Imenti | PF1 | 3.40 |
| 5. | Imenti | PD | 3.40 |
| 6. | Shagasha | BP1 | 3.15 |
| 7. | Shagasha | DUST1 | 3.12 |
| 8. | Gatare | PF1 | 2.98 |
| 9. | Kiptenden | BP1 | 1.60 |

| | | | |
|-----|-----------|-----|------|
| 10. | Kiptenden | PF1 | 2.30 |
| 11. | Karirana | PF1 | 2.66 |
| 12. | DL TEAS | PF1 | 2.30 |
| 13. | Maramba | BP1 | 1.90 |
| 14. | Arroket | PD | 2.34 |
| 15. | Lelagoin | PF1 | 2.05 |
| 16. | Mogeni | PF1 | 1.65 |
| 17. | Ngere | PD | 3.40 |
| 18. | Mungania | PF1 | 3.54 |
| 19. | Kiegoi | PD | 3.38 |
| 20. | Mungania | BP1 | 3.26 |
| 21 | Tegat | BP1 | 2.66 |
| 22 | Toror | BP1 | 2.61 |
| 23 | Tegat | PF1 | 2.81 |
| 24 | Toror | PF1 | 2.86 |
| 25 | Chelal | BP | 2.65 |
| 26 | Litein | BP | 2.67 |
| 27 | Litein | PF1 | 2.83 |
| 28 | Chelal | PF1 | 2.92 |

Research Office, Kericho County Assembly

3.6.1 Advice on the establishment of a Tea Auction in Kericho

The Auction in Mombasa deals with 10 countries and 82 buyers out of which 70 are active. The auction is fully automated and zero rated i.e. exempted from paying tax. As at now establishing a tea auction in Kericho would not be viable because of logistical challenges in terms of buyers traveling to Kericho. The question is who will bear the cost of transportation? However, with the development of the Standard Gauge Railway Kericho County can establish a tea export processing zone.

KTDA has branded itself over a period of time and has the best model in the world. Many countries interested in the production of tea, benchmark with KTDA with an aim to emulate its model. At the auction, all the factories are distinct and independent and made tea from these factories compete in a fair platform. Therefore, Kericho County can establish export processing zones and be conducting export promotions for various made tea.

3.7 Meeting at Chai Trading Company limited

The committee visited Chai trading company limited which is one of the 8 subsidiary companies of KTDA. It provides warehousing services to the 68 tea factories under KTDA. It operates 7 warehouses in different sites accommodating different capacities. Two of the seven warehouses belong to KTDA.

Made tea for Toror tea factory and Togat tea factory are stored in Mengo warehouse. Once tea is stored in the warehouse, a report is given to the marketing division of KTDA to commence marketing. When tea is sold at the auction and payments made, Chai trading Company handle the consignment and prepare the container for shipment.

The committee noted that Chai trading company was established as a result of a need to market and warehouse made tea from KTDA factories. Chai trading does trading, blending, warehousing and marketing of tea. They participate as a buyer of tea from KTDA factories at the auction. All the processes done by Chai trading was aimed at lowering the expenses tea farmers incur in the renting of warehouses as well as to improve on the prices of KTDA tea in the market.

The committee further noted that Chai Trading Company limited like any other KTDA subsidiary ploughs its proceeds to KTDA for further redistribution to the farmers as dividends or bonus. For instance in the financial year ending 2017, the committee was informed that Chai trading company limited made a profit of kshs 840 million and that 30 % of these profits were paid to KTDA, 30% paid to KRA and 40% as earning for the company to sustain its operations.

The buyers of tea including Chai Trading Company limited have preset prices of tea. It is difficult to push the prices of tea towards a higher limit once set by the buyer. Chai Trading Company limited is ranked the fourth in terms of buying tea at the auction. The first four performing companies in the auction are as follow:-

- i. Unilever Tea
- ii. Global
- iii. JFK
- iv. Chai Trading Company Limited

Unilever prefers the tea from Kericho because of its color and that the tea from Kericho is creamy. Chai trading company limited buys most of made teas from KTDA factories in the west of rift for purposes of blending and packing. This means that multinationals have a huge impact on the pricing of tea, since multinationals have a monopoly over made teas from west of rift.

3.8 Meeting at Choice Tea Brokers Limited

Choice tea brokers limited is one of the eleven brokerage firms operating in the auction. The broker takes initiatives to market tea, sell tea to buyers, and visit factories to verify the quality and right process of tea production. The tea brokers look for markets both local and international. They also operate laboratories to test the quality of tea before being delivered to various markets to ensure that all the required standards are met.

The committee noted that tea brokers are appointed by the directors for every factory and a contract is drawn between the board of a tea factory and the tea brokerage firm. There are two brokerage firms per factory. The price of tea in the auction is a reflection of the quality of tea. Choice tea brokers sell tea for the following tea factories; Toror, Kapset, Chelal, Tirgaga, Mau Tea(tilya), Kabianga, Kapchebet (Chimchim),Mogeni, Gianchore, Nyankoba, Mwamu, Kiamokama, Itumbe, Nyamache, Ogembo,Eberege and DL koisagat.

The aim of a tea broker in any market is to sell tea at a higher price than the previous week's price. Some of the brokers sell tea both from the East and West of rift factories. As it is now, only Choice tea brokers is the only tea broker at the auction handling tea from West of rift. There is need therefore to have another broker from west of rift region.

The contract between the brokers and the individual tea factories as endorsed by KTDA lasts for a period of three years. The strategies that a broker uses to market tea include direct sales to buyers, individual marketing in terms of meeting buyers and seeking their support to buy made tea, travel to tea destination countries i.e visiting consumers of tea such as Egypt, Iran, Pakistan etc.

The requirements for brokerage firm to be registered include;-

- Have 3 people in your company who know about tea;
- Have a signed confirmation that at least 6 tea factories will give you made tea;
- Have an office and at least 3 staff;
- Register with EATTA;
- Register with Tea Directorate.

The list of brokerage firms operating in Mombasa is as follows;

- i. Atlas tea brokers limited
- ii. Bicon Exim limited
- iii. Union tea brokers limited
- iv. Tea brokers East Africa limited
- v. Centreline tea brokers limited
- vi. Africa tea brokers limited
- vii. Combok limited
- viii. Choice tea brokers limited
- ix. Anjeli limited
- x. Prudential Tea Brokers E A ltd

3.9 Imenti Tea Factory

Imenti Tea factory is one of the KTDA factories situated in Meru County. It was established in 1971 and has over the years improved the quality of tea. The Adhoc committee resolved to visit Imenti Tea factory after noting the performance of its tea at tea auction. The committee received a warm welcome from the management of the factory led by the Acting Regional Manager and the Factory Manager.

Imenti tea factory was leading overall in tea bonus pay for the year 2017 with Kshs 59 per kg. Overall, Imenti tea factory was ranked 6th as at close of the year 2017 and by February 2018 it was ranked position 3 after Mununga and kathangariri tea factories. This shows that there has been tremendous improvement in all aspects of tea productivity at Imenti Tea Factory.

Imenti tea factory has a production capacity of 21 million kg with 5,827 small scale tea farmers occupying 3,956 acres of tea with 67 tea buying centres. The committee noted that selling price of tea depends largely on the demand of tea in the market which is dictated by overall production of tea worldwide. Cash flows for smallholder tea farmer determine the bonus pay in the sense that a higher pay per month to the farmer affects bonus pay at the end of the financial year. The plucking rate in Imenti is Kshs 10 per kg as compared to Kshs 7 per kg for most factories in region 5 (Kericho Highlands). There is efficiency in the collection of green leaf tea at imenti because of fleets of vehicles and good supervision. By midday all the green leaf tea is at the factory for processing.

The committee further observed that Imenti tea factory is a ISO certified factory including a fair-trade certification that is issued by the buyers. It is important to realize that a fair trade certified factory is able to receive premiums as fair-trade funds. Kapkoros tea factory is the only fair-trade certified factory in the west of Rift.

3.9.1 Strengths of Imenti Tea factory

- It does 3-4 rounds of plucking per month
- The type of green leaf accepted in the factory is the one with two leaves and a bud only.
- The factory has business minded tea framers who are empowered
- Strong committee members at the tea buying centres
- Team work is practiced in the whole value chain.
- There is no political interference because farmers trust their leaders
- Imenti has fairly good road network
- The furthest tea buying centre is 17km
- There is no tea hawking in the East of Rift region
- Good crop husbandry is practiced
- Good brand name for most factories in the East that has been identified by critical buyers
- Good mix of tea buyers across the globe from both the liquor and leaf appearance market
- There are hybrid tea buyers because of consistent quality

3.9.2 Achievements of Imenti Tea Factory

- ✓ It facilitated scholarship for 8 secondary school students, 5 boys and 3 girls.
- ✓ The factory has embraced use of technology starting from weighing of its green leaf.
- ✓ The maximum number of Kilograms allowable per bag is 12kg.
- ✓ Factory has organized 3 medical camps in conjunction with other stakeholders.
- ✓ The factory conducts corporate social responsibility with other strategic partners such as the buyers.
- ✓ Use of hydroelectric power to supplement on the power needs of the tea factory.

3.9.3 Major drivers of performance in the tea industry

- Market price
- Conversion factor
- Production cost
- Crop husbandry – fertilizer, weeding, pruning, timing of plucking and how the green leaf is transported.

3.1.0.0 Kenya Tea Growers Association (KTGA)

The committee scheduled for a meeting with KTGA on 28th March 2018. KTGA was formed in 1931 by large scale tea producers to promote the common interests of plantation sub-sector members. It is under the labor relations act geared to engage on matters of labor. It negotiates on behalf of its members in the agricultural sector and advocates for its members. KTGA has 15 members and its membership to KTGA is open to growers who maintain over 10 hectares of tea.

3.1.0.1 Mandate of KTGA

- Promote the common interest of the plantation subsector members in the cultivation and manufacture of tea;
- Promote and coordinate the tea plantation subsector in Kenya with over 39 tea factories and accounts for about 40 percent of total production
- Promotes the common interest of the plantation sub sector members through leadership training in the cultivation and manufacture of tea.

KTGA has rolled up a number of development projects as part of CSR in Moi Tea girls secondary school, Kericho primary school and Kericho tea boys secondary school.

3.1.1.0 Tea Research Institute

The Adhoc committee visited the Tea Research institute on 29th March 2018. Its major concern was to find out the suitable clones for smallholder tea farmers in the west of rift, that could improve the yield and quality of made tea hence high returns to the farmers.

3.1.1.1 Location

The Institute is located in Kericho County about 12 km from Kericho town along Kericho-Nakuru Road. The TRI occupies 160 ha of land to the East of Mau forest.

3.1.1.2 The Mandate of Tea Research institute

The Tea Research Institute mandate include; development of improved clones, appropriate technologies for improvement of yield (quantity of green tea leaf/made tea per hectare) and quality of tea products.

The Tea Research Institute (TRI) was created under the KALRO Act of 2013. It was established to replace the former Tea Research Foundation of Kenya (TRFK) to contribute to the overall production, processing and marketing of tea.

Research on tea was introduced in Kenya in 1949 by Brooke Bond through their company known as African Tea Holding limited. It later evolved to Tea Research Institute of East Africa (TRIEA) in 1951. Following the breakup of the East African community in 1977, TRIEA wound up and the government established the TRFK in 1980.

The Institute has developed over 914 improved clones, out of which 53 clones have been selected for consistent superiority in yield and quality and released for commercial exploitation by both smallholder and large estate growers (*see annex 4 a list of released clones*).

Tea Research Institute has developed a new tea clone ("Purple tea") rich in a pigment called anthocyanin widely used for the manufacturing of fast moving consumer goods such as soaps, shampoo and detergents.

TRI in conjunction with KTDA factories train KTDA extension officers on crop husbandry and best practices in tea farming. TRI proposed the following interventions to be considered by the County Government of Kericho:-

- Construct good road network in tea growing areas. This can be done jointly by all the stakeholders in order to ease transportation of green leaf.
- Contract private transporters of green leaf from tea buying centres to the factory
- Use of high efficient plucking machines to reduce the cost of labor
- Do away with Tea hawking as it affects the quality of tea.
- Mobilize, facilitate or provide incentives to farmers to attend seminars at the Tea Research Institute for purposes of understanding new high yielding clones.
- Facilitate farmers to replace the old unproductive clones with new variety of clones.
- Increase the number of tea buying centres to ease congestion of green leaf at the tea buying centres

3.1.2.0 Tea Directorate

The Adhoc committee on 4th April 2018 visited the tea directorate formerly the tea board of Kenya. The committee sought to understand in details the mandate of the tea directorate in the tea value chain. It was established that the tea directorate was created under the Agricultural Food Authority Act of 2013 when the government policy was to merge and consolidate all the parastatals in the then parent Ministry of Agriculture. The AFA Act, 2013 among other functions caused the repealing of the Tea Act.

The mandate of tea directorate includes regulation and controlling of tea production, promotion and marketing of Kenyan Tea, offer technical advisory services to the

stakeholders of tea industry in Kenya and licensing of tea manufacturing companies, tea brokers and tea packers.

The stakeholders of Tea directorate include;

- i. AFA tea directorate
- ii. KARLO TRI – Kenya Agricultural and Research Livestock Organization; Tea Research Institute.
- iii. KTDA – Kenya Tea Development Agency
- iv. KTGA – Kenya Tea Growers Association
- v. NTZDC - Nyayo Tea Zones Development Corporation
- vi. EATTA – East Africa Tea Trade Association

The committee noted that tea production shall improve the if the county government partner with tea factories on field extension services, facilitate early collection of green leaf from tea buying centres, improve road infrastructure, diversification into other types of tea such as purple tea, orthodox tea, white tea and green tea and facilitate the development of cottage tea factories for manufacture of specialty teas.

4.0 Justification of the visit to various stakeholders

The Adhoc committee in an attempt to respond to the terms of reference visited the following institutions:-

- a) KTDA is the custodian of management agreements and is responsible for determination of bonus pay and other critical records for KTDA factories. The committee could not have made its findings without a visit to KTDA headquarters.
- b) The tea directorate is responsible for licensing of tea factories in Kenya. It is important for the committee to understand the licensing requirements for a tea factory such as Toror. Tea Directorate also regulates the various players in the tea industry. In case there is a problem in a factory, the tea directorate can take necessary disciplinary action including revoking a manufacturing license.

- c) East Africa Tea Trade Association is a member association coordinating the activities at the tea auction. For the committee to understand pricing of tea, the committee had to consult EATTA.
- d) Tea auction is where the made teas from various factories are sold. The bonus tea farmers earn results from prices of tea and quantity of tea sold less expenses. It was important to find out the sales of tea.
- e) Tea brokers are the firms that sells made tea on behalf of the factories at a fee. The tea prices are controlled by the brokers. Each factory is required to have two brokers each selling tea in the morning and afternoon. Choice tea brokers limited sells made teas of factories from the west of rift region.
- f) A visit to Chai trading company was important to ventilate on the performance of the KTDA subsidiaries as chai trading purchases made teas from KTDA factories.
- g) Tea Research institute is concerned with the development of new clones and advice farmers on the best tea clones for maximum productivity.

5.0 Committee findings on the terms of reference

With respect to the terms of reference, the Adhoc committee ventilated on various reports, conducted interviews and investigations, and made the following findings;

5.1 The relationship between Togat Tea Factory and Toror Tea factory;

The committee noted that Toror tea factory is a satellite tea factory of Togat and wholly owned by Togat through 1 share (100% ownership). This means that the shareholders of Togat Tea Factory own Toror Tea Factory. However, in subsequent Board resolutions of Togat, the shareholding of toror were split into Togat factory (50%) and KTDA holdings limited (50%).

The committee noted that despite the two factories registered as separate legal entities, they have one board operating from Togat Tea Factory. It important to note that Toror tea factory has been operating as a shell/ dormant company (*See annexure 5 a copy of board resolution, incorporation of Toror Tea factory*). A dormant company means a company that is dormant during any period in which it has no significant accounting transaction. According to Section 714 of the Companies Act, a dormant company is

exempted from audit. On July 2017, Toror tea factory was incorporated as a private limited company.

5.2 The requirements for a factory to be autonomous;

This question was posed in several meetings with the various stakeholders in the tea industry. However, no straight and satisfactory answer was obtained. The Adhoc committee in its investigations observed that satellite factories were established by KTDA with an aim of decongesting 'mother' factories but no clear policy on satellite factories was in place and neither was public participation done adequately by the management agency.

5.3 The number of farmers that supply their tea to Tegat tea factory and Toror tea factory respectively;

The out growers of Tegat Tea Factory were reported to be 26,997 out of which 9,278 comes from Toror tea catchment area. Out of the 26,997, it was reported that about 5000 out growers are dormant and that 21,569 are active. The tea farmers from Toror catchment area reported that there are about 12,000 tea farmers from Toror area.

5.4 Breakdown of all assets and liabilities of Tegat and Toror Tea Factory;

From the onset of meetings and site visits conducted by the Adhoc committee, it was evident that Tegat tea factory has its own assets and so is Toror tea factory. In terms of reporting, consolidated books of accounts are kept. This does not give a true position of the two factories in terms of assets and liabilities. The total assets for Tegat tea factory as at 30th June 2017 amounted to Kshs 2,122,034,822(See annexure 6 a copy of annual reports for Tegat tea factory as at 30th June 2017).

5.5 The total amount owed by Toror tea factory to Tegat tea factory;

The tea farmers contributed Kshs 169 million that were deducted over a period of time from their pay slips. A financing plan through a loan from a financial institution was initiated by the Board of Tegat Tea factory to complete the construction of Toror tea factory. On scrutiny of the books of accounts as at 30th June 2017, it shows that Tegat Tea factory has a long term loan of Kshs 242,780,290 and a short term loan of Kshs

42,345,260 (*See annexure 6*). It shall be recalled that during the construction of a tea factory, smallholder tea farmers from Toror catchment area also contributed to the building of Toror tea factory.

5.6 Damages/Losses incurred by Toror Tea Factory and farmers to date as a result of the on-going strike;

The management of KTDA estimated the loss incurred by Toror tea factory to be Kshs 24 million. The management of KTDA pointed out that the processing of Tea had always been alternated between the two factories and that neither of the catchment areas supplies green leaf tea to the nearest factory. The determination of where the tea is processed is the decision of the management agency.

5.7 The terms of agreement between KTDA and Toror tea factory and the amount to be paid by Toror tea factory to KTDA as management fee;

The management of the KTDA factories and its satellite factories is contained in document known as Management Agreement. All KTDA factories as currently constituted have Articles and Memorandum of Understanding to govern its operations and the relationship with its shareholders. The Memorandum and Articles of Association for Toror tea factory submitted to the committee was inadmissible since it was not authentic (document not signed). KTDA factories charge 2.5% of the profits made by the tea factory as management fee (*See annexure 7 a copy of management of Tegat Tea factory. Pg.16*). Toror tea factory uses the management agreement for Tegat tea factory. A board resolution by Tegat Board authorized the management agency to incorporate Toror Tea Factory Company Limited as a subsidiary wholly owned by Tegat tea factory (*See annexure 5 & 8 a copy of board resolution and minutes of the Tegat board*).

5.8 The total bonus paid to the farmers supplying tea to Toror tea factory and criteria used by KTDA to arrive at that amount;

Bonus is paid as a result of quantity of tea sold at particular market prices which are factory specific. Once the returns are calculated by multiplying average price by the quantity of tea sold, expenses are deducted to arrive at gross profit.

From the gross profit obtained, depreciation costs are deducted if any to arrive at the net profit. It is this net profit that constitutes the bonus paid to the farmers. Therefore price and quantity are important variables that determine the bonus paid to farmers in a specific KTDA factory. Nonetheless, the price is determined by quality of tea, buyer's tastes preference and demand/supply.

The bonus schedule reveals that bonus paid for Toror and Tegat is combined. The financial year 2015/2016, Kshs 1,088,654,600 was paid to Tegat/Toror being the highest amount of bonus in region five. The total bonus for FY 2016/2017 for Tegat/Toror was Kshs 903,456,906 (*See annexure 9, a copy of bonus schedules for the last 5 years*).

5.9 The relationship between Litein tea factory and Chelal tea factory;

The Adhoc Committee could not determine the relationship between Litein and Chelal tea factories since the matter of autonomy and separation was before a court of law. Discussion of a matter that is before a court of law pending determination amounts to *subjudice* as per the provision of Standing Orders 89 of the County Assembly (*See annexure 3*).

5.1.0.0The total number, names and location of satellite tea factories in west of rift region and east of rift region;

The Adhoc Committee observed that most satellite factories are located in zone 8 and 9 that is in region five. Region five has the following satellite factories; Toror a satellite of Tegat, Chelal a satellite of Litein, Rorok a satellite of Kapset, Tirgaga a satellite of Kapkoros, Motigo a satellite of Kapkoros, Kobel a satellite of Mogogosiek, Tebesonik a satellite of Kapkatet, Rianyamwamu a satellite of Kiamokama, Itumbe a satellite of Nyamache, Eberege a satellite factory of Ogembo, Kaptumo is a satellite of Chebut and Olenguruone a satellite of Kapkoros.

In the East of rift, there is only one satellite factory by the name **Kiegoi tea factory** which is a satellite of **Igembe tea factory**. In total, there are 11 satellite factories in the west of rift and 1 satellite factory in the east of rift region (*see annexure 9*).

An assessment by the Tea directorate reveals that the processing capacity of factories in the west of rift is at 72% and the optimal processing capacity is 80%. This implies that we do not need as many satellite tea factories as the factory boards are propagating.

5.1.1.0 The amount of bonus paid to farmers in west of rift region and east of rift region.

The bonus variances as paid to KTDA tea factories between the West of rift region and East of rift region tea factories has always been pegged on the **quality of tea** as the main factor. The committee learnt that the quality of tea should not bring a significant variance in bonus pay.

The monthly proceeds from tea farming is spent in the management of tea at the farm such as weeding, plucking and delivery of tea to tea buying centres. Hence farmers with low acreage of tea face challenges as they get little amount of money monthly. The price for labor of plucking tea in the west of rift is kshs 7 per kg while in the east of rift is kshs 10 per kg.

The tea farmers in the east of rift are paid kshs 15 per kg of green leaf delivered to the factory whereas the tea farmers from the west of rift are paid kshs 16 though the directors have always agitated for Kshs 20 per kg of green leaf. The variance in prices for initial payment affects the outcome of the bonus. A snapshot of the average prices of made tea per kg for the year 2016/2017 is as follows;

1. Mununga tea factory \$3.74 per kg
2. Gathuthi tea factory \$ 3.73 per kg
3. Imenti tea factory \$ 3.66 per kg
4. Momul tea factory \$2.90 per kg (Best in the west of rift -region 5)
5. Lowest tea factory in west of rift \$ 2.57 per kg

Additionally, tea prices are determined by the leaf appearance and the liquor of tea upon tasting. It is important that this **House** be informed that the tea produce from Kericho County and the West of rift in general is marketed on the platform of its color.

The tea sold based on color is low in price at the market because of the monopoly by Unilever who are interested in quantity and not quality. This explains why the tea from west of rift end up in one major market United Kingdom, which is placed in position three in the list of countries buying tea from Kenya as shown below (*see annexure 10, exports to top 6 market destination*).

The above phenomenon is the biggest contributor to the disparities in the bonus pay in addition to poor quality of tea produced in the West as compared to the East of rift region. The cumulative annual bonuses paid to KTDA factories are shown in *annexure 9*.

6.0 Committee observations

The committee made the following observations:-

- That Toror Tea factory is owned by both Tegat Tea factory (50% shareholding) and KTDA holdings limited (50% shareholding). The Tegat tea factory has all the rights according to the board resolutions to appoint all the directors of Toror tea factory and that the directors of Tegat Tea factory shall be directors of Toror. The regional manager of KTDA region 5 sits as a director in the Tegat board (*refer to annexure 5*).
- That the smallholder tea farmers are not consulted on key decision made by the management agency. A case in point is where the directors of representative factories in the west of rift make a decision not to pay the interim bonus without consulting the principal shareholders (*See Annexure 5 a copy of board resolutions 2nd quarter; pg 2*). Over the year in the recent past, such a decision has not only made farmers impoverished but meeting their financial obligations has been difficult. Additionally, smallholder tea farmers have not been sensitized with regards to acquisition of shares and its categorization. Hence farmers have not been

empowered to acquire shares and to have a stake as it should. For instance, founder members (Class A Shareholders) have been forgotten since they are not paid dividends.

- That KTDA as a management agency has evolved over time and is currently running 8 subsidiary companies that are profit making entities. The committee finds that the profits made by the subsidiaries may not necessarily translate to proceeds to the smallholder tea farmers. The subsidiaries are as follows:
 - i. **Chai Trading Company limited;** a tea trading company formed by KTDA to purchase tea, market tea, warehousing and coordinating the shipping of tea consignment to various export destinations.
 - ii. **TEMEC (Tea Machinery and Engineering Company limited);** was established to provide a modern workshop for fabrication and assembly of tea machinery and agency services for the tea factories.
 - iii. **Greenland Fedha limited;** a microfinance entity formed to provide access to credit facilities to the smallholder tea farmers. The loan granted to farmers is deducted from the monthly tea payments.
 - iv. **Kenya Tea Packers Limited;** a tea packers limited doing blending and branding and exporting teas.
 - v. **KTDA Power;** a KTDA subsidiary working on the generation of hydropower energy to supplement on the KPLC power.
 - vi. **KTDA Foundation;** is a non-profit charity of KTDA that is responsible for fundraising and facilitating charitable works.
 - vii. **Majani Insurance Brokers;** was started as an insurance department to cater for insurances services within the KTDA industry.
 - viii. **KTDA Management Services Limited;** manages the 68 KTDA tea factories through management agreements with respective tea factories at a monthly management fee of 2.5% of the net proceeds of sale of manufactured tea.

- That buyers at the auction practice selective tasting of tea as they consider the market entry and consistency of the tea produce in terms of quality and other attributes. Buyers buy tea after seeing the colour and doing the actual tasting. These determine the prices of tea.
- Chai Trading Company Limited as a subsidiary of KTDA purchases about 90 % of the made tea from KTDA factories and does further trading of the made tea including blending so as to suit various markets. This means that Chai Trading Company comes as an intermediary between the KTDA factories, local and international markets.
- That the KTDA tea factories from the West of rift are disadvantaged since they compete with Multinationals such as Unilever, James Finlay e.t.c. Since the made teas produced in the West of rift exhibits similar characteristics and weather conditions as those of the multinationals, means that prices of tea from KTDA factories in the west of rift are dragged downwards.
- That out of the 11 tea brokerage firms registered by EATTA, only one known as Choice Tea Brokers limited sells tea for 17 tea factories from the west of rift only, hence the need to establish more brokerage firms in the west of rift region.
- That some factories from West of Rift have brokers handling made teas both from east and west of rift. The committee further observed that the brokers handling both east and west may not have the motivation to work hard in the marketing of teas from west. This means that tea prices in the west remain low.
- That marketing by the KTDA, tea brokers, consistency in quality, demand, supply, consumer's tastes and preferences, market speculation, weather patterns, good crop husbandry and the market entry determines the price the tea will sell at the auction. These factors need to be improved for a factory to sell its tea at a higher price.
- That most tea clones planted in the East of rift is **31/8, 6/8** and in the West of rift is **15/10**. There is no much difference that the type of clone contributes to the pricing of tea. This leaves the quality of tea, demand and supply as key

determinants of price. The multinational tea companies in the West of rift have a big influence on the clones planted by the tea farmers in the west of rift. Such clones by the multinationals are for quantity and not quality. The committee further observes that clone **15/10** is meant for quantity and not quality of tea.

- That the KTDA factory directors in the East of rift are not changed frequently as in the west of rift. In fact, most directors in the east are elected unopposed whereas the tea growers from the west of rift region change directors every voting cycle because of dissatisfaction in performance hence affects the management of factories.
- That the financial statements for factories in the East of rift are distributed to farmers before every AGM for the purpose of enhancing accountability and transparency. This is a complete departure from the practices that happens in the west of rift.
- That the factories in the east of rift disseminate information through extension officers, farmer field schools, farmers visit factories to check on the programmes the factory is undertaking as well as comparing notes and sharing good practices.
- That the tea factories in the west of rift are led by directors who are of age and thus do not bring vibrancy and the speed to which work is supposed to be done. The committee further observes that slow decision making in the factories have hampered growth and development of the tea factories.
- That in every tea buying centre in the west of rift, the weighing of tea is not done properly. The weighing scales used could be faulty and can be used for fraudulent activities. This needs to be investigated and those culpable be held accountable.
- Once a tea farmer contributes to the construction of the tea factory, one is entitled to be a shareholder for both classes of shares. The committee observes that there is no clear criteria for the award of the shares especially to the smallholder tea farmers and farmers have no share certificates as proof of shareholding.

- The committee observed that there is delay in expanding capacities of the factories which affects the quality of tea. Despite the fact that the operating capacity of the factory has not been exploited, the KTDA factories west of rift are congested and there are delays in the manufacturing processes caused by delays in delivery of green leaf from tea buying centres.
- The presence tea hawking as a practice has eroded the quality of made tea in the west of rift. The hawkers of the green leaf in most cases do not consider the standards such as two leaves and a bud, hence the poor quality of tea from the west of rift where tea hawking is rampant.
- The quality of tea from the west of rift is low because of poor crop husbandry and lack of attention by smallholder tea farmers as tea farming has not been taken as agribusiness by most smallholder tea farmers.
- Tea factories from west of rift except few factories such as Momul are not consistent in their production and quality standards.
- Market entry is poor for most factories in the west of rift. For a factory to sell, the factory has to make it right the first time in the market. With persistence and improvement of quality of tea, it creates a name for itself in the market and buyers will be quick to identify and purchase tea from such a factory. This causes a ripple effect and farmers returns will improve.
- The competition from private tea factories. The East of rift has only one private factory. On the contrary, the west of rift has more than one private factory. In spite of the fact that farmers having choices in terms of where to sell their green leaf, not all private factories concentrate on the quality of tea, hence the practice of hawking is encouraged which in the long run decreases value of tea from the West of rift. Decreased value of tea leads to lower prices and hence low returns to smallholder tea farmers.
- The presence of multinational tea estates in west of rift region enhances further competition as compared to the east of rift. This is because the teas produced by the multinational tea factories compete for the same markets.

- The potential buyers do not trust the factories from the west of rift. This lack of trust affects the sales of made tea from the west of rift. This is a situation where buyers adopt a wait and see mode expecting that the quality of tea will improve. This may have been contributed by the inadequate marketing strategies by the KTDA.
- The directors who have been elected by the small holder tea farmers do not represent the interest of the smallholder tea farmers. This is evident since farmers in the west of right are not informed on the operations and key decisions of the KTDA managed factory. A case in point is where the directors of factories in the west of rift resolve that farmers not to be paid advance payment (Interim bonus) (*see annexure 5*).
- In 2017, 67.8% of tea produced by the factories in region 5 was bought by Cargill Kenya, a tea buyer for Unilever. This leaves 32.2% to be shared by about 79 buyers. In essence, this portrays an image of monopoly by Unilever as a single buyer. Value addition through continuous improvement of quality consistently will change this position.
- There are delays in the collection of tea leaves from the tea buying centres. This affects the quality of tea. Other bad practices include the stuffing of tea in sacks by the farmers. The tea should be handled carefully all the way from the farm to the factory.
- That a 2 plucking cycle practiced in the west of rift region affects the quality of green leaf. Small holder tea farmers and the management agency should institute the 3 - 4 plucking cycle. This strategy has born fruits in the east of rift where farmers pluck their tea 3 - 4 times a month.
- As compared to the East of rift, the West of rift factories do not share critical information to the smallholder tea farmers as required by law. This is contrary to Article 35 of the constitution of Kenya 2010. Such practices at factory level do not support empowerment of tea farmers since information is power.

- That the directors at the factory level are responsible for recruitment of casuals, transportation of tea from tea buying centres, and procurement activities at the factory.
- That the level of education of the directors from the west is wanting as compared to the mandate they undertake in comparison with the directors from the East. This factor alone explains why the agenda of the shareholders who are also the smallholder tea farmers are not handled properly. There is limited information given out by the directors to the shareholders as compared to the directors and unit managers in the East of rift.

7.0 Committee Recommendations

The Adhoc Committee recommends as follows;

- i. That the relevant legislations and governance documents be reviewed to consider number of Zones of each Factory so as to reduce over representation at the factory level. This will minimize the costs hence returns to the factory will improve and smallholder tea farmers will benefit.
- ii. That the tea directorate ensures that voting of Directors by shareholders be based on each tea farmer (that is one man one vote) and not the number of cumulative shares as held by each shareholder. In this regard class A (founder shares) shares should not be used solely to determine the representation.
- iii. That an independent audit firm or research firm be appointed to conduct a scientific research on various challenges faced by small holder tea farmers. The independent research firm is to conduct forensic audit on cost outlays and management practices in tea factories in the west of rift.
- iv. The management agency is compelled to set aside funding for capacity building of the smallholder tea farmers. Capacity building involves continuous training of farmers on good crop husbandry. This will help improve on the value addition and thus increased income for the farmers.

- v. That the Department of Agriculture Livestock and Fisheries in collaboration with Tea Research Institute take up the matter of improving the tea clones for smallholder tea farmers by sensitizing tea farmers to plant clones that produces maximum returns. As such, the department should facilitate farmers to change the tea clones and start thinking of valuable tea clones by availing tea seedlings at a subsidized price.
- vi. That an analysis of the tea value chain be conducted in west of rift region and have a paradigm shift to change the process, human resources and quality of tea produced in order to re-introduce high quality made tea to the market. Ensure inclusivity of all tea farmers in the tea value chain.
- vii. Establish and execute robust mechanisms at the factory level such as cost cutting measures, fast track the power generation so as to subsidize on the costs of power.
- viii. That the number of zones be reduced in the east of rift or be expanded in the west of rift in view of the areas that are over represented. The legislations that establish the offices of the directors be looked into so as to change the voting patterns to be one tea farmer one vote and academic qualifications of directors be enhanced. The small holder tea farmer needs to have a say in the election of directors who are highly qualified for better representation.
- ix. That the good management practices by KTDA be applied uniformly across the KTDA factories, notwithstanding the variances in terms of geography and political dynamics. KTDA should at all times be neutral as a management agent.
- x. That the County Government of Kericho through the department of Agriculture partner with KTDA to facilitate agricultural extension services in the tea crop husbandry for maximum returns. Key extension services to include farmers training on crop husbandry, increasing the plucking cycle and plucking the right leaf.
- xi. Small holder tea farmers should be empowered to 'own' the KTDA factory as is the case for Momul tea factory where farmers have deliberately taken initiatives

- to improve on the quality of leaf delivered to the factory. As a result of good management practices, Momul tea factory is doing well in the west of rift.
- xii. That the Kericho County Government facilitates exchange programmes such as benchmarking visits for purposes of sharing knowledge between the tea growing regions. The department of agriculture is hereby tasked to facilitate farmer exchange programmes by drawing such programmes, sourcing of funds and execute the programmes not only for tea but for all the scheduled crops in County.
 - xiii. That the County Government of Kericho work closely with the KTDA, factory directors and other stakeholders through the spirit of cooperation and collaboration in the best interest of the tea farmers. This includes having regular meetings with the stakeholders and supporting tea framers in the best way possible. For instance, the County Government of Meru has taken initiative through its leadership to market tea from Meru. This should be replicated in Kericho County.
 - xiv. That all the stakeholders provide a conducive environment for the operations of the factories to run smoothly such as having a good will towards enhancing performance of the KTDA factories. Factory directors' capacity should be enhanced through sensitization of their duties and responsibilities so as to do their work efficiently and effectively.
 - xv. That the County Governments of Kericho come up with a tea value addition bill that seeks to address payment to tea farmers, facilitate the setting of an agro processing plant in Kericho to package, blend and market tea from Kericho County. The value addition bill may also seek to compel KTDA factories to supply a portion of made tea to the agro processing plant.
 - xvi. That each satellite factory conducts an AGM independently and the board of directors should be independent as the company is a registered legal entity.
 - xvii. That each KTDA factory appoints a different company secretary from the management agency company secretary to avoid issues of conflict of interest.

- xviii. That the payment of bonuses be declared independently and paid to each KTDA factory so as to encourage competition and enhance the quality of tea.
- xix. That each factory appoints an auditor for a period of three years as required by the Companies Act, 2015. This will ensure that accountability and transparency is realized.
- xx. That the management agency employees i.e. the regional manager should not overstay in a certain region or factory.

8.0 Acknowledgement

The Adhoc committee wishes to thank the offices of the Speaker and the Clerk for facilitation. The Adhoc committee recognizes the following institutions for their valuable input in these investigations; the KTDA Holdings Limited, KTDA factories (Tegat, Toror, Imenti), EATTA, Chai Trading Company Limited, Choice Tea Brokers Limited, Kenya Tea Growers Association, Tea Research Institute, Tea Directorate, consultants, and tea farmers who appeared before the committee.

Additionally, the Committee appreciates the House for the cooperation and the humble time it accorded it during the investigations including additional time to compile this report.

Pursuant to standing order number 194, it is my pleasant duty to present to this honorable House the Adhoc Committee report on the challenges faced by smallholder tea farmers and the recommendations for consideration.

Signed:

Dated:.....

Hon. Gilbert Ngetich,

Chairman Adhoc Committee,

Member of County Assembly, Kisiara Ward.

9. References

- i. Constitution of Kenya 2010
- ii. Companies Act, 2015
- iii. County Government Act, 2012
- iv. Company Websites e.g. <http://ktda.go.ke/>
- v. Power point presentations during consultative forms
- vi. Live proceeding at the tea auction
- vii. Visit to KTDA tea factories
- viii. Structured interviews
- ix. Kericho County Assembly Standing Orders