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Research Article

Liberalization of Tea Sector: A Blessing or a Poverty Conduit; Case Study of Kisii County, Kenya

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Abstract: The aim of this paper is to examine the effect of liberalization of tea sector in the livelihoods of the tea farmers in Kenya. While agriculture is the main economic driver in Kenya, tea-sub-sector stands to be the major agricultural commodity that defines Kenyan agricultural sector. In what was deemed to be a strategy to enhance the country's major export product (tea), the government of Kenya liberalized the tea sector in early 2000 where purchase of tea-leaves from the farmers was privatized and rendered a willing-buyer-willing seller scenario. This saw an increased number of tea brokers who relied on buying tea from farmers and selling it to the factories and processing firms. To the surprise of many especially the small tea growers, the expected results on liberalization overturned and the collapse of the country's largest sector started declining steadily. This has been characterized by decreased production, increased complaints among the small scale/out growers tea farmers and increased poverty levels among the tea growing communities. As noted in previous evidence, the buying price of a Kilogram of tea from the farmer by a broker costs KSHs. 14 while selling the same kilo of the same tea at the auction goes for over KSHs. 100. This is an indication that other parties apart from the farmer are the main beneficiaries of the tea sector. This is all as a result of liberalization of the sector which minimized regulations and allowed for entry of non-farmers and brokers thus affecting pricing and the overall benefit of the farmer. These effects have however been argued about farmers' complaints and most recently the presidential address on January 13th 2020 on new regulations with minimal evidence from a research perspective. This study therefore sought to examine the effect of liberalization of tea sector on farmers' livelihoods with reference to small-scale tea growers in Kisii County, Kenya. A descriptive research design was used while the target population comprised of registered small-scale tea growers in Kisii County and staff from the KTDA. A sampling formula was used to identify the appropriate sample size of 90 respondents. The study established that through increased cost of production, poor regulations, entry of new players and increased competition has affected the pricing of the tea thus affecting the economic freedom of the small-scale tea farmers. The study recommends that appropriate policies should be formulated and implemented to regulate the liberalization of the sector. This will reduce middle-men and brokers who affect the tea prices.
Keywords: Marketing strategies, cost of production, policies and price regulations, Tea sector, liberalization, poverty conduit.

Introduction

Background of the Study

Tea production in Kenya has shown tremendous increase over the last 25 years, because of the wide and expansive areas available then, government boost in terms of research development of quality cultivars and the global demand for quality tea that Kenya was able to offer the market. In the early 2000 other players joined the market with low costs of production and fair quality plus a niche of value addition. This started eroding the return value to the Kenyan producer who was still a bulk market provider. The small scale producer has grown more in production than the multinationals. This trend has not matched returns as multinationals' costs of production have been lower, with moderate market base hence better returns. Several factors have influenced the increase in tea production such as input costs, competition as well as management after liberalization. According to Tea Board of Kenya manual (2006), tea production has been in the increase, due to the favorable factors that include enhanced production policy framework, due to improved extension services and research leading to high returns hence merit of liberalization. Technological improvement on inputs and improved supply due to improvement in infrastructure and research advancement have left the tea trade exposed to challenges that include overproduction, increase in input cost, new competition as well as new management challenges. The Tea Boards' report (2007) estimated the global tea oversupply growth stood at 1.3% .The tea gluts continue to affect Kenyan Tea market currently standing at between 1.50-2.0 dollars (TBK Annual Bulletin-2007).

Globally, tea producing countries mostly have had private tea management systems with large holding as their base of production hence being able to absorb excess production costs and over the years have been able to caution on the excess dynamic changes affecting tea trade globally. Kenyan tea trade was liberalized out of global pressure. Governments in principal normally shift liberalization to favor their end product markets through economic controls under the guise of free trade. There has been an increasing concern over the potential negative impacts of trade liberalization, particularly on the environmental and natural resources of developing countries and economies in transition where trade has grown most rapidly. In these countries, the threat of serious environmental harm from increased trade can be a substantial impediment to further liberalization unless appropriate policies and measures to protect the environment are in place and enforced. Without these policies and enforcement, the resulting pollution of air, water, and soils and the unrestrained use of natural resources can spark a rapid decrease in national development.

Tea is the leading foreign exchange earner in Kenya, contributing to about four (4%) percent of the country's Gross Domestic Product (GDP) (Kenya Tea Development Agency [KTDA], 2014). Kenya earned from tea Kshs. 112 billion, representing 26% share of the total export earnings in 2012. Black tea in bulk constitutes to about 85% of tea exports and 15% in value added form. Value added tea earns more revenue than bulk tea to the producer and to the country and also helps to create employment, amongst other benefits.

The removal of regulations governing the activities of the strong multinationals exposes weak domestic industries to abuse and exploitation in the hands of the multinationals. Though hailed as the common trend in modern times, liberalization takes jobs out of local hands. In the name of liberalization, Kenyan institutions have instead been broken up as foreign players enter into the scene to compete with each other. In many cases, they import their own workforce and then sack Kenyans who occupied technical positions in their firms, argued a Kenyan news columnist (Baumann, 2004).

Mukras (2004) on the other hand argues that the common result of liberalization is the collapse of local enterprises as indigenous industries find it impossible to compete in markets that are flooded with inexpensive imports. Simultaneously the government, whose stated intention is to nurture these industries suddenly adheres to the international economic policies of non-protectionism and abandons local industry. The smallholder tea industry is one of the

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greatest success stories in the Kenyan agriculture sector. It is the leading foreign exchange earner accounting for about twenty per cent (20%) of the total agricultural export earnings in Kenya (Drucker, 2005).

The crop also contributes immensely towards employment directly to farm owners and workers on farms and to industry and service sectors as Drucker further argue. The crop constitutes about 60% of the total tea production in Kenya, the balance coming from the large tea estates. Tea production in Kenya is carried out in small and large scale (estate) farms. The smallholder tea production, processing and marketing, was until 1997 subject to government controls. The controls were implemented by the Kenya Tea Development Authority (KTDA) which was established under the agricultural Act, Cap 318 as a parastatal and given he mandate to control and regulate the small holder tea sub-sector in Kenya (Drucker, 2005).

The Tea Act (Cap. 343 , laws of Kenya, gave KTDA exclusive management control over the provision of planting material and extension services to the smallholder, provision of inputs and services collection and processing of the green leaf, management of the factories and marketing of the processed leaf. KTDA organized the sale of the processed tea through its contracted agents at Mombasa and London auctions, received the sale proceeds and arranged the payments to farmers on a monthly basis. KTDA did all these tasks through its various divisions and departments at the headquarters in Nairobi.

Statement of the Problem

While liberalization of the tea sector in Kenya was meant to strengthen the market and spearhead quality and value addition, this has not been the case since the sector has continued to deteriorate with tea farmers being the hardest hit. After liberalization of the sector in Kenya, many parties entered the sector with private buyers being the majority which all happens at the expense of the farmers (KTDA, 2017). Through liberalization, the price control and the channelling of the commodity tuned to the decisions by the tea brokers which has seen an increase in over 70% of the disparity between the buying price and the selling price of the commodity. Through increase in the middlemen in the tea sector, the quality of the product has also deteriorated thus affecting the competitiveness of the Kenyan tea at the global market (FAO, 2018). This at the end of the day affects the small-scale farmers where the costs and low prices are scaled down.

The continued outcry by the small-scale tea farmers has seen the intervention by the President of the Republic of Kenya who through a state address authorized for the review of policies and introduction of regulations to the sector. While this remains yet to be implemented, the small-scale tea farmers remain to face hard economic times with cost of production being as high while the net returns declining by day. This paper therefore sought to assess the impact of liberalization of the tea sector in Kenya on the livelihoods of the small scale tea farmers.

Objectives

a) To examine the effect of production costs on the livelihoods of the tea farmers in Kisii County, Kenya

b) To determine the effect of marketing strategies on the livelihoods of the tea farmers in Kisii County, Kenya

c) To find out the effect of KTDA Policies and price regulations on the livelihoods of the tea farmers in Kisii County, Kenya

Research Questions

a) What is the effect of production costs on the livelihoods of the tea farmers in Kisii County, Kenya?

b) How do tea marketing strategies affect the livelihoods of the tea farmers in Kisii County, Kenya?

c) What is the effect of KTDA Policies and price regulations on the livelihoods of the tea farmers in Kisii County, Kenya?

Literature Review

Theoretical Review

The International Trade Theory

International trade theory provides explanations for the pattern of international trade and the distribution of the gains from trade. The theory convinces most economists of the benefits of liberal trade. But many non-economists oppose liberal trade (Anderson, 2003). Liberalization looks at trade as a free market where gains continue to increase due to improvement in quality of the product and improvement in efficiency (U.N. Synthesis Report Geneva, 1999). Critics to the theory favor a professionalism approach as they argue that liberal approach exposes small indigenous industries to undue competition which ends up having them wind up or be bought out (GATT, 2001). Liberalization looks at individuals as the inherent base of economic growth where their support by empowerment results to increased production, better quality with improved governance and ultimately better returns.

Therefore liberalization is seen by most trade and social theorists as one that offers better returns to the shareholders. Tea industry proponents like the World Bank and Internationally Monetary Fund looks at liberalization as one that would reduce conflict increase return with a view of improving agricultural confidence so as to act as a base of streaming down rural urban migration as part of millennium goals. Liberalization frequently benefits more the developing economies as there are more large implicit subsidies, often channelled to marshal the narrow privileged interests that trade protection theorists often provides (Kenen, 1996).

Moreover, the increased growth that result often tends to increase market share. Competition a product of liberalization brings along efficiency and product diversification as well as search for new markets. Free tea markets after liberalization were meant to benefit from five major gains though there was considerable overlap among them (O.E.C.D:1998).

Liberalization anticipated gains include static gains, higher returns and more stable employments, with a total productivity gains. Drucker, (2005), observes that liberalization could be compared to "putting a flyweight in the ring with an experienced boxer (the multinational corporations), and then removing the gloves". The results often leave the weaker participant reeling.

The removal of regulations governing the activities of the strong multinationals exposes weak domestic industries to abuse and exploitation in the hands of the multinationals. Though hailed as the common trend in modern times, liberalization takes jobs out of local hands. In the name of liberalization, Kenyan institutions have instead been broken up as foreign players enter into the scene to compete with each other. In many cases, they import their own workforce and then sack Kenyans who occupied technical positions in their firms, argued a Kenyan news columnist (Baumann, 2004).

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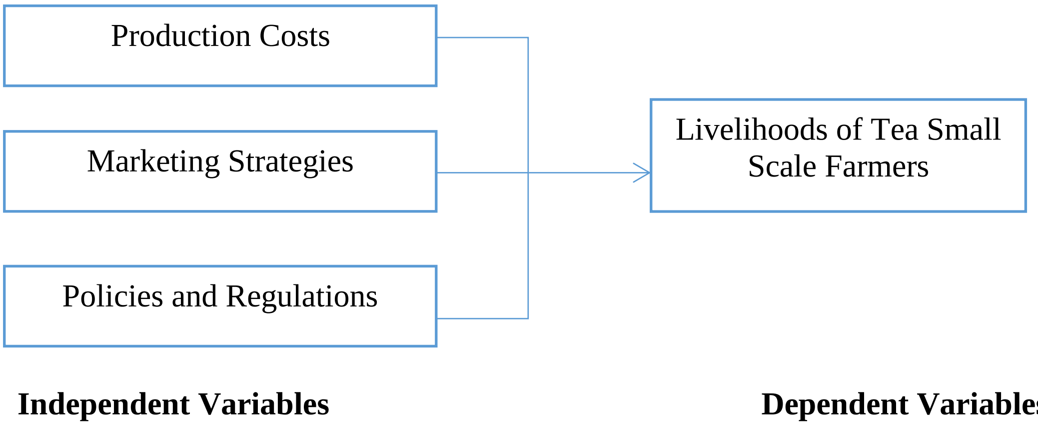
Conceptual Framework



Empirical Review

Kavoi and Owuor (2007) contend that liberalization seeks to move from direct control of production by the public sector to private ownership and investment, thus promoting a more competitive environment. By reducing government control over institutional resources, firm's access to inputs is significantly improved. It also leads to reduced biased resource allocation that favours certain sectors and allows most allocation decisions to be made according to market principles, (Kavoi and Owuor, 2007) continues to argue. Drucker (2005) argue that liberalization of institutions can play a strong role in stimulating investment within regions. By creating large, more open markets, regional integration may also have additional advantages of restraining any monopolistic tendencies on the part of the investing firms.

Drucker (2005) in their contribution to value chain strategy recognize the fact that organizations are much more than a random collection of machines, money and people. They argue that these resources are of no value unless deployed into activities and organized into routines and systems which ensure that products or services are produced which are valued by customers/users. They observe that it is these competencies to perform particular activities and the ability to manage linkages between activities which are the source of competitive effectiveness for organizations.

According to Chumba (2004), liberalization entails the removal of rules which governments have traditionally held in place to regulate the activities of state owned firms. Chumba further argues that liberalization, more commonly known as the, free trade' agenda, sounds reasonable in itself. Much of the language used to describe it portrays the removal of restrictions, barriers and obstacles to free trade as a positive trend Drucker, (2005),observes that liberalization could be compared to “putting a flyweight in the ring with an experienced boxer (the multinational corporations), and then removing the gloves”. The results often leave the weaker participant reeling.

The removal of regulations governing the activities of the strong multinationals exposes weak domestic industries to abuse and exploitation in the hands of the multinationals. Though hailed as the common trend in modern times, liberalization takes jobs out of local hands. In the name of liberalization, Kenyan institutions have instead been broken up as foreign players enter into the scene to compete with each other. In many cases, they import their own workforce and then sack Kenyans who occupied technical positions in their firms, argued a Kenyan news columnist (Baumann, 2004).

Research Methodology

This study used descriptive survey research design. The target population was the small-scale tea farmers in Kisii County and the Kenya Tea Development Agency (KTDA). The research used simple random sampling where 90 respondents were randomly picked from the small scale tea farmers associations in Kisii County and 3 senior level employees in KTDA were interviewed. A questionnaire was used to collect data from the farmers while an interview schedule was used to collect data from the KTDA officials. The data was analysed using content analysis and descriptive analysis methods.

Findings

Response Rate

The study surveyed a sample of 90 respondents using the structured questionnaires. Out of these, 61 respondents satisfactorily filled and returned the questionnaires for analysis. This shows a response rate of 68% against the non-response rate of 22%. This was considered adequate for analysis.

Descriptive Results

Production Costs

The study sought to establish the effect of tea production costs after liberalization on the livelihoods of small-scale tea farmers in Kisii County. The argument has been that as a result of poor and unregulated prices of tea, the government subsidies have reduced and the costs of labour have increased while the tea prices reducing thus affecting the production effectiveness. The results as shown in Table 1 revealed that the respondents were of the opinion that though liberalization, the production costs of tea increased thus affecting their returns which replicates to their livelihoods. The findings imply that indeed the costs of production through increased costs of fertilizers, labour and declined prices as a result of liberalization has affected negatively the returns of the farmers. This has subsequently affected their livelihoods and socio-economic wellbeing.

Table 1. Cost of Production

Statement	Mean	Std. Dev.
There has been an increase in the cost of fertilizers since the tea sector was liberalized	3.99	0.88
The cost of manpower has increased over time since the tea sector was liberalized	4.04	0.90
The liberalization has increased the number of directors which has subsequently burdened the farmer	3.82	0.57
Through increased production costs, there has been a decline in the livelihoods of tea farmers	4.01	0.86

Marketing Strategies

The study sought to analyse the effect of tea marketing strategies on the livelihoods of the small-scale tea farmers in Kisii County. The findings as shown in Table 2 revealed that the marketing strategies of the tea products declined following the liberalization of the sector. The respondents agreed that through the concept of willing buyer willing seller, the quality of tea deteriorated as a result of increased players in the sector most of who were not focusing on the quality but on the brokerage prices. Poor marketing of tea is associated with poor leadership in the sector which means there are no cascaded policies and strategies to have the commodity marketed to international and local markets. This eventually affects the prices thus affected the farmers and their livelihoods.

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Table 2. Level of agreement with aspects on Tea Marketing Strategies

Statement	Mean	Std. Dev.
The tea brokers do not effectively take measures to market the tea following their entrant after liberalization	3.81	0.84
There is poor marketing and promotion of the local tea by the elected directors due to their limited competency	3.96	0.80
Liberalization of the tea sector has minimized government intervention in value addition thus affecting the market competitiveness of the Kenyan tea	4.09	0.71

Policies and Regulations

The study sought to establish the effect of tea policies and regulations after liberalization on the livelihoods of the small-scale tea farmers in Kisii County. The findings as shown in Table 3 revealed that majority of the respondents agreed that the policies on payment timelines were not effective thus causing delays in payments (Mean=4.03). The elections of the board of directors are not properly regulated thus leading to election of incompetent board members with limited ability to make critical decisions towards enhancing the growth of the sector.

Table 3. Tea Policies and Regulations

Question	Mean	Std. Dev.
The policies on payment timelines of the bonuses have not been effectively observed after liberalization	4.03	0.77
Lack of effective policies and management of tea factories has increased conflict of interests thus affecting the farmers	3.92	0.95
There are poor tea board regulation and controls which have increased mismanagement	3.86	0.97
The bonuses are poorly controlled thus not benefiting the farmers	4.30	0.73

Livelihoods of Small Scale Tea Farmers

The study sought to analyse the livelihoods of the small scale tea farmers following the liberalization of the sector. Majority of the respondents indicated that their economic freedom had deteriorated after liberalization of the tea sector and that the amount of bonuses received reduced drastically. Most farmers indicated that they were considering diverting to other crops farming following low returns from the tea farming. This clearly shows a decline in livelihoods of the small-scale tea farmers implying that liberalization has done more harm than good to the tea farmers.

Table 4. Livelihoods of Small-Scale Tea Farmers

Question	Mean	Std. Dev.
I am considering diversion from tea farmer to other crops in the near future	4.19	0.61
The production output of tea in my farm has declined over the past five years	4.02	0.86
The amount of bonuses that I receive annually from tea has been declining over the years	4.16	0.78
My economic freedom has declined due to declined net returns from tea	4.10	0.82

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Conclusions and Recommendations

The liberalization of the tea sector was meant to enhance the quality of the produce and increase the production which has not been the case. The study concludes that the production costs have increased since the sector was liberalized as a result of increased players most of who are not tea farmers. As a result of liberalization, the government does not take active role in the sector including marketing and subsidization of the fertilizers and other farm inputs thus production costs. It is therefore important for the government to ensure the sector is regulated such that the farmers have access to subsidized farm inputs to lower the costs of production. The marketing strategies of the Kenyan tea have declined since the liberalization of the sector as a result of poor government commitment to look for markets and promote the local tea leaving it to private sector with the slogan of willing-buyer willing-seller. The directors also are elected based on popularity and not competency thus leaving the management and marketing of the product at the stake with minimal value addition and quality improvement.

It is therefore recommended that the government takes the initiative of promoting the local tea in international markets and ensuring the nominations of the aspirants to the board of directors is based on competencies and expertise including level of education and previous working experience.

The study concluded that the policies and regulations available to control the tea sector after liberalization are not effective thus serving minimal role to the interests of the farmers. The policies on who should buy and sell is not controlled thus increase in brokers who have affected the tea prices. The government ought to come up with strategies directed towards controlling the tea sector despite liberalization, clearly outlining who should buy and who should sell as well as who should vie for the position of a director so as to enhance the benefit of the sector to the common farmer.

Conflicts of interest

The authors declare no conflicts of interest.

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