

Factors Affecting Profitability of Small Scale Tea Growers in Kenya: A Case Study of Konoin and Belgut Divisions Kericho District, Kenya

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The study was aimed at establishing factors affecting the profitability of small scale tea growing in Kenya. The objectives of the study were to determine the effects of the cost of farm inputs on profitability of small scale tea farmers and to establish the effect of the Physical environment on the profitability of small scale tea growers and to establish the effects of factory production capacity on the profitability of small scale tea growers.

The study targeted a population of 200 small scale farmers around Konoin and Belgut Divisions in Kericho District from which a sample of 65 was picked using simple random sampling method. This ensured equal opportunity for all the farmers in the population to contribute to the study. Questionnaire was used as the main tool to collect primary data from the respondents. Data was then analyzed using the descriptive technique and presented using frequency tables and figures expressed as percentage of the total.

It was found out that the majority of the respondents were male tea growers half of whom were aged above 55 years. Many of them are primary school leavers, while 90% of the tea farms were between 1.5 and 2.5 acres.

It was established that the physical environment played a vital role in rainfall patterns and distribution in the area under study. The major bottleneck in the growing of tea is the Factory production capacity which restricts inflow of green leaf from farmers at peak periods. The study also established that there is need for training of farmers and enhancement of production technology both in the field and factory.

Based on the findings it can be concluded that the poor profitability of the tea sub-sector is largely due to the degradation of the physical environment and low production capacity of both farmers and the factories.

Key words: Small Scale Tea Growers, profitability, Konoin and Belgut

Introduction

Tea is one of the leading export commodities in Kenya in terms of foreign exchange generation, accounting for almost 20% of total export earnings. Tea industry is a major source of employment with over 2 million people in direct tea farming, manufacturing, marketing and indirectly in retail outlets and transportation. According to the Kenya Tea Board of Kenya (KTDA), tea planting and production in Kenya has increased tremendously over the years and

has become a source of income and livelihood to many families, communities and the country at large.

Tea planting started in Kenya in 1903, having been introduced by Europeans who had been to India and China where for centuries it was growing naturally in the wild but it's medicinal, health and beverage benefits had been discovered and were gaining worldwide fame. The growing conditions in India and China have a lot of similarities with that of the Kenya Highlands.

In Kenya, geographically tea is grown in two regions, that is, East and West of Rift Valley. In these two regions both large and small scale tea farmers are well established with separate management methods and structures. Most of the large scale tea estates are foreign owned and account for 40% of production of tea while small scale growers account for about 60% as shown in table 4.17. Compared with other tea producing countries, Kenya's tea is of very high quality and attracts wide interest worldwide, (Tea Board of Kenya report 2007).

The tea sub-sector was restructured and fully liberalized in the year 2000 whereby Kenya Tea Development Authority was fully privatized and renamed Kenya Tea Development Agency Limited. The KTDA Ltd. is established under the Companies Act as a public company with limited liability, owned by small-scale tea farmers through their respective factory companies. The new KTDA Ltd offers management services to the individual factory companies and any factory, as an independent private company may opt, if it wishes, to contract any other management agent, other than KTDA Ltd, to manage their operations. (Tea Board of Kenya report 2007)

The tea subsector is regulated by the Tea Board of Kenya (TBK) whose mandate is derived from an Act of Parliament. The Board regulates the growing, manufacture and trade in tea and its products. It is also mandated to conduct research and promotion of tea. In order to fulfill this mandate, the TBK has an obligation to its stakeholders to exercise integrity, innovation, focus and deliver of service to all players without discrimination.

Small-scale tea growers, estimated at 300,000, process and market their tea through 54 tea factories under the Kenya Tea Development Agency Ltd (KTDA Ltd), while large scale tea growers (tea estates) process and market their tea through 38 tea factories operated on individual private basis. KTDA renders managerial, production, transportation and marketing services which include management of tea factories, green leaf transportation, procurement of production inputs, marketing of processed tea and payment of tea proceeds to the growers.

However, over the years, the Tea Board of Kenya which also regulates KTDA Ltd has not been very effective in controlling the expansion of tea growing to the extent that green leaf production has, on peak seasons, exceeded the manufacturing capacity of tea factories by far. The Kenya Tea production figures available appendix 7.0, indicate that since 1963 tea production has increased steadily from 18,082,363 kgs in 1963 to 369,606,176 kgs in 2007. This indicates that tea production has increased by over 20 times (2044%) in only 45 years. The small scale tea growers collectively through KTDA produce about 60% of Kenya's tea while the large scale tea estates and plantations produce 40%. Whereas the tea production has expanded, tea manufacturing capacity has not responded proportionately. This has created many problems to the tea growers in terms of infrastructure, labour demands, manufacturing capacity and cost of leaf production. The increase in cost of farm inputs such as fertilizer, herbicides, energy and transport have compounded the problems of small scale tea growers. (Tea Board of Kenya Report 2007)

The physical environment has also changed significantly, there have been several legal degazetments and illegal human activities in the Mau Forest Complex, where Kericho tea growing region lies, leading to deforestation and change in rainfall pattern and distribution.

Tea is an outdoor crop and largely depends on rainfall and any change in pattern and distribution adversely affects production.

This study focused mainly on the small scale tea growers where family units form the first line of management of tea farms which range from about 0.5 acres to 5.0 acres. These farms are heavily dependent on family members to undertake the production and a few hired labour on seasonal basis.

Statement of the problem

It is important for entrepreneurs to generate revenue from their business ventures. Entrepreneurs create employment and are major sources of revenues which support fiscal and economic programmes of the Kenyan government. However, in the recent past the small scale tea growers have been experiencing losses running into billions of Kenya shillings. According to a recent KTDA Report (2008) the tea sub-sector has lost up to about Kenya shillings 5 billion in the last one year. This has led to job losses in the sector, decline of the much needed foreign exchange, and impoverishment of the tea farmers in the rural areas.

This trend is causing a lot of concern not only to the tea growers but also to KTDA Ltd, the government, the tea consumers and other stakeholders who depend directly or indirectly on tea production to enhance their livelihoods. This study is therefore intended to establish the factors affecting the profitability of small scale tea growers in Kenya with a view to making recommendations on how to mitigate their effects.

Materials and Methods

Research Questions

This study was based on the following research questions:

How do farm inputs affect the profitability of small scale tea growers?

How does the physical environment affect the profitability of small scale tea growers?

How does the factory production capacity affect the profitability of small scale tea growers?

Scope of the Study

The study focused on the factors affecting the profitability of small scale tea growers in Kenya. Specifically it focused on the effects of farm inputs, cost of production, the physical environment and the production capacity of the farmers.

The study was based on small scale Tea Growers, from which a sample was preferred. The study combines both direct and indirect impacts. The study limits itself to these impacts as they are considered to be important initial ingredients towards the achievement of profitability

Results and Discussion

Age of the farmer

The findings showed that the majority of the respondents are over 55 years old. While this group may not be energetic enough to do tea farming, they have a lot of experience in tea growing given that most of them grew up within the tea growing region. However their level of education may be an impediment in acquiring and understanding modern tea farming techniques. The small sizes of the farms under tea production are an indication of land fragmentation hence failure to benefit from economies of scale

Farm inputs

In spite of enhancing the volumes of tea production, the high cost of farm inputs such as labor and fertilizer reduce the profitability of tea growing. In Kenya the labour cost has been increasing over the years due to trade unions especially in the tea industry putting the small scale tea growers under pressure to increase their wages too. In addition the tea industry in Kenya relies on imported fertilizer which is influenced by exchange rates and transport costs. By the time this commodity reaches the farmer the cost is extremely high.

Effects of the physical environment

The tea growing zone lies around the Mau forest complex on which tea farmers depend for rainfall. The fluctuations in rainfall pattern around this region affects the ability of the farmers to plan their farms properly, they are exposed to long dry spells which do not support the growing of tea and therefore lead to low production and hence poor profitability. The fluctuations of rainfall are probably caused by deforestation of the Mau forest.

Factory Production capacity

The findings show that the farmers are not trained on modern tea farming and processing techniques. This is evidenced by the mismatch between tea growing expansion and factory production processing capacity resulting in occasional excess green leaf being overloaded in the factories or thrown out in the farms. This means that the factory capacity does not match the output from the tea farms. When tea is overloaded in the factory it leads to poor quality and hence low auction prices which reduce the profit margins. Equally when tea is thrown out in the farms farmers lose out on revenue generation opportunities and this affects their overall profitability.

Conclusion

The small scale tea growers have useful experience in tea farming which credence to their feelings as indicated in the research findings about the profitability of small scale tea farming .The tea growers feel that there is a general decline of profitability as a result of a number of factors.

The farm size has made it difficult and costly for farmers to use modern technologies such as Mechanical Tea Harvesting and Aerial fertilizer application. Farmers have not benefited from the economies of scale because of their farm sizes. Equally the level of education of most farmers is an impediment to learning new methods of tea husbandry and modern business management principals.

The cost of farm inputs has eroded the profitability of small scale tea growing to the extent that those farmers are no longer able to realize full benefits of their investments. The cost of farm inputs such as fertilizer ,chemicals for weed control, among others , have become increasing very expensive to the extend that some farmers no longer can afford them or have had to reduce applicable rates below the threshold levels . This has resulted in poor yields and low quality which have led to very low realizable returns and hence diminished profitability.

The cost of production per unit area or per kilogram of tea produced has gone up beyond the farmers reach. Over the years, the cost of farm labor has been rising steadily but surely at about 10% per annum because of very strong labor union. The transport cost has equally become very expensive because high cost of fuel and poor road network and Chemicals , farm tools and equipments have also become very costly to the farmers hence increasing the cost of production which equally affect profitability of small scale tea farmers.

The destruction of the physical environment, in this case the Mau Forest Complex, has negatively affected the rainfall pattern and distribution to the detriment of tea production. Prolonged droughts and occasional freak rains have seriously affected tea growing and hence poor profitability of all Tea farmers in the region.

From the study , it is evident that Factory production capacity has been a bottle neck during optimum tea production periods and some tea leafs is either thrown away or go to waste in the farms due to lack of factory processing capacity and hence loss of earnings leading to poor profitability of small scale tea farmers.

The study established that there are disparities in gender, education and age in the tea production sub-sector. The study recommends that women be included in the ownership of tea farms to enhance commitment and better management of the tea farms. It is further recommended that land fragmentation should be discouraged by the Ministries of Lands and Agriculture and there should be a minimum size of land under tea production. Tea farmers, like all other business people should be trained and inducted into new business concepts to enhance understanding on business strengths and sustainable ways of doing business. They should also be encouraged to seek loan facilities from financial institutions so as to help them mitigate farming challenges during hard economic times.

It was established that farm inputs are necessary because they promote high productivity. However, the cost of farm inputs is very high and that they reduce profitability. To reduce the pressure on farmers, this study recommends that the government subsidizes the cost of farm inputs. Further it is recommended that the government explores the possibility of having a fertilizer plant within the country to reduce the costs and risks of importing the commodity.

The findings of the study show that the physical environmental factors such as fluctuating rainfall patterns and deforestation of the Mau forest Complex greatly affected profitability.(See appendix 5.0) It is therefore recommended that conservation and reforestation measures be put in place by the government and other stakeholders. Individual tea farmers are encouraged to plant trees within their farms which are tea friendly such as *Greavillea robustus*. These serve as a source of domestic firewood needs and a means for environmental conservation. Further, it is recommended that research be done on drought resistant tea clones. The communities around the

forests should also form forest associations to police the forests with a view to reporting and arresting the encroachment on gazetted forest land.

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