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ON THE

LIBERALIZATION AND RESTRUCTURING OF THE TEA INDUSTRY

REFORMS IN THE TEA BOARD OF KENYA

AND

PRIVATIZATION OF THE KENYA TEA DEVELOPMENT AUTHORITY

MARCH, 1999

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SESSIONAL PAPER ON THE LIBERALIZATION AND RESTRUCTURING OF THE TEA INDUSTRY

Reforms in the Tea Board of Kenya and Privatization of the Kenya Tea Development Authority

March, 1999

1.0 INTRODUCTION AND HISTORICAL BACKGROUND

Tea was introduced in Kenya in 1903 when a few tea plants were planted at Limuru in Kiambu District by the white settlers for experimental purposes. Pursuant to the annexation of the land policies through the Registration of Documents Ordinance of 1901 and the Crown Lands Ordinance of 1915, the European agricultural settlement schemes in the Kenyan highlands started. The European agricultural settlement schemes were re-affirmed when the European Agricultural Settlement Ordinance was enacted and by 1924 tea cultivation had attained commercial production level.

The first legal instrument to govern the production of tea was enacted as the Tea Ordinance, 1934 (No 46 of 1934). This Ordinance was revised by the Tea Ordinance, 1948 (No. 52 of 1948) which became effective on 25th August, 1948. The objectives of the Tea Ordinance, 1948 were to provide for the control of the production of tea in the Colony. The institution of the Directorate of Agriculture was responsible for controlling the production of tea by issuing licences and permits to farmers until 1950 when the Tea Board of Kenya was established to regulate the industry.

Following the agitation for independence from 1947 onwards, a study of the african agriculture was made and the Swynnerton Plan of 1954 was drawn up to be implemented by the Government to help improve the african agriculture. By 1960, the European Agricultural Settlement Ordinance, 1955 (No. 38 of 1955) was repealed and the Agriculture Ordinance (No.8 of 1955) was amended by the Ordinance No. 47 of 1960 in order to reflect the new changes in the agricultural sector. At that time the European farmers were already experienced in the cultivation of tea but African farmers were only beginning to grow tea. They started planting tea, among other cash crops, between 1956 and 1959.

To promote the cultivation of cash crops the Special Crops Development Authority (SCDA) was formed under the Agriculture Act in 1960. This body was replaced by the KTDA in 1964 when the Kenya Tea Development Order 1964 was promulgated. At the time of independence in December 1963, the tea estates and the few smallscale farms had 21,448 hectares of planted tea.The area planted has increased over the years to stand at 113,892 hectares by 1997.

The Tea Ordinance, 1948 was repealed by the Tea Act of 1960 (No.61 of 1960). Since then, the legal framework has been used without major amendments. While great strides have been made in the development of the tea industry, especially under the small holder sub-sector under the KTDA , the relevant institutions, the policy and legal framework need to be reviewed particularly now under a liberalized economy. The substantial growth and structural changes experienced by the industry over the last 34 years is evidently due to the very conducive policy environment that has encouraged continued investment in the estates sub-sector and the smallholder sub-sector.

Kenya is famous the world over for its production of high quality tea. The Government recognizes the important role of agriculture as the major sector in the Kenyan economy in terms of feeding the nation, creating employment, generating increased income and foreign exchange and providing raw materials for industry. To effectively manage and enhance the ability of the sector to play this important role, the Government has undertaken significant structural adjustment reform measures such as liberalization and privatization of the various agricultural sub-sectors. In view of accelerating this process within the tea sub-sector, the Government has developed a detailed action plan on the structural reforms within the tea industry,and in particular the privatization of the Kenya Tea Development Authority (KTDA) which has been managing the tea activities in the smallholder sub-sector and modalities to strengthen the Tea Board of Kenya to enable it undertake its mandated role as the main regulatory body of the industry.

2.0 OVERVIEW OF THE TEA INDUSTRY

Tea is currently the leading agricultural foreign exchange earner for the country. In 1995, tea accounted for 20% of total exports earnings followed by coffee which accounted for 15% and horticultural produce which accounted for 9%. In terms of world ranking, Kenya is the third largest producer of black tea after India and Sri Lanka and for some time now Kenya has been the second largest exporter of black tea after Sri Lanka, having overtaken India in 1993. Though India is the leading producer it consumes much of its produce due to higher domestic demand.

2.1 Tea production and the planted area has expanded rapidly since independence as made tea rose from 18,032 metric tonnes in 1963 to 257,000 metric tonnes in 1996 before dropping to 220,722 metric tonnes in 1997 due to drought. The 1998 projected production will surpass the Government targeted production of 264,000 metric tonnes by the year 2000, in the Sessional Paper No.1 of 1986 on Economic Management and Renewed Growth. The planted area at the time of independence was 21,448 hectares and this had increased to 113,892 hectares in 1997. Tea exports volume grew from 15,917 metric tonnes in 1963 to 244,500 metric tonnes in 1996 before dropping to 209,682 metric tonnes in 1997. The respective values for these years were KShs. 100 million, KShs. 18.0 billion and KShs. 20.0 billion.

2.2 The substantial growth and structural change experienced by the industry over the last 34 years is evidently due to the very conducive policy environment that has encouraged continued investment in the estates sub-sector which is managed on private basis and the smallholder sub-sector under the management of the Government through the Kenya Tea Development Authority (KTDA).

2.3 Due to the rapid increase in area expansion and the high rate of tea production, the Government has invested heavily on infrastructural development particularly in the rural areas where the industry is based. The industry has 83 tea factories for the manufacture of tea spread out in the growing districts and served by numerous buying centres and tea leaf bases.

2.4 The tea industry is also a major employer with current estimates of over 2 million people in direct tea farming, manufacturing, marketing and indirectly in retail outlets and transportation.

3.0 MAJOR OBJECTIVES PURSUED IN THE TEA INDUSTRY

3.1 To maintain its forward momentum as the best organized establishment in the world for tea which is the most widely consumed non-alcoholic refreshment.

3.2 To attain adequate processing capacity, particularly for smallholder tea farmers estates and to bridge the gap between the takings of smallholder and large estates at farm level.

3.3 To generate financing required to expand tea processing capacity and for the maintenance of tea roads, warehousing and farmers logistics to enable efficient leaf transportation.

3.4 To generate higher levels of value-added tea through enhanced technological application in order to improve farm level incomes and ultimately foreign exchange earnings from tea.

3.5 To expand the international market for Kenya tea through aggressive strategic marketing within the various regional economic blocks (e.g. Common Markets for Eastern and Southern Africa, Economic Commission for West Africa States, South African Development Co-operation among others), South East Asia, the Middle East, Eastern Europe, Americas and Kenya's traditional West European markets.

3.6 To improve the management of tea factories by allowing farmers to play their rightful role in decision making.

4.0 LIBERALIZATION/PRIVATIZATION MEASURES IN THE TEA INDUSTRY

4.1 Prior to liberalization initiatives, the Ministry was charged with the role of decision making in agriculture and its functions spanned the entire sector, leaving little, if any, individual entrepreneurial decision making in the hands of farmers, especially for scheduled crops. While this arrangement was useful in those times, with the globalization of the economies, it has become necessary to restructure some of the economic sectors with a view to enhancing the private sector involvement.

4.2 The process to liberalize the tea industry started in 1992 when the Government of Kenya (GOK) and the World Bank (IDA) signed an agreement under the Public Enterprise Reform Programme covering five (5) major parastatals. Kenya Tea Development Authority (KTDA) was included among the five strategic parastatals earmarked for liberalization and restructuring under the programme.

4.3 Currently, the Government has agreed that the process of liberalization of KTDA and smallholder sub-sector should result into incorporation of KTDA under the Companies Act (Cap 486) as an independent and private tea enterprise, owned by smallholder tea farmers through their respective tea factory companies.

4.4 The Ministry of Agriculture in conjunction with other stakeholders in the tea industry has consequently developed a detailed restructuring strategy for the tea industry that defines the roles of the various actors in the industry such as the Tea Board of Kenya and the Tea Research Foundation as regulatory and research development agencies, the Kenya Tea Development Authority (KTDA), the Nyayo Tea Zones Development Authority and the large estates as self-regulatory apex bodies and the tea factory companies and farm units as private entities in their own capacities. The thrust of this strategy is to restructure and eventually privatize the entire tea industry.

5.0 ROLE AND FUNCTIONS OF THE TEA BOARD

The Tea Board of Kenya was established on 13th June 1950 with the mandate to regulate the tea industry to the best interests of the stakeholders. In discharging its responsibility the Board acts in accordance with general or specific directions given to it by the Minister for Agriculture.

5.1 The functions of the Board in particular, but without prejudice to the generality of the foregoing include:-

(a) the licensing of tea growers;

(b) the licensing of tea factories;

(c) the regulation, control and improvement of the cultivation and processing of tea;

(d) the control of pests and diseases;

(e) the control of the marketing of tea;

(f) the investigation of and research into all matters relating to the tea industry;

(g) advertising the Kenya tea and increasing its sale by efforts to extend existing markets and exploiting new markets, and matters incidental thereon;

(h) the promotion of exhibitions for the display of tea and the processes for manufacture thereof and the provision of the facilities thereto;

(i) the collection and dissemination of statistics and other information relating to tea and its production, distribution and consumption.

5.2 To finance the activities outlined above, the Board levies cess on area planted with tea and on manufactured tea delivered for sale to the market. In order to strengthen the Board and ensure that it lives up to its expectations, the following measures would be undertaken :-

5.2.1 the Board will licence tea growers to ensure that tea is grown only in suitable areas, and ensure that growers have manufacturing facilities for their tea once it matures.

5.2.2 the Board will licence tea manufacturing factories to ensure that new tea factories have sufficient leaf from their own estates and would not create over-capacity in a given area or interfere with any established system by "poaching" farmers who may already be delivering leaf to an already established factory in the same area;

5.2.3 the Board will regulate and control tea cultivation, processing, pests and diseases and to carry out investigation of and research into all matters relating to the tea industry;

5.2.4 the Mombasa auction will be for export only. The Board will only register tea sales whether for the domestic or export market so as to maintain proper national statistics on tea trade;

5.2.5 the Board will place more emphasis on its role of advertising Kenya tea and increasing its sale by efforts to extend existing markets and exploiting new markets, and matters incidental thereon;

5.2.6 to encourage consumption of tea in the domestic market and to educate the general public, the Board will enhance its effort of promotion of exhibitions for the display of tea and the process for manufacture thereof and the provision of the facilities thereto.

5.2.7 the Board will collect and disseminate statistics and other information relating to tea and its production, distribution consumption and exports.

6.0 MEMBERSHIP OF THE TEA BOARD OF KENYA

For the Board to meet the challenges of a free economy, the following measures will be put in place :-

(i) the membership of the Board will be increased from 16 to 18 members.

(ii) the Chairman of the Board will be appointed by the Minister from among the tea producer members of the Board;

(iii) the Permanent Secretary, Ministry of Agriculture be appointed under a substantive section of the Tea Act and not under Section 3(f) as in the past;

(iv) those appointed to the Board must be people with extensive knowledge and experience in tea matters;

(v) the Chief Executive of Tea Board of Kenya will be elevated to full membership of the Board.

(vi) Government representatives to the Board will be senior officers not below the level of Deputy Secretary and should be familiar with Government policies on tea;

(vii) the Board derives its income from cess levied on growers and as such growers need to be well represented. The smallholder sub-sector, having more area under tea and producing more tea than the estate sub-sector should have one extra member over the estate sub-sector;

(viii) the Chairman and all members of the Board other than the ex-official members will be appointed for a period of three years, and would be eligible for reappointment. Previously, only the Chairman, four members representing KTDA, and the member representing EATTA were required to conform to this provision;

6.2 Consequently the membership of the Board will be:-

(a) the Chairman, who will be elected by the members of the Board and appointed by the Minister from among the tea producer members of the Board;

(b) the Permanent Secretary, Ministry of Agriculture;

(c) the Director of Agriculture;

(d) one Member appointed by the Minister to represent tea trade sector;

(e) six members appointed by the Minister after consultation with the organization representing smallholder tea growers;

(f) five members appointed by the Minister after consultation with the organization representing plantation tea growers;

(g) the Chief Executive, Tea board of Kenya;

(h) one member appointed by the Minister to represent Nyayo Tea Zones Development Corporation.

(i) not more than two members to be appointed by the Minister with advice from the Board from amongst persons who, possess knowledge and experience likely to be of benefit to the Board;

6.3 The membership in the Tea Board of Kenya will be based on democratic, fair and equitable representation of the stakeholders in the tea industry.

The Board may co-opt to serve on it any person or persons whose assistance or advice it may require, but a person so co-opted shall not be entitled to vote at any meeting of the Board or be counted as a member for the purpose of forming a quorum.

7.0 STAFF OF THE TEA BOARD OF KENYA

An adequate and effective Secretariat headed by a Chief Executive who will also be the Secretary to the Board at the level of Managing Director, will be constituted to discharge the responsibility bestowed upon the Board. The Board will be called upon to set staffing levels in the light of its duties and work-plan and in line with the restructured industry. In view of this and in order to be able to retain highly qualified personnel and take timely decisions, the Board will be exempted from the provisions of the State Corporations Act with the exemption of provisions relating to the auditing aspects of its accounts.

8.0 OVERVIEW OF THE SMALL-SCALE TEA SUB-SECTOR AND KENYA TEA DEVELOPMENT AUTHORITY (KTDA)

8.1 KTDA was established in January 1964 with the objective of fostering and promoting the country's tea growing by the smallholder tea farmers. In order to realize its goals and objectives, the Authority developed centralized operational and administrative systems extending from the headquarters in Nairobi to the tea growing areas. KTDA has made the small-holder tea sub-sector one of the most successful agricultural ventures in the developing world. Since its formation the Authority has achieved over 73,000 ha. The total number of small tea producers involved under KTDA umbrella is about 300,000 and process their tea through 45 tea factories. KTDA and the smallholder tea factories are fully owned by the smallholder tea growers.

8.2 KTDA has been rendering managerial, production, transportation and marketing services which includes among others management of tea factories, green leaf transportation, procurement of production goods, marketing and payment of tea proceeds to the small scale tea growers. This was as provided by the KTDA Order under the Agriculture Act (Cap.318).

8.3 The Government has been assisting the smallholder tea sub-sector by providing guarantees on external loans borrowed by KTDA for smallholder tea development and giving the Authority special status so that it is exempted from payment of taxes. The surpluses realized from its operations were supposed to be ploughed back to improve smallholder tea sub-sector. In addition the Government has been paying salaries and allowances of the tea extension staff assigned to perform extension service under KTDA.

9.0 PRIVATIZATION/LIBERALIZATION OF KENYA TEA DEVELOPMENT AUTHORITY (KTDA)

9.1 The liberalization/privatization and restructuring of KTDA will be handled carefully in a smooth manner in order to ensure that the necessary changes do not disrupt the operations of the Kenya Tea Development Authority (KTDA) and the small-holder tea sub-sector as a whole.

9.2 KTDA is 'de facto' owned by all small-holder farmers who now number about 300,000 and it is 'de jure ' owned by the Government since it was established under the Agriculture Act Cap. 318. It is therefore correct to state that all the small-holder tea farmers would be entitled to a share of the net assets of KTDA in the event that the Authority were to be liquidated. Modalities will be worked out between the Government, KTDA and small-holder tea farmers on the best method of transferring ownership of KTDA to the farmers with the privatization and incorporation of KTDA under the companies Act.

9.3 The major steps already taken in the direction of a privatized Kenya Tea Development Authority (KTDA) are:-

9.3.1 exemption of the Authority from provisions of the State Corporations Act Cap.446.

9.3.2 divestiture of the KTDA from the tea factory companies through the following measures:-

i) election by farmers of 6 directors (majority) out of the maximum 9 directors in each Factory Company Board.

ii) transfer of chairmanship of factory company boards from the KTDA to elected tea farmers' representatives.

iii) direct participation by elected directors in management decisions regarding procurement of goods and services by each factory company.

iv) direct participation by elected directors in recruitment of factory company employees.

v) direct participation by elected directors in formulation of annual budgets and monitoring of financial expenditures.

vi) transfer of green tea leaf collection and payment to farmers from the KTDA to the individual factory companies.

vii) sales of KTDA equity in factory companies to the tea farmers.

viii) empowerment of the tea farmers through their elected company directors who are now responsible for governance and policy making in their respective factory companies.

ix) allotment of ownership shares to all small-holder tea growers in their respective tea factory companies.

x) strict information and data disclosure by the KTDA to factory companies regarding marketing of tea by the Authority.

9.3.3 repeal of all previous Kenya Tea Development Authority (KTDA) Orders and replacement with Legal Notices No.109 to 112 of 1997. The new legal Notice No.109 of 1997 effectively placed control of the KTDA Board under the farmers elected representatives who number 12 out of a total KTDA Board membership of 17 including the Managing Director.

9.3.4 removal of provisions in the Kenya Tea Development Authority Orders which in the past required the Board to seek the Minister's approval before making important investment decisions.

10.0 PRIVATIZATION AND TRANSFER OF OWNERSHIP OF KTDA TO SMALL-HOLDER TEA FARMERS

10.1 Despite the above mentioned measures which have resulted in greater empowerment of farmers, major restructuring of the KTDA will be undertaken to enable the Authority to fully face the challenges of new international financial lending requirements, modern management techniques and the increasingly more competitive international tea market place.

10.2 KTDA will be incorporated under the Companies Act. This means that the KTDA will be removed from, the auspices of the Agriculture Act and be established under the Companies Act as a public company with limited liability.

10.3 The structure of a privatized KTDA will be as follows:-

10.3.1 <u>Incorporation and Shareholding</u>

i) KTDA will be incorporated under the Companies Act (Cap 486) as an independent and private tea enterprise, owned by all smallholder tea farmers through their respective factory companies. The company's shareholding will therefore be held indirectly by individual tea farmers through their tea factory companies.

ii) The name of the new company will be "Kenya Tea Development Agency (KTDA) Limited". The new KTDA limited will offer management services to the individual factory companies and the latter as an independent company may opt if it wishes to contract any other management agent to manage their operations/activities. Under the new arrangement, KTDA will charge a competitive management fee based on minimal percentage of the net value of the proceeds.

iii) The constitution of shareholding will be based on the current valuation of the assets of KTDA, allotted in accordance with the contribution of each factory company in creation of the KTDA assets.

iv) The net worth of KTDA will therefore be distributed to the tea factory companies relative to their contribution in form of management fees from the 1983/84 to 1996/97 period. This is the period during which relevant annual financial accounts of the Authority have continuously reflected positive annual surpluses. Prior to that period, the development account of the Authority was in deficit but has remained in surplus since then.

10.3.2 <u>Governance</u>

The small-holder tea farmers will be real owners of the KTDA Limited but their influence will be exercised through their factory companies. The KTDA Board of Directors will comprise of a minimum of 13 and a maximum of 19 directors. 12 will be elected by the shareholders and the Managing Director of the Company. The Permanent Secretary, Treasury will be co-opted as a member of the Board in view of the Government loan guarantees. They will be responsible for policy and management but the factory companies will be in control as the shareholders and owners of the company. The KTDA Board will direct the work of the management and other staff of the Company.

The Board of the company will elect its own chairman from amongst the elected directors. Elections of the new directors will be carried out within a period of six months after the repeal of the KTDA order by around January, 2000. The new directors will be elected on the following basis :-

i) Small-holder tea growing areas will be divided into zones;

ii) each zone will comprise a minimum of three factory companies but special provision will be given to zone xii until a third factory is built in the area. The zone will therefore comprise two factory companies i.e. Chebut and Mudete.

iii) each zone comprising between three and five factories will elect one director of the KTDA Limited.

iv) a zone with more than five but less than ten factories will elect two directors of KTDA Limited.

v) Maximum number of directors representing a single zone will be two directors.

vi) KTDA Limited will work detailed modalities of how the directors will be elected.

The envisaged date for the full privatization of KTDA would give sufficient time to enable a smooth transition from KTDA authority to a limited company.

10.3.3 Action Plan/Implementation.

The process towards full privatization of KTDA will be implemented as follows:-

a) the on-going liberalization and restructuring of the small-holder tea sub-sector and the KTDA will be finalized by January, 2000.

b) repeal of the Kenya Tea Development Authority (KTDA) Orders and any other legislative amendments will be undertaken and effected by January, 2000.

c) Government subvention in respect of tea extension staff employed by KTDA Limited and small-holder factory companies will cease in January, 2000.

d) the term of the board expires with the repeal of the KTDA Order and shareholders of KTDA Limited will elect a new Board of directors within a period of six months.

10.3.4 Company Structure and Management

From historical and for the future perspectives, the ongoing restructuring of KTDA and the small-holder tea sub-sector be completed after logical and legal framework have been finalized.This step will klead to the process of the incorporation of a private "Kenya Tea Development Agency Limited". The Company will become one of the largest private tea management and trading companies in the world. It will be fully commercialized and will distribute any surpluses among its shareholders.

The Board of the company will delegate its executive authority to the Chief Executive and the management. In effect only minor restructuring changes will be needed in the existing structure of the current KTDA. The Personnel Department; the Sales and Marketing Division and the Finance Division will however require further internal re-structuring and strengthening.

The company will be extensively decentralized to the field and factory companies in order to provide effective and efficient services to the factory companies.

Sales and Marketing services will be provided from the headquarters. The same will apply to the financial and accounting services except for the accounting work which has already been decentralized to the factory companies.

The relationship between the KTDA Limited and the tea factory companies will be governed by revised management agreements signed with each of the factory companies. The company will essentially be a tea manufacture and development agency. It (company) will however provide financial; secretarial; personnel and administrative services to the factory companies in accordance with specific agreements and the above mentioned management agreements.Clear distinctions will be established regarding the personnel employed by the KTDA Limited and those engaged by the factory companies. A personnel rationalization exercise will be undertaken in both KTDA limited and the respective tea factory companies with a view to creating proper personnel establishment levels.

10.3.5 Associated Companies

Companies closely associated with the KTDA Limited will include:-

i) all the current 45 smallholder factory companies and any future ones managed by the KTDA Limited;

ii) the Majani Insurance Brokers Limited which is a private company wholly owned by the KTDA;

iii) the KTDA Farmer's Company Limited whose shares are held directly by small-holder tea farmers. The company owns the "KTDA Farmers Building" while the KTDA owns the "KTDA Plaza" formerly known as Rahmutulla Trust Building and Diamond Trust Building.The two buildings house the KTDA Headquarters ;

iv) the (Chai) Warehousing Limited (in formation) to be located in Mombasa;

v) the Kenya Tea Packers (KETEPA) Limited.

These KTDA associated companies will therefore constitute a large tea development, management and marketing conglomerate. In due course, the proposed value adding tea factory company will join the KTDA group of companies. This will indeed be a useful addition to what will have already become a formidable economic and commercial entity both locally and internationally.

11.0 EMPLOYMENT OF TEA EXTENSION STAFF

With the privatization of KTDA, the Government will not employ the extension staff as was the case in the past in the small scale tea growing areas. The KTDA and the smallholder tea factory companies will recruit staff to undertake the extension service. The field extension service will be an integral part of the KTDA and the smallholder tea factory companies. In future the tea extension personnel would be located only in the KTDA Limited headquarters and at the factory companies.

11.1 KTDA will absorb 47 tea officers and 188 technical assistants. Tea officers and technical assistants should have a degree and an agricultural certificate respectively. In view of this a committee composed of officers from the personnel departments of KTDA and the Ministry of agriculture will be constituted to work out the necessary personnel service translation modalities.

11.2 Tea officers will serve under the respective factory companies on secondment from the

KTDA. All Tea Technical Assistants will however be directly employed by the tea factory companies. The Government will continue financing extension service to smallholder tea sub-sector until June, 2000.

11.3 KTDA serves the farmers, who will, indirectly, employ the extension staff that will guide them to produce tea leaf.In case of another management agent, it will be expected that the agent would provide the full services to smallholder tea farmers as KTDA has been doing in the past.

12.0 LEAF BASES WITHOUT SISTER PROCESSING FACTORIES

In future the leaf base and the tea processing factory will constitute one entity. The KTDA Limited will not acquire any new leaf bases but will retain and operate the existing ones. At present, the leaf bases in Cherangani and Olenguruone have no sister processing factories. The affected tea growers will therefore become shareholders of the Chebut and Kapkoros respectively when the process of allotment of factory company shares to all growers is completed. The growers will therefore exercise influence over KTDA Limited through the two factory companies as will be the case in other areas. As regards the subsidies to the two leaf bases and the affected tea growers, these will be terminated by June,2000. By that date, full fledged leaf base facilities will have been constructed at both Cherangani and Olenguruone.

The KTDA Limited will however continue to operate the two leaf bases even after that date but the affected tea growers will meet the full cost of these leaf bases through normal deductions by the KTDA Limited.

13.0 FINANCING OF NEW TEA FACTORY COMPANIES

The financing of construction of new tea manufacturing factories has become difficult since the prospective and traditional lenders have put tough lending conditions. Previously lenders provided loans on basis of Government Guarantees and without requiring any mortgage agreements and without any equity contribution by the smallscale farmers.In future, the KTDA Limited, in consultation with the farmers, will provide guarantees for these loans on behalf of the farmers. The Government, without directly being involved in the utilization of the funds even in cases where it is a guarantor, will encourage joint ventures between farmers and the private investors towards construction of new tea factories. It is noted that some investors are willing to invest in new tea factories without Government guarantees while others may require the Government guarantees.

The requirement for small-holder farmers to provide equity as part of the financing arrangement for new factory companies is another constraint. Even with the proposed sale of shares by farmers transferring to a new factory company, the amount raised will not be sufficient. The KTDA Limited will temporarily acquire the shares and pay for them in an effort to provide part of the equity requirement. Currently, there are nine proposed tea factories in the small scale subsector.

In future the following measures will be taken:-

- KTDA will provide necessary guarantees for loans;

- Government and KTDA Limited will look for alternative lenders.

- the minimum 30 percent equity required from the smallholder tea farmers in advance will be provided by KTDA Limited through temporary acquisition of the shares.

- assets of the new factory companies will be mortgaged to cover the factory construction finance loans.

In view of the agreement to incorporate a private KTDA, KTDA Limited will re-open negotiations with the prospective lenders with regard to the issue of equity requirement.

14.0 EXISTING LOANS AND GUARANTEES

With a privatized KTDA, additional changes especially in the area of loan financing will arise as explained here below:-

The Kenya Government currently provides guarantees on external loans borrowed by KTDA for its development programmes. As at 31st December, 1997 the balance of the external loans where the Government had given guarantees was about Kshs.1 billion. This facility is now not easily available to parastatals. Consequently some other form of security will be put in place to replace the Government guarantees for future factory development projects. The existing Government guarantees will however not be affected by the privatization of KTDA. These (guarantees) will remain in force until the subject loans are repaid in full.

Likewise KTDA limited will continue to service existing loans on the old terms until the same are fully repaid. As per the financial agreements, KTDA will be managing agents for those factories that have outstanding loans. Because of this arrangement it is expected that no lender will deem it necessary to exercise their right to demand repayment of the loan in full before the due date.

Where KTDA has guaranteed loans borrowed locally by the factory companies for the expansion programme, that obligation will remain as long as the loans are outstanding. Any factory that may decide to do away with KTDA's management agency will be required to repay the loan in full.

15.0 TAX IMPLICATIONS OF PRIVATIZATION OF KTDA

KTDA is a non-profit making organization. Any surplus realized from its operations is supposed to be ploughed back to improve the smallholder tea sub-sector. Because of this special status KTDA was exempted from paying tax since 1964 and therefore does not pay taxes to the Government. This has been a major boost to the development of the smallholder tea sub-sector.

However, according to the Finance Bill, 1998, as stated in the Budget Speech of 11th June, 1998, KTDA shall be required to pay corporation tax with effect from January, 1999. This means that KTDA has now to budget for corporate tax amounting to over Kshs. 70 million a year which otherwise would have been ploughed back to the development of the smallholder sub-sector. The taxation has been effected even before the privatization of KTDA. It may be desirable that the implementation of the decision be deferred until KTDA is fully privatized. It is however not clear why KTDA has been singled out while public bodies dealing with other crops are not taxed.

Once privatized KTDA will lose that status and will therefore pay taxes just like any other company operating under the Companies Act.

The following taxes will become payable:-

i) Stamp Duties

ii) Corporation Tax/withholding tax

The effect of the above taxes will be a reduction of the surplus (profit) by as much as 35%. It will therefore be necessary to introduce cost-cutting measures in order to break even.

16.0 GROWING OF TEA

The regulatory functions dealing with licensing of tea planting shall remain in the Tea Act and the Board will continue issuing group licences to tea factory companies on behalf of the smallholder growers. The tea factory companies will then be required to maintain a register of growers falling under them on behalf of the Board.The individual small tea plantations associated or being served by tea factories owned by other organizations and the large tea estates will be issued with individual licences directly by the Tea Board of Kenya. Whereas the Board's Inspectorate Department will be monitoring to ensure the holders of the group licences do comply with the set rules by its members, they will also be acting as the Board's agents in this regard. In order to encourage new tea factory companies coming up and establishing their own catchment areas the licence issued will not specify the area to be planted with tea.

In future therefore, the smallholder tea growers supplying green tea leaf to smallholder tea factory companies will not be required to obtain licences as individuals.

The planting licence will be assessed on the following criteria:-

(a) the area being suitable for tea growing;

(b) adequate processing arrangement being ascertained by the Tea Board of Kenya.

Licence holder will make an annual return to the Board indicating the total area planted and the number of tea farmers and also pay an annual fee which will be based on the current Regulations on planting tea. The fee to be charged will be determined by the Board.

The Board will liaise with tea manufacturing companies in verifying the area planted by individual growers delivering tea to the factory for the purpose of maintaining correct statistics on area planted nationally.

17.0 MANUFACTURE OF TEA

Manufacturing of high quality Kenya tea whether by sun-drying or otherwise will be Tea Board's primary objective. While licensing a new tea manufacturing factory, Tea Board will ensure that adequate tea leaf is available corresponding to the proposed tea factory processing capacity.

To ensure that no person manufactures tea for sale, whether by sun-drying or otherwise, other than according to the rules and regulations set, the tea manufacturing company will be issued with an annual licence by Tea Board of Kenya. The licence will attract a manufacturing cess which would be set by the Board in consultation with the Minister. The foregoing will be achieved through the following stringent measures :-

i) when licensing a new manufacturing factory due consideration will be taken to ensure that processing over-capacity is not created in a given local area or zone. Incase of a private investor, Tea Board would arbitrate to decide how the farmers are distributed between the existing and the new factory before issuing a licence. A licence for a new factory will only be issued to companies who satisfy the Board that they have sufficient leaf to process with regard to factory capacity;

ii) the Board in consultation with the Minister may cancel, vary or suspend any licence issued to a company if any company fails to abide with the terms and conditions of the licence;

iii) the duration by which the tea manufacturing factories are to submit their returns with the monthly cess will be extended to 14 days and a payment of interest on outstanding arrears after the 14th day of the following month at bank interest rates will be charged.

iv) Manufacturing licence may be suspended where a manufacturing licensee without any good reason acceptable to the Board continues to default on manufacturing Cess payments beyond a period of 21 days of the following month. The Board is at liberty to use its powers under (ii), above or could recover the same amount as a civil debt.

18.0 AGRICULTURAL PRODUCE CESS ON TEA

The agricultural produce cess is collected by the Local Authorities under the powers conferred to them under sections 201 to 211 of the Local Government Act Cap.265. The Local Authorities are empowered to make adoptive by-laws after the Minister has made subsidiary legislation in consultation with the Minister for Agriculture as provided in Section 192A of the Agriculture Act.

The Minister for Local Government issued a Legal Notice No. 202 of 20th May, 1988(L.N. 202/1988) and amended the same through Legal Notice No. 339 of 4th August, 1988(L.N.339/1988) and L.N 165/1989 under Section 210 of the Local Government Act effectively empowering the Local Authorities to make Adoptive By-laws to collect the agricultural produce cess on tea and other ten crops.

According to the Agriculture Act, the revenue realized form part of the general revenue of the respective Local Authorities. The Local Authorities did not utilize the cess funds in the maintenance of roads as originally intended. This prompted the Government in 1990 to intervene and developed modalities of cess utilization towards the improvement of the tea roads. The District Tea Cess Committees were formed by the Government to maintain the tea roads and their activities were monitored by the National Tea Roads Monitoring Committee. However, the District Tea Cess Committees were not very successful in maintaining the tea roads. The Government then directed that the cess funds for tea and coffee be channelled through the respective farmers' organizations to maintain the roads. However, the law needs to be amended to regularize the position. Tea and coffee are grown in the same agro-ecological zones and transitional areas.

There is a need to amend the relevant legal provisions in the Local Government Act and the Agriculture Act together with the relevant legislation to place the collection and utilization of the agricultural produce cess entirely under the auspices of the Agriculture Act Cap.318;

Policies and guidelines pertaining to the collection and utilization of cess funds should be harmonized for their effectiveness.

District Tea Cess committees and the National Tea Roads Monitoring Committee should be abolished since the cess funds are now channelled to the respective farmers' organizations.

19.0 MARKETING OF TEA

As Kenya continues to increase its share of the world tea market which is currently about 22% compared to Sri Lanka's 21.0% and India's 14.0% the key role and function of the Board will be in tea market promotion. Tea Board will provide the necessary leadership in the industry by laying more emphasis on marketing and promotion of tea without compromising on production and quality. This will be achieved through :-

i) allowing tea manufacturers to sell part of their tea directly to overseas markets.

ii making Mombasa auction an export market only.

iii. ensuring all tea exporters, whether manufacturers, buyers, brokers or packers make a return on their exports on a newly designed registration form to the Tea Board to enable the Government collect statistics on tea exports,.

iv) ensuring that transparency plays its rightful role in the industry by harmonizing all the rules and regulations of the various sub-sectors for the greater interest of the stakeholders.

v) monitoring of tea sales through registration of buyers, brokers and packers.

vi) adopting a more aggressive promotion strategy with more emphasis being focused on uni-national tea promotion and value added teas from Kenya;

vii) encouraging all stakeholders in the industry to undertake promotion activities independently to supplement Government's effort.

viii) laying more emphasis on promotion strategy focused to developing countries of Asia, Middle East, Africa and in Eastern Europe where projections show consumption is on the increase and is expected to rise in future while maintaining our share in our traditional markets,

ix) liaising with other relevant Government bodies especially the Export Promotion Council involved in promotion of Kenya's products abroad to market Kenya tea through their regular trade fairs and exhibitions and through commercial representation in Kenya Missions abroad.

x) collaborating with other tea producer countries and specialized international agencies for generic promotion of tea globally;

xi) encouraging production of high quality tea in order to capture new export markets and maintain the traditional markets. Towards this end the Kenya bureau of standards will be more active in enforcing standards on tea for both the domestic and export markets.

20.0 OTHER TEA SUB-SECTOR INSTITUTIONS/ORGANIZATIONS

20.1 Tea Research Foundation of Kenya (TRFK)

TRFK was established in 1980 as a company limited by guarantee with guarantors being the Ministry of Agriculture and Tea Board of Kenya to carry out the investigation of and research into all matters relating to the tea industry. It was a successor to the Research Institute of East Africa.
Since then the Foundation has obtained funding for its research activities almost entirely from the tea industry through the Tea Board of Kenya. The Foundation receives about Kshs. 52 million annually for its research activities from the Tea Board of Kenya.

For a long time the Foundation has operated under the Tea Board of Kenya and its parent Ministry of Agriculture until 1988 when it shifted to the Ministry of Research and Technology.

According to the Tea Act, one of the core functions of the Tea Board of Kenya is to carry out research on tea through its technical arm the Tea Research Foundation of Kenya.

To enable the Foundation advise producers through the Tea Board on the best clone selection to suit the various ecological zones and how to care for their tea in order to improve production and attain the best quality for their tea, Tea Research Foundation of Kenya (TRFK) will be transferred back to the Ministry of Agriculture from the Ministry of Research and Technology so that it can now report to Ministry through the Tea Board of Kenya. This will remove the communication bottleneck as policy guidelines on the operations of TRFK will only emanate from Ministry of Agriculture which is charged with responsibility of all agricultural crops. The Board will also be able to follow the activities of TRFK and advise the Foundation accordingly for the benefit of the tea farmers who are the financiers of the Foundation through the Tea Board of Kenya.

Efforts will be made to assist Tea Research Foundation of Kenya (TRFK) in establishing its own tea research factory together with the required research equipment and facilities to facilitate the carrying out of more research in tea manufacturing and related aspects by the foundation. In addition the foundation will be encouraged to formulate their own proposals and plans for attracting money from both external and internal sources for training fellowships, research activities and other development activities.

There is need to exempt Tea Research Foundation of Kenya (TRFK) from the provisions of the State Corporations Act to enable it set salary scales and other benefits to its staff provided the TRFK is not exempted from the provisions related to auditing of accounts.

20.2 Nyayo Tea Zones Development Corporations (NTZDC)

The major objective of NTZDC was to protect and conserve gazetted high altitude forests against human encroachment. The Nyayo Tea Zones belts provides physical a buffer to forest reserves. Other than meeting the intended purpose the Zones also generate revenue and create employment to Kenyans in addition to providing infrastructure to rural areas.
Due to their geographical spread and absence of a processing facility, the Corporation will sign agreements with smallholder tea companies or KTGA member companies to process its green tea leaf. Management of some estates will be leased out to smallholder tea companies or to individual private tea companies until such a time that the Corporation will be able to take over these functions effectively.

20.3 Kenya Tea Growers Association (KTGA)

Kenya Tea Growers Association (KTGA) is a private, voluntary association whose role is to promote the interests of large and medium private tea growers in Kenya. Some of the leading members of KTGA have been active in the development of the Kenya tea industry for over 50 years. Members of KTGA are also very active not only in tea production but in tea trade through the East African Tea Trade Association (EATTA) and the Mombasa Auctions. The Association accounts for over 40% of tea production with the other balance of 60% coming from smallholder farmers.

The government will encourage Kenya Tea Development Authority (KTDA) and Kenya Tea Growers Association (KTGA) to work closely to assist smallholder farmers willing to transfer to KTGA managed tea factories or in cases where the KTDA managed tea factory companies does not have adequate processing capacity. This will be done through agreements between individual smallholder tea factory companies and KTGA member companies.

20.4 Kenya Small Scale Tea Growers= Association (KSSTGA)

The Kenya Small Scale Tea Growers' Association (KSSTGA) was registered in 1998. The membership is open to all elected members of the 47 leaf bases and all farmers. The leaf bases pay Kshs. 500,000/= while the farmers pay annual subscription of Kshs.10/=. KTDA, like the leaf bases, is a member of the Association. All 312,000 smallscale tea farmers are eligible to be members of the Association. In future the KTDA and KSSTGA will strive to promote the interests of the smallholders in the tea industry. Some of the objectives of the Association include:

- taking over all functions associated with the tea buying centre, tea base and zonal committees;
- promote and represent common interests of all smallscale tea growers and their factories;
- regulate and improve relations among members of the association and employees;
- recommend rules and regulations for the maintenance of tea cultivation, manufacturing, packaging, transportation and warehousing standards;
- set tea plucking rates in smallscale areas;
- collect, collate and circulate statistics;
- negotiate on behalf of members;
- cooperate with other similar associations;
- establish and maintain funds to further the objects of the Association.

Currently, KSSTGA office holders are not members of the Tea Board of Kenya. In future the KSSTGA and KTDA will collaborate in providing the representation of the smallholder tea farmers in the Tea Board of Kenya.

20.5 The East African Tea Trade Association (EATTA)

The East African Tea Trade Association is a voluntary Association whose rules and regulations would facilitate free trade in tea. The association comprises of tea producers, buyers, brokers and other interested tea traders in Eastern Africa. To achieve the foregoing objective the association will :-

i) run the Mombasa Auctions which is the third largest in the world after Calcutta in India and Colombo in Sri Lanka;

ii) ensure that representation at the association Management Committee is equitable and special consideration is accorded to large single producers like KTDA who represent all the smallholder in Kenya;

iii) ensure that the sale of tea at the auctions and other operations of the trade is fair, efficient and transparent;

iv) ensure that tea producers determines the currency of sale depending on whether the tea is for local or export sale.

v) ensure that Payment of the tea sold at the auction is made within ten days.

The membership of the East African Tea Trade Association consists of tea producers, buyers, brokers; packers and warehousemen in Eastern Africa. There are about 300 corporate members of EATTA who come from Kenya, Uganda, Tanzania, Rwanda, Burundi and Malawi The entrance fees and annual subscriptions are as follows:

- brokers produce banker's guarantees that they are good for Kshs. ten (10) million, pay entrance fee of Kshs. 365,000/= and Kshs 35,000/= annual subscription each;
- producer member's entrance fee is Kshs. 20,000/= and annual subscription is graduated as Kshs. 25,000/-, Kshs 55,000/=,Kshs.82,000/=, Kshs.93,000/= Kshs. 165,000/= and Kshs. 440,000/= depending on the amount of tea produced
- buyer's entrance fee is Kshs. 65,000 and annual subscription of Kshs. 25,000/- to Kshs 50,000/= based on the amount of tea bought annually;
- packer's entrance fee is Kshs. 10,000/- and annual the subscription of Kshs. 25,000/=
- warehousemen pay Kshs.10,000/= entrance fee and Kshs. 50,000/= annual subscription

- associate members join after paying Kshs. 10,000/= and annual subscription fee of Kshs. 15,000/=.

EATTA will remain a voluntary association while the representation of producers at the management committee level should be fair and equitable.

KTDA will in future re-examine how best the small scale tea growers can be represented in EATTA while taking cognisance that KTDA has currently only one vote in EATTA and yet it represents over 312,000 tea farmers owning 45 tea factory companies and also producing over 60% of the Kenyan tea. The rules and regulations of the EATTA should facilitate free trade without restrictive practices and should not conflict with the rules and regulations governing the tea industry in Kenya.

20.6.1 Tea Brokers

The tea brokers are appointed by the tea producers and buyers. The broker guarantees the sale of tea by negotiating between the producers and the members of the tea trade who are buyers. The tea broker's functions include receiving tea from producers and selling it at the best possible price, negotiating sales by private contract on behalf of the producers, receiving tea samples from producers, tasting, valuing, and distributing samples to potential buyers, preparing and printing catalogue and effecting payment to the producer among others. Brokers taste tea for purposes of ascertaining the price of tea in the auction and visit the tea factories informing the factory management on the quality of their tea. The tea brokers are not quality controllers, since quality sustenance is an in-built process in tea production and manufacturing.

There are currently eleven tea brokerage firms operating at the Mombasa auction. These are Combrok Tea Brokers Ltd, African Tea Brokers Ltd, Tea Brokers of East Africa Ltd, Anjeli Tea Brokers Ltd, Venus Tea Brokers, Union Tea Brokers Ltd, Choice Tea Brokers, Bicorn Tea Brokers, Prudential Tea Brokers, Centre Line Tea Brokers, and Victory Tea Brokers. By 1990 , each brokerage firm was serving between seven and eight tea factories. Currently, out of the eleven brokers, three brokers control 45% of the business while the other eight serve KTDA which is a producer. There should be strong criteria to be used to assess the brokers before registering them. The tea brokers are members of the East African Tea Trade Association and they operate under the EATTA regulations. In future all tea brokers operating at the Mombasa auction shall be required to register with the Tea Board of Kenya.

The KTDA as a managing and marketing agent will continue to appoint brokers in consultation with individual Tea Factory Companies on competitive basis at 3-4 tea factories per broker.

In future the Tea Board will be involved in the registration of tea brokers. Currently, EATTA demands letters of appointment from the producers before licencing a tea broker in addition to checking the applicant's financial and management capability positions including physical facilities. Under the revised Tea Act, the Tea Board will have powers to
register or deregister tea brokers who do not abide with the set rules and regulations. The Tea Board will also ensure that rules and regulations of any organisation dealing in or involved in tea trade, including EATTA and their activities are in harmony with the provisions of the Tea Act and the interests of the tea industry.

20.6.2 <u>Tea Brokerage Commissions or Fees.</u>

The brokerage charges have been 1% commission on gross sales value of tea paid by producers and a further 0.5% commission on gross sales value of the same paid by the buyers. In addition, the broker receives a further Kshs.30 per Alot@ in form of catalogue printing expenses. One Alot@ is a garden (factory) invoice of 20, 40, 60, 80 or 100 packages (57 kg to 78 kg each depending on grade) which is counted as a single line in the catalogue. Some catalogues, may have 30, or 40 lots or as many as 1000 lots depending on the amount of tea offered. The payment may add up to about Kshs. 1000/- or 1500/- or even 30,000/- per catalogue each week depending on the amount of tea offered. In total, the broker gets more than 1.5% of the gross sales value of tea he sells at the auction.

The current rates of commission were developed in the 1960s by EATTA. At the time, the volume of made tea was very low. There has been no review of these rates whereas all these costs are being borne by tea producers and the electronic trading in tea is yet to be adopted at the auction. In 1997/98, the brokers sold through the Mombasa auction system 243,566,481 kilograms of made tea at an average price of US$1.89 per kilogramme. Out of this total, Kenyan crop was 212,619,990 kilograms at an average price of US$1.97 per kilogramme. The total value of Kenya tea through the auction was US $418,861,380 or Kshs. 25,969,405,578/=. Brokers' commission at 1.5%, amounted to Kshs.389,541,082/= for all eleven brokers. On average each broker received about Kshs.35.4 million. In general, a tea broker's organization has a small staff compliment. The costs associated with tea brokerage cover personnel costs, office maintenance costs and the capital costs depreciated every five years. This is approximately Kshs..25.8 million showing a gross profit to the broker of Kshs..9.6 million per year.

The Tea Board will review the tea brokerage rates and recommend the best appropriate rates for the brokers in their role as marketeers of tea in the tea trade. This is also expected to reflect a positive gain to the farmers in the tea industry.

20.7 Tea Packers

The tea packers in Kenya are yet to be organized as an association. Currently, the single largest packer in the local market is the Kenya Tea Packers Limited (KETEPA). Prior to October 1992, KETEPA had the monopoly of tea packing and distribution in the domestic market. With the repeal of the Price Control Act and the complete liberalization of tea trading, there are over 60 registered tea packers who are free to blend and pack tea for local as well as the export markets.

Local packers will be encouraged and assisted where necessary to develop the value added tea market.

Packers should use high quality packaging material to be able to capture the export market for value added tea and policies on the packaging of the value added tea for export should be developed by the Tea Board in liaison with the Government.

In order to capture a bigger segment of the market packers have to aggressively promote their own tea brands both locally and internationally.

All tea blended and packed in Kenya will contain 70 percent of the Kenya's produced tea.

All tea packers based in Kenya will be required to register with the Tea Board of Kenya.

21.0 TRAINING AND HUMAN RESOURCE DEVELOPMENT IN TEA INDUSTRY

Training and human resource development is the key to scientific, technical know-how and break-through in all sectors of the economy. To cater for the agricultural sector, there are public universities and agricultural training institutions offering general courses in agriculture among others. The tea sub-sector draws its manpower from these institutions.

It is proposed that Tea Board of Kenya will liaise with institutions of higher learning and other training institutions in order to develop a training manual and curriculum on various aspects of tea. The objective will be to train the under graduate and post-graduate students and officers and, eventually the training of farmers and other stakeholders. The Board in this way, will develop the technical knowledge and expertise required to steer forward the tea industry.

The Tea Board will also undertake a study on the human resource needs in the tea industry with a view to developing the training plans and projections. A training Committee consisting of all stakeholders to examine all training issues and facilities in the various institutions will be constituted under the auspices of the Tea Board of Kenya.

The current training activities being undertaken in the tea industry will also be intensified especially through tea field days at the factory level and the extension services.

The estates have been conducting in-house training for their workers and officers whereas the smallholder sub sector has been undertaking its training activities at the existing Farmers Training Centres spread across the country and at the Kagochi Farm and Training School which was established in 1950. Kagochi school is situated near Ragati Tea Factory at a place 11 km from Karatina Town in Mathira Division, Nyeri District, Central Province. There is a tea demonstration farm on tea husbandry and a training school. The main objectives were to train farmers on management and maintenance of tea farms, introduce better cultural and crop husbandry aspects on tea planting and farm management practices within the smallholder sub sector. The farm has a total area of 67.3 hectares of which 42.5 hectares are under mature tea bushes. The farm finances its activities from the sale of its green tea leaf and from the sale of other farm products e.g the sale of milk among others.

The training of small scale tea growers on tea planting and husbandry started in 1960 at Kagochi. With the formation of KTDA in 1964, Kagochi farm and the institute were taken over by KTDA. The training of the farmers continued on regular basis up to 1976. With the introduction of new training systems in the agricultural extension service in 1976, training of farmers at Kagochi was stopped. However, refresher courses as well as some upgrading courses for technical staff in tea extension service continued to be undertaken at Kagochi. It has also been training clerks, farmers and tea workers from the smallholder tea farms. There has not been any major review of the training programmes and also no major infrustractural development has been undertaken at Kagochi since its establishment.

Kenya Tea Development Authority (KTDA) plans to develop and fully finance a modern training institute at Kagochi to replace the existing school which is old and dilapidated. The school will be rehabilitated and upgraded to a national institute which will cater for the training needs of farmers as well as the lower and middle level personnel in both the smallholder and the estates sub sectors.

The rehabilitation work is estimated to cost KShs. 210 million which will be financed solely by KTDA from its reserves. The works have been tendered and are expected to be completed within a period of fifty six (56) weeks. Although there will be no contributions from the Tea Factory Companies and also no direct deductions from the farmers' proceeds for this project, it is and it will remain one of the smallhoders' assets. The training school will jointly be owned by KTDA and the smallholders.

The institute's operational costs will be financed through cost recovery and it will be self-financing. It will be a national tea training institute that will undertake training programmes in liaison with the Tea Research Foundation of Kenya (TRFK).

The Tea Research Foundation of Kenya is situated at Timbilil, 12 km from Kericho Town, in Kericho District, Rift Valley Province. In addition to undertaking research as its primary function, TRFK will also be providing specialized training courses for senior managers and high level personnel as a secondary function under the auspices of the Tea Board of Kenya.

Currently, there is a small training unit at TRFK. The unit supports the training of smallholder tea growers and the estates sub sectors. The unit consists of a twelve hostel capacity, a guest wing and a training hall. There is a need to improve these facilities so that the unit can carry out the specialised training activities more effectively. However, to ensure effective use of the available training facilities and also avoid wastage of resources, the Board will liaise with the respective training institutions to ensure that the training being undertaken at Kagochi is not duplicated at TRFK.

TRFK will carry out more research in tea manufacturing and other related aspects. In this regard the Government will assist TRFK to establish its own tea research factory and a major workshop. The workshop will be fabricating the machinery needed in the tea factory companies which are currently imported. The construction of the tea factory and the workshop was estimated at Kshs.300 million and Kshs.50 million respectively. The Government will finance the construction of these facilities either from its own resources or through soliciting donor support or co-financing it with the tea industry.

22.0 CONCLUSION

The various programmes and plan of action in this Sessional Paper, after their implementation, will result in efficient and effective operations of the institutions in the industry. The existing constraints, problems and challenges will be addressed through the new policies. The new decision-making framework will empower the stakeholders to be involved in the industry. The Government will continue to support the industry through the existing institutions to enable the various actors and stakeholders to fully play their rightful roles under an enabling environment in the liberalized tea industry.