

“As you are encouraging the farmers to grow tea, you must be able to give them extension services”

*Lerionka Tiampati Group CEO - KTDA*

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**At the head of the Kenya Tea Development Agency (KTDA), Kenya’s leading tea producer and exporter, Lerionka Tiampati discusses, for the Private Sector & Development review, the successes and challenges posed by its cooperative economic model. This is an excerpt from the interview he gave us.**

# PS&D

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Proparco: KTDA is particularly known for its cooperative business model. Can you tell us more about its organisation?

**Lerionka S. Tiampati:** KTDA was set up before Independence, in the 1960s. Around this time, there were very few indigenous people growing tea so we had to develop land, growing from 2,000 hectares to the 140,000 ha we have today. It has been our work to go in and encourage farmers to start growing tea. Currently, we have 600,000 tea producers, all of whom own their parcels of land. They grow the tea on their farms, and they deliver their tea to one of the 3,200 buying centres. Each buying centre receives a certain number of farmers, who bring their leaves

to be graded, weighed and then transported to the factory, where processing takes place.

Farmers are members of the buying centres and the factories, and the vast majority of them are also owners of the tea factory. At the buying centre, they elect a team of five people - a chairman, a secretary, a treasurer and two members - to manage the farmers' issues. The factory is then divided into six electoral areas and the farmers of each area elect one of their own to be the director of the KTDA tea factory. Thus you have six directors elected by the farmers from the catchment area. That's why you find several farmers of the buying centres sitting on the factory board.

## **KTDA provides a range of services to tea producers. Could you tell us more about these services and KTDA's motivations in making them available to producers?**

As you are encouraging the farmers to grow tea, you must be able to give them extension services. For example, who would otherwise go to the farmer to explain about tea husbandry, about land preparation, layout or tea nursery? And then afterwards, who would explain how to plant, how to grow tea, how to use fertiliser and finally how to pick quality tea leaves? KTDA also provides tea collection services for its producers. Each factory has about 8 or 10 trucks, which go out every morning to different catchment areas to collect the green tea leaves. When you provide your own leaf collection services it also reduces the cost and gives you the convenience of being able to control the quality and the speed at which it is delivered to the factory.

Once the tea is processed and sold, the farmer is then paid for the green leaf delivered into his/her nominated bank account through the KTDA system. In parallel, we are also now able to extent credit to the farmers through our subsidiary, Greenland Fedha, should they require access to finance for school fees, medical or other needs.

## **To what extent does the KTDA model create shared value along its supply chain?**

In most years, the farmer is paid around 75% of the price realisation, with 25% attributable to the cost of production/manufacturing. From this 75%, the farmers will deduct their farming costs, primarily fertiliser and labour, leaving between 30-50% as a net return.

In order to reduce the cost of production and enhance efficiencies, KTDA has invested in various subsidiaries along the tea value chain. These subsidiaries pay a dividend to KTDA Holding when they declare a profit.

When KTDA declares a profit, it then pays dividends to its shareholders, who are the tea factories. Tea factories then will declare their profits and pay dividends/bonuses to their farmers for their green leaf. This is thus the part of the value chain that goes back to the farmer.

The factories use a lot of energy in their operations. In order to reduce energy costs for the factories, KTDA has invested in an energy power subsidiary which assists the tea factories set up mini-hydro projects. The projects are funded through equity and debt and once the loans are paid back within five to seven years, the price of electricity will be decreased. This saving will then reflect in the cost of production of the plants and this benefit will then accrue to the farmers.

As I mentioned above, we also have a microfinance company, Greenland Fedha. We lend farmers money, with the goal to ensure that they have easy access to credit. One of the biggest problems that we see today is that many farmers do not have the necessary collateral needed to access credit to pay their school fees or medical costs, for example. Again, when the microfinance company makes a profit, in the same way, it comes back to KTDA, and then from KTDA to the tea factories, and from tea factories to the tea farmers. Each of our subsidiaries contributes, across the value chain, to the

profitability and the final welfare of the tea farmers.

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## **What are the difficulties associated with your model?**

When you are dealing with 600,000 farmers and close to 3 million household members across the country, governance issues can become a real challenge: How do you organise such a large number of people and ensure that farmers elect the right people as factory directors? Governance is a very important aspect for us, in other words, making sure that the right kind of people are elected, that they are accountable to the farmers, and are doing the right thing, while upholding the laws of the land.

The other key issue is communication, ensuring that you disseminate useful information to all the tea producers. When tea prices crash, like they have done this year, how do you communicate this information so that the farmers understand that market forces and environmental factors influence their returns?

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