Kenya Tea Development Agency Ltd.

COMPANY BACKGROUND

The Kenya Tea Development Agency Ltd. (KTDA) was established in 2000 and is owned by 54 tea companies which, in turn, have 550,000 small tea farmers as individual shareholders. The tea companies collectively own 66 tea processing factories. KTDA emerged from the privatization of the Kenya Tea Development Authority (the Authority), a parastatal agency created in the 1960s to support small farmers. KTDA's services cut across the entire tea value chain and include inputs and agri-extension, transportation, warehousing, processing, marketing, and financing.

Country: Kenya

Sector: Agribusiness

IFC's Investment: $12 million in long-term debt investment

DRIVERS FOR KTDA'S INCLUSIVE BUSINESS MODEL

- KTDA's ownership structure—small farmers as shareholders—and the company's mission
- Strong demand for tea globally and increasing consumer focus on certified products
- Policies conducive to the growth of an inclusive business in the tea sector

Originally a parastatal agency established after independence to accelerate economic development and income growth for small farmers, KTDA is now a private company with small tea farmers as its shareholders. This unique ownership structure is at the core of the company's inclusive business model. It is reflected in KTDA's mission "to provide effective management services to the tea sector for efficient production, processing, and marketing of high quality tea and investing in related profitable ventures for the benefit of its shareholders and other stakeholders."

Second, the demand and prices for tea worldwide are forecasted to increase in the coming decade. Also, an increased focus on farm-level traceability and sustainable agriculture by customers is creating demand for certified tea. KTDA is well positioned to meet the growth in demand given its more than 50 years of experience in the industry and emphasis on sustainability in its supply chain. The climate in Kenya also makes it conducive to grow tea year-round and for KTDA to produce higher yields.

Third, policy reforms facilitated the restructuring of KTDA from a parastatal agency to a private company with small farmer shareholders. Further, helping ensure a stable supplier base for KTDA, there are strong legal incentives for farmers not to side-sell to other factories. Regulation by the Tea Board also ensures that tea factories are not set-up where there is no base of small farmers. Such policies are important enablers for KTDA to succeed as a private company.

IFC International Finance Corporation WORLD BANK GROUP

KTDA'S INCLUSIVE BUSINESS MODEL

Tea is a suitable cash crop for small farmers in Kenya. Among other factors, the country's weather and soil conditions make it possible to grow tea year-round; manual plucking facilitates harvesting of the best tea leaves; and large investments in machinery and irrigation are not needed for small-scale tea farming.

But in the 1950s, when small farmer-based tea production was first considered in Kenya, the necessary infrastructure and services were not in place. Farmers lacked technical knowledge and were scattered over a large area. To address this, various policies, plans, and reforms were initiated to support small farmers in growing cash crops. In 1960, with support from the Commonwealth Development Corporation CDC, the UK's development finance institution, the government set up the Special Crops Development Authority (SCDA), a parastatal agency that was renamed the Kenya Tea Development Authority in 1964 after Kenya gained independence.

The government created the Tea Research Institute of East Africa (TRIEA) which developed nurseries and high-yielding tea varieties among other work, built roads to transport tea from farms to markets, and provided extension services through the Ministry of Agriculture. The Authority worked with commercial tea companies for processing and marketing. Starting in the 1960s, the Authority was supported by the CDC and the World Bank which provided advisory support and soft loans. Reforms in the 1990s led to the Authority's privatization and the emergence of KTDA.[1]

Today, KTDA is a vertically integrated private company that offers comprehensive services for small tea farmers such as inputs and agri-extension, transportation, processing, marketing, and access to finance. These services are delivered by KTDA and its five subsidiaries which manage farm-to-factory logistics, processing, packaging, distribution, trading, insurance, and financing among other areas.

LOGISTICS AND PAYMENTS

Small-scale farmers have 10-year agreements with specific tea factories. Their farms are typically less than one-half acre, but some are up to 3.5 acres. Farmers deliver tea to 3,200 buying centers managed by elected farmer-based committees across tea growing regions in the Rift Valley and East Rift Valley. Tea is weighed, graded, and valued at these centers–any green leaf that doesn't meet quality standards is rejected. Tea is then transported by factory-owned trucks to KTDA factories for processing, packaging, and distribution.

A mobile technology system transmits real-time data on farmers' deliveries from centers to factories, facilitating payments and records management. Around 75% of farmers receive payments electronically or via checks. Every month farmers receive an upfront payment—on a per kg basis—for a portion of the estimated value of their tea deliveries. The balance is paid in two installments after factories sell tea and deduct costs and loan repayments. For example, KTDA purchases fertilizers for farmers who pay for the cost over 12 months through deductions from payments from the tea

factories. Farmers also get an annual bonus from the profits made by the tea factory of which they are a shareholder. KTDA has a clear dividend payout policy: 30% of profits must be paid to its small farmer shareholders. Weekly reports on the prices that KTDA factories achieve at the Mombasa auction are shared with farmers. Access to price information as well as farmers' shareholding in tea companies are strong incentives for performance and maintaining a market orientation.

> KTDA introduced the Farmer Field Schools model following a pilot on good agriculture practices with Unilever's Lipton Company in 2006

TRAINING PROGRAMS

KTDA introduced the Farmer Field Schools (FFSs) model following a pilot on good agriculture practices with Unilever's Lipton Company in 2006. FFSs offer hands-on learning through bi-monthly two-hour sessions for farmers to gain knowledge on increasing productivity and quality through planting, fine-plucking, preparing for certification, etc. Topics such as empowerment, collective action, and issues like health are also covered.

Farmers are also trained in sustainable agriculture practices to meet requirements for Rainforest Alliance certification which is based on the Sustainable Agriculture Network (SAN) standard. Both farms and factories must be in compliance to achieve this group-level certification. Training topics include agronomic practices, climate change adaptation (e.g. crop


© KTDA

diversification) and mitigation (e.g. planting indigenous trees), soil conservation, and water management. A training of trainers model is used; high performing tea farmers are trained to serve as lead trainers and to conduct farm-level inspections before audits.

These training programs have been funded by KTDA in partnership with donors such as the Netherlands Ministry of Economic Affairs, Unilever, and the Sustainable Trade Initiative (IDH). KTDA is working toward developing a financially sustainable model for training provision.

ACCESS TO FINANCE

KTDA subsidiary Greenland Fedha offers farmers loans based on estimated monthly payments for tea deliveries as well as loans based on annual bonuses. Collateral includes green leaf production and household or business assets. Greenland Fedha lends up to 30% of the value of a farmer's tea delivery. Since 2009, 62,000 farmers have received loans to buy farm inputs, tools and equipment, improve tea farming, and support micro businesses. Loan tenors range from less than a year up to three years with a 12.25% p.a. interest rate.

1 This history is based on the KTDA case study in: Monitor Deloitte. 2014. "Beyond the Pioneer: Getting Inclusive Industries to Scale."

RESULTS OF KTDA'S INCLUSIVE BUSINESS MODEL

- 550,000 small tea farmers are shareholders of KTDA's 66 tea factories
- KTDA farmers receive 75-80% of the final tea price, a higher payout than farmers in neighboring countries
- More than 62,000 farmers have received loans since 2009

As of 2013, KTDA was the second largest exporter of tea in the world. Indeed, over 60% of the tea produced in Kenya is grown at KTDA farms. KTDA's 66 tea factories produced 1.1 million tons of tea worth around $800 million in revenues in 2012-13.[2] KTDA's largest buyer is Unilever which sources approximately 30% of KTDA's annual production.

KDTA's 550,000 small tea farmers cultivate over 126,000 hectares of land on small farms that are generally less than half a hectare. On average, a KTDA farmer supplies 2,000 kgs of green leaf or 450 kgs of packaged tea. KTDA tea fetches prices 12% above the average price of tea sold at the world-renowned Mombasa auction. KTDA farmers typically earn 70% of their income from tea production. A KTDA tea farmer can expect to receive 75-80% of the final tea price; this is a much higher payout than that of small tea farmers in neighboring countries. The average per kg payment for a KTDA farmer has increased from KSH 23.99 ($0.27) per kg of green leaf in 2001 to KSH 45.65 ($0.52) per kg of green leaf in 2013.

In 2013, there were 820 Farmer Field Schools managed by KTDA extension staff to train tea farmers. Rainforest Alliance has certified 54 factories in sustainable agriculture practices while the Fairtrade Foundation has certified 13 factories for Fairtrade. Sustainable practices have enabled farmers to increase yields by 36% on average and receive premiums from buyers of Rainforest Alliance certified teas.

Over 62,000 farmers have received loans via KTDA subsidiary Greenland Fedha. In 2012, over 19,000 loans below KSH 70,000 ($796) were disbursed electronically via the M-Pesa mobile money service.

2 Monitor Deloitte. 2014. "Beyond the Pioneer: Getting Inclusive Industries to Scale," page 54

IFC'S ROLE AND VALUE-ADD

IFC's Investment: $12 million in long-term debt financing
Investment Year: 2013

- Provide US$12 million loan in 2013 to KTDA to finance the construction of a new warehouse complex for handling and storage
- Strengthen the environmental, social, health and safety standards utilized by KTDA
- Offer expertise on potential expansion areas for the company, as well as explore opportunities to engage Advisory Services to strengthen KTDA's supply chain

(Published June 2014)
For more information, visit ifc.org/inclusivebusiness and ktdateas.com

IFC International Finance Corporation WORLD BANK GROUP