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Socio-Economic Effects of Liberalization of Small Scale Tea Sector in Kenya: Evidence from Tea Farmers in Konoin District

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Abstract
Liberalization in Kenya started in 1990's and continued ro date with far reaching effects on various sectors of Kenyan economy. The aim of this study was to investigate socio-economic effect of liberalization of small scale tea sector. The study sought to: Determine how liberalization has affected the living standard of the farmers, to investigate the impact of liberalization of tea sector on the competitiveness of small scale tea farmers and analyze the effect of liberalization on the performances of KTDA managed tea factories. A case study design was used in the study. The target population was 380 from which a sample of 38 was selected. In collecting data , a questionnaires was used. Descriptive statistics were computed. The findings revealed that Liberalization has exposed the smallholder and factories stiff competition due to entrants of new firms into the tea business. Factories have been 'forced' to streamline their operations to cope with completion. Effects of liberalization to farmers is mixed: On the positive farmers have been relieved of monopolistic tendencies of KTDA such as unilateral price determination and farmers have had a much bigger say in the management of tea factories. Negative effects include: Declining bonuses that farmers used to earn.
Keywords: Liberalistaion, Tea secor, small-scale tea farmers

1. Background of the Study

According to Chumba (2004), liberalization entails the removal of rules which governments have traditionally put 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, (2006),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).

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 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, 2006). 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, 2006).

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.

The above functions and activities were under the leadership and guidance of the Managing director. KTDA Board of Directors had the overall responsibility of policy formulation. The board consisted of farmers representatives appointed by the Minister for Agriculture. The exclusive KTDA control over smallholder tea collection, processing and marketing worked well when membership was small. With extended smallholder tea farmers throughout the country, the KTDA approach system started to fail and hence farmers clamored for decentralization of the authority and privatization of the tea sub-sector. A KTDA report concludes that this was the beginning of the liberalization process of this very important sub-sector.

After liberalization, the direct management and day to day running of the smallholder tea factories was placed in the hands of elected directors who represent the interests of the farmers from the areas served by the respective factories. Tea factories were also turned into companies limited by shares.

2. Problem Statement

Government interventions in the1980's in KTDA and more recently post-liberalization problems such as limited ownership and decision making by smallholders on the processing, marketing and distribution of profits at factory levels have been a challenge in the tea industry. The situation was further worsened by the decline in producer prices due to low world prices (Borg, 2006) against high inflation rates. This ultimately pushed down the real producer prices. It seems that structural changes in the green leaf marketing system have taken place after liberalization. However, little is known about the nature of tea marketing in the post liberalization era in Kericho County of Kenya. The actions of farmers who are also shareholders of KTDA at the same time seems complicate the market channels especially behavior and marketing structure. The researcher was carried out this study to investigate social and economic impact of liberalization of tea sector.

3. Objectives of the Study

The main objective of the study is to investigate social and economic effect small scale tea sector.

3.1The Specific Objectives were;

1) To determine how liberalization has affected the living standard of the farmers.
2) To investigate the impact of liberalization of tea sector on the competitiveness of small scale tea farmers.
3) To analyze the effect of liberalization on the performances of KTDA managed tea factories.

3.2 . Research Questions

The following research questions were used:

1) How has liberalization affected the living standard of the farmers?
2) To identify the impact of liberalization of tea sector on the competitiveness of small scale tea farmers?
3) How has liberalization of tea sector affected the performance of KTDA managed tea factories?

4. Significance of the Study

The study would contribute to existing literature on trade liberalization especially its justification. The study would evaluate the importance of trade liberalization by examining its impact on the growth process of the economy. The study is significant in the following ways:

1. It would help to take a stand on the controversial role of trade liberalization in the growth process of developing counties.
2. The research would help to identify the factors hindering cordial trade relations with other counties.
3. It would also help to evaluate the performance of different trade policies Kenyan government has adopted.
4. The research would also be an invaluable tool for students and researchers that want to know more about the effect of trade liberalization on the Kenyan economy.

Review of Related Literature

Kenya has had a successful smallholder tea sub-sector contributing to more than 60 percent of total tea production in Kenya. As a result of liberalization policies in agriculture, the previously publicly own tea factories were put in the hands of tea farmers whose companies undertake tea collection and processing. There are 46 tea factories operating under the Kenya Tea Development Agency (KTDA) umbrella, some of which are wholly owned by small-holder tea farmers, in accordance with a 1995 policy change that gave farmers total ownership of the factories (Kavoi and Owuor, 2008). By participating in a vertical ownership of the processing factories and KTDA, which manages the tea factory and organizes for the marketing of tea, farmers are expected to enjoy tremendous benefits associated with vertical integration.

In Kenya, the KTDA represents a form of contract farming in the tea sub sector. Its performance has been subject to much controversy because of a lack of transparency in its dealings with farmers and limited access to information regarding the roles of the KTDA, the tea factory Company Directors and the various deductions from the price paid to the growers. In particular Chumba (2004) observed that the contention is on the governance structures of the KTDA are mainly the institutional arrangements for payment for tea delivered to the KTDA's factories. The KTDA's deduction system appears very arbitrary and lacks transparency. This can be compared with the situation in Sri Lanka where there is a clear formula for determining the price to the grower based on the out-turn, the auction price and an agreed cost structure. Whilst there are some complaints about this system, as least one can identify where costs are being allocated. In Kenya there is very little transparency. The pricing structure of the KTDA means that the end price to the farmers is the remainder after all factory costs have been accounted for. If the representative structures and control of the board are not effective, this can mean that there are few incentives to maximize the price received by the farmer. The proposed study seeks to understand from the farmer's perspective why the preference for a particular marketing option from the other.

Liberalization of the smallholder tea sub-sector was aimed at replacing a single production processing-marketing system of providing services to farmers formally operated by the Kenya Tea Development Authority (KTDA) with a broad based system run by different institutions. The thrust was to redefine the roles that government, the Tea Board of Kenya, the KTDA, tea factory companies and farmers' organizations should play in a liberalized economy. It is important to consider the extent of liberalization of the smallholder tea sub sector and evaluate the impact of liberalization on smallholder tea production. The critical driving force is enhancement of farmers' returns and those who have legitimate interests in the development of the tea industry in Kenya especially the middlemen.

Drucker, (2005) observed that the smallholder tea production, processing and marketing was, until 1997, subject to government controls. The controls were implemented by the KTDA which was established under the Agricultural Act CAP 318, Section 190 and 191 as a parasternal and given the mandate to control and regulate the smallholder tea sub-sector under the Tea Act (CAP 343). Despite the de-control and subsequent liberalization of the smallholder tea sub-sector which saw the restructuring of KTDA and the tea factory ownership, KTDA continued to control of some of the services especially tea processing and marketing and the supervision of the smallholder tea industry by KTDA still remain a thorny issues. A parallel system has emerged where farmers sell green tea leaf directly to private factories or to middlemen for immediate payments without any contractual arrangements (Kavoi and Owuor, 2008).

The liberalization of the sub-sector has been mainly for the benefit of farmers in that following the introduction of liberalization of the sector, farmers have had a much bigger say in the management of tea factory companies. This had led to improved farmer motivation and satisfaction. Government on the other hand now generates a lot more income by way of corporation tax from these institutions. KTDA has become more transparent in its operations and this has improved its relationships with the farmers. There has been improved management expediency within the individual factory companies thus leading to management effectiveness. There have been minimized bureaucracies in decision making.

Liberalization had exposed the smallholder factory companies to stiff competition that has emerged from new entrants into the tea growing business. Most of these new competitors were from neighboring countries such as Rwanda, Burundi and Malawi. Further competition had also been felt from some of the traditional consuming countries such as Pakistan in the Middle East. Stiff competition has led to an awakened factory management efficiency that was not visible before. Staff rationalization has been one of the major impacts of liberalization in this sector. It was revealed that a majority of the factory companies employed similar strategies in their operations. Cost cutting strategies came out as the single most popular strategies adopted across factories to achieve improved effectiveness in management.

Liberalization fosters management efficiency and effectiveness among firms in order to face severe competition. It forces management into awakening and renewed strategic approaches in order to be able to survive in the hostile and competitive business environments. With renewed and well thought-out strategies, many of these institutions are able to thrive despite an increase in new entrants and competition. Liberalization is strongly associated with the expansion in employment among the indigenous firms. This is possible through the anticipated increase in production.

Proponents of market liberalization argue that liberalization leads to both greater efficiency and more rapid growth of economies. On a specific note Kavoi and Owuor, (2008) pointed out that successful liberalization affect both traditional and non-traditional exports favorably such that increased efficiency in production of exports augment the size of the market and hence enable greater exploitation of the economies of scale. World Bank on the other hand reports that period before liberalization produced an accelerated growth of the agricultural sector (Chumba, 2004). Most of the reviewed studies are of macro nature, for instance Chumba's study of 2004 used time series national data, and her main findings were that small holder tea farmer income had significantly increased due to liberalization.

The study is guided by the economic rationality model where the farmer is conceptualized as being rational in the selection of the market choice in this case the dependent variable in the proposed study is the marketing channel of green tea leaf measured by the choice of marketing choice by the farmer either KTDA or otherwise(middlemen). The independent variables are divided into two namely internal factors to the household head and external factors to the household head.

The internal factors are those emanating from the household head and are hypothesized to influence decision to choose a certain marketing option. These factors include family size, education attainment, age, fees obligation, farm size. External factors include season of the year, awareness of liberalization, food self-sufficiency. It can be noted that the dependent variable that is the decision to sell to KTDA or otherwise is a binary decision which can be represented as a qualitative variable whose range is actually limited since it can take one of two values: 1 or 0. This kind of decisions can be analyzed with binary choice models. Baumann (2008) has pointed out that the binary models are based on two key assumptions that: The economic agent is faced with a choice between two alternatives that is participate or not. Secondly, the choice agent makes will depend on their characteristics and that of the farm / Enterprise. The objective of such a model would be to determine the probability of a particular agent making one choice rather than the alternative.

Agricultural market liberalization was aimed at increasing competitiveness of commodity markets. Tea farming in Kenya, under Kenya Tea Development Authority has been hailed as a success story this was up to early 1990 when small holder farmers begun agitating for market reforms in the sector in order for them to have a greater say in the marketing of their produce. The government finally ceded by converting KTDA into a marketing agent and manager of factories, farmers were also allowed to sell their produce to alternative market. It is therefore imperative to find out factors determining the marketing choice for green tea among the small holder tea farmers.

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).

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. However, beneath the language of "free' trade lurks an important question: free for whom?

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.

Mukras (2004) further says that globalization has not produced the miracle enterprises hoped for. Instead, the process has proved painful, thus causing serious socio- economic problems in countries where this has been implemented. He discusses at length the experiences of an indigenous Kenyan motor vehicle industry in a liberalized environment. He remarks that the Automobile Vehicle Association was the largest vehicle assembling plant in Kenya, established in 1977 originally as collaboration between the Kenyan government and foreign investors. However, the government in the name of liberalization, moved from a position of total protection to one of no protection overnight. The onset of liberalization, accompanied by the removal of foreign exchange controls and the abolition of import licences, meant that industry was suddenly exposed to competition from inexpensive used-cars imports as well as the gradual withdraw of its major shareholders. Without warning or explanation, the government lowered duties on vehicles.

Liberalization leads to enhanced performance and growth

In spite of the many criticisms discussed in this paper, liberalization enables business firms to gain greater access to new markets free from any restrictions on their conduct. Baumann (2004) observes that firms face intensified competition in the post liberalization environment. Liberalization makes competing imports more readily available and rapid growth in self- employment, thus increasing domestic competition, especially for indigenous firms. He further observes that liberalization improves the trading environment in three main areas:

- **Access to inputs** – The removal or reduction of import licensing gives firms greater access to imported inputs, given that licensing systems, generally, are biased towards large, influential companies.
- **Relative prices** – Substantial devaluation drastically alters the prices of tradable relative to non-tradable, squeezing costs in firms that depend on imported inputs and protecting those that rely or relied on domestic materials and labor it removes the biases often accorded to capital intensive investments.
- **Ease of doing business** – A reduction of state monopolies and intervention in pricing and distribution gives firms" freer reign in obtaining resources and marketing products.

Liberalization fosters management efficiency and effectiveness among firms in order to face severe competition. It forces management into awakening and renewed strategic approaches in order to be able to survive in the hostile and competitive business environments. With renewed and well thought-out strategies, many of these institutions are able to thrive despite an increase in new entrants and competition. Liberalization is strongly associated with the expansion in employment among the indigenous firms. This is possible through the anticipated increase in production as Baumann (2005) observes.

Kavoi and Owuor, (2008) agrees with Baumann 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, 2008) 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.

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The crop constitutes about 60% of the total tea production in Kenya, the balance coming from the large tea estates.It is very difficult for the government since it can only pursue one of the two policy objectives: (i) to realize the industry’s productivity potential and its international competitiveness; and (ii) to attempt to industrial develop and modernize backward regions by establishing and financially supporting small scale producers suited to the scale of particular areas. Pursuing the first objective is good for the economy as a whole, but will probably involve the closure of 28 small and non-viable tea mills. Politically, this is likely to be unpopular in those regions with recently constructed small scale producers. In addition, pursuing this objective would represent a new policy challenge and would require considerable policy change. It would be consistent with the Government’s objective of further integration with the world economy, it would allow the country to meet its obligations and the likely commitments to WTO, and it would maximize the efficiency of resources allocation to promote sustainable economic growth and improve living standards (Kenya Tea Development Agency, 2005).

Pursuing the second objective will be extremely costly to the economy, but could keep small inefficient mills operating, at least while subsidies last. Pursuing this objective would largely involve a continuation of existing policies. The main policy challenge would be to find the money to continually subsidize mills and to try to politically and economically justify its continuation. However, pursuing this objective would require trade protection by trade restrictions or subsidies, which would be inconsistent with the Kenya Government’s objective to open its markets to international trade and to become more integrated with the global economy.

To materialize the industry’s productivity potential and to ensure the sustainable growth of the tea sector, Vietnam should apply policies to create a equally competitive environment for all tea mills to operate, regardless of their ownership, and to encourage international competition.

In addition, the Kenyan government can not prolong its financial supports directly or indirectly to tea mills in subsidize manner. Instead, it should facilitate a fair playing field for all tea mills, Tea mills should be restructured, especially to be equitized, to improve the efficiency of its operations. The Government should apply more tough measures, including forcing those mills with low operational efficiency and prolonged loss-making.

In order to reduce the negative social impacts of those policy changes, the government should support for those displaced mill workers, such as retraining them so they can find other working opportunities. Especially, for cane growers with low efficiency and high production cost, the government should support them both financially and technologically so they can shift to other more efficient crops or animals.

To enhance the international competitiveness of the tea sector, Vietnam should gradually phase-out its non-tariff barriers and create a clear tariff reduction schedule so processing mills can be aware to upgrade their operation efficiency to survive. Open trade will provide the ultimate incentive to adopt best practices as quickly as possible. Only by matching best practice will mills be viable in the long-term and internationally competitive.

It appears that the Kenyan tea industry has considerable potential to achieve productivity improvements. A strong argument exists to transfer some money currently used for various subsidies to fund research and development activities. To achieve 2 percent growth rate in yield average, more quality varieties should be applied widely. Additionally, extension activities should be expanded more widely to assist cane growers in applying advanced farming techniques.

Obviously, the government's role is to create fairly competitive business environments for all economic sectors, to assist research and development and extension activities, to encourage processing mills to have contracts with cane growers. In fact, some regions and some tea enterprises have the potential to develop sugarcane and tea production competitively in line with imported sugar. But the important issue is that the government should facilitate an environment so that those regions and enterprises are able to bring into play their potential and it should avoid those subsidized measures, which favor some mills over the others.

Tea was first introduced to Kenya in 1903 from India by a European settler GWL Caine. The British Colonial Administration started exporting it to London by 1933. The cultivation of tea in the colonial period was basically the preserve of the British settlers. After independence in 1963, the cultivation of tea was desegregated to African farmers both small scale and large scale farmers who had bought land from British settlers.

The planting and production of tea has rapidly increased since independence in 1963. Tea production has risen from 18,000 tones in 1963 to 294,170 tonnes in 1998. Increased production of tea has guaranteed Kenya the third position after India and Sri Lanka, in the global tea Drucker, s list and commands 21 per cent of all tea exported to the world and 10 per cent of the global tea production. Pakistan ranks as the highest Drucker, of Kenyan tea at 37,900,000 kgs at a value of Ksh. 5.7 billion, the UK ranks third with total tea imports at 18,600,000 kgs at a value of Ksh. 2.81 billion; the Netherlands is placed at twentieth position with imports of 261,343 kgs at a value of Kshs. 48.6 million Small scale farmers have continued to play a vital role in the cultivation of tea in Kenya; it is estimated that small scale farmers contribute up to 60 per cent of the total crop in the country whereas large scale tea estates contribute 40 per cent. The tea sector employs 3 million people – directly and indirectly – a figure which is translated to about 10 per cent of the population

Key Players in the Tea Sector in Kenya and Their Roles

The Tea Board

The Kenya Tea Board was established in 1950 and it operates through an Act of Parliament, the Tea Act (Cap. 343 1979) and the Tea (Amendment) Act 1999. The Tea Board's mandate is, "to regulate tea growing, manufacture and trade and to carry out research and promotion of tea." The Act outlines the structure and functions of the Tea Board. The Act spells out the functions of the Board as:

1. To license tea growers
2. To license tea factories
3. Registration, control and improvement of cultivation and processing of tea
4. To control pest and diseases
5. To control export of tea
6. Investigation of, research into all matters relating to the tea industry

Some of the functions of the Board were changed through the Tea (Amendment) Act 1999. The Amendment Act repealed the first function of the Board which was licensing of tea growers and repealed the last 2 functions and amended these to read:

1. Monitoring trade in tea through registration of any person dealing in tea (as stipulated in the Tea (Amendment) Act
2. Coordination of training in all matters relating to the tea industry

The Kenya Tea Development Agency

The Kenya Tea Development Agency was established in 1963 to carry out research on crop husbandry and tea processing. The SCDA was transformed to the Kenya Tea Development Authority through an Act of Parliament. The Kenya Tea Development Authority was the successor of the SCDA and it was established to provide services to small holder tea farmers such as planting materials, fertilizers and extension services, inspecting and collecting green leaf from respective buying centres, processing and marketing of tea.

In the 1990s, the Kenya government made strides to liberalize the tea sector through the Bretton Woods prescribed structural adjustments programmes (SAPs). The aim of liberalizing the tea sector was to ensure the elimination of bottle necks that limit the production of tea and in turn enhance the central role played by agriculture and in this case tea, in poverty alleviation and in the generation of foreign exchange reserves. Through the liberalization measures employed, the government decreased its control over the Kenya Tea Development Authority and the parastatal was transformed to the which was not answerable to the government. This move was however overhauled in November 1999. Other changes made to the tea sector to abide by the Bretton Woods liberalization policies were:

- Equity and shares of KTDA would be purchased by small holders of tea
- Governance and management of tea factories would be done by elected officials

The role of KTDA was changed to that of an agent whose primary role was to collect and process tea and was charged with the mandate of marketing the tea.

The Tea Research Foundation of Kenya (TRFK)

The TRFK is the successor of the Tea Research Institute of East Africa and was established in 1980. The main aim of the TRFK is to, "promote research and investigate problems related to tea and such other crops and systems of husbandry as are associated with tea throughout Kenya including the productivity (yield), quality and suitability of land in relation to tea planting; and matters ancillary thereto.[6]" Since inception the Foundation has developed and released to tea growers forty-five clones of suitable tea.

The Kenya Tea Growers Association (KTGA)

The Kenya Tea Growers Association (KTGA) which was established in 1931 is a voluntary organization of large scale tea growers and is based in Kericho. The association's principal aim is to address the common interests of the large scale growers. The role of KTGA includes lobbying and reinforcing linkages with and between stakeholders on matters affecting large scale tea operations.

The Mombasa Tea Auction

In November 1956, the Export Auction System was initiated under the management of the EATTA in Nairobi and most of the tea produced was consigned to the United Kingdom. In 1969, the auction centre was moved to the Port of Mombasa which was the nerve centre of warehousing, handling and shipping. The Mombasa Tea Auction, consists of a main grades auction and secondary grades auction, and is held weekly on Mondays. The Mombasa Tea Auction has grown to be the second largest tea auction in the world after the Colombo Tea Auction in Sri Lanka.

Private Sector Tea Players

1. Unilever Tea Kenya Ltd.

Unilever Tea Kenya was from 1922 to 2004, known as Brook Bond Kenya. Brook Bond acquired their first potion of land in Limuru which measures about 400 hectares and also built the Mabroukie Factory. Brook Bond changed its name to Unilever Tea Kenya in 2004. Unilever Tea Kenya has tea estates in Kericho and in Limuru. There is also a sales office in Mombasa and the headquarters of all Unilever tea operations are in Nairobi. Unilever Tea employees more than 20,000 people who have more than 80,000 dependants. Unilever owns 8,250 hectares under the production of tea; it produces 160,000 tonnes of green tea leaf and 36,800 tonnes of black tea. The company owns twenty tea estates and eight factories manufacturing an average of 32 million KGS of tea annually. According to their website, the company's contribution to the economy has increased from Kshs. 0.25 million in 1972 to Kshs. 5.5 billion in 2007[9].

Unilever Tea is a public listed company having been listed in the Nairobi Stock Exchange (NSE) in 1972. The company's financial review from 2002 to 2006 shows that its profits have been falling from Kshs. 124 million in 2002 to Kshs. 62 million in 2003, rising in 2004 to Kshs. 360 million and falling in 2006 to Kshs. 52 million.

2. James Finlay (Kenya) Limited

James Finlay started planting tea in Kericho in 1925. James Finlays is wholly owned by John Swire and Sons Limited UK. James Finlay's vision is to be, "the global market leader in the production of high quality and safe teas." To achieve this vision, the company's mission is, "(to) earn this leadership by producing consistently high quality and safe tea through cost effective, ethical and environmentally sound practises for the benefit of our customers, our human resources and community around us." The company boosts of having 5,554 hectares under the cultivation of tea and its annual exports of tea from its 15 estates is worth Kshs. 4 billion (approximately USD 590 million). The company employs 14,710 employees and have 55,000 dependants. The total land area under James Finlay's tea is 5,908 hectares

The workers, both permanent and casual, are entitled to a number of benefits that are provided for by the 2 companies. The benefits include free health care provision, housing, water, schools for their children and a few workers are allocated small portions of the land where they can grow food crops for their daily sustenance.

Each of the companies provides clinics or dispensaries in each of their tea estates. These are manned by nurses and medical officers and are equipped to cater for minor illnesses. Each of the companies has a hospital which caters for major illnesses and inpatient care for all their workers. In the case of James Finlays, the hospital has a bed capacity of 106 which is run by trained medical staff, the company also has 21 "satellite dispensaries" of which 19 are health centres and 2 are dispensaries. Unilever has a hospital which has a theatre for surgical procedures, maternity care and laboratory facilities. The company also has 4 health centres, 23 dispensaries and runs a comprehensive HIV/AIDS programme.

This privilege as noted above is extended to both permanent and casual workers, however it discriminates the dependants of casual workers who are charged a fee for use of the benefit. The enormity of this project is exemplified by the costs that each company spends on medical provision for its workers which translates to over Kshs. 100 million incurred by each company.

Both companies have built and maintain educational facilities within their estates for workers' dependents. This benefit is non discriminatory in regard to the employment status of the worker. James Finlays boast of 16 primary schools and 1 day secondary school. The company also provides secondary scholarships to 50 students annually who are children of employees and children from the neighbouring communities of Kericho, Bureti and Bomet districts. Unilever lays claim to 20 primary schools, secondary schools and nurseries. Unilever also provides full university scholarships, 24 of these go to the communities neighboring the company – Kericho, Bureti and Bomet Districts, 30 of the scholarships are taken up by employees 'children.

The companies provide housing and water to their workers. In each of the estates, a section of the land is allocated to the provision of housing for workers and these are known as estate villages. Certain sections are also allocated to the different cadres of employees. In each village, there are communal toilets and 'bathrooms that are disaggregated according to sex. Unilever for example, has constructed 12,500 houses for their workers. Unilever also provides chlorinated water to estate villages and are working towards improving the sanitation standards in the villages. The companies have provided a community centre in each of the villages which is composed of a shop, butchery, a bar and a large room that is used for meetings. The shops sell an array of groceries from vegetables to cooking oils and are owned by retired workers. The workers are allowed to take groceries and meat from the butchery and the grocery shop on credit and their expenditure is deducted from their wages.

Mechanization of Tea Plucking

The issue of mechanization of tea plucking gained popularity in May 2006 when at the Labour Day celebrations the Central Organization of Trade Unions (COTU) Secretary General Francis Atwoli declared that over 500,000 people were at risk of losing their livelihoods due to the introduction of the tea plucking machines. The former Minister of Labour Dr. Newton Kulundu announced that the government would not allow the mechanization of tea because this would challenge the government's efforts to create 500,000 jobs as enshrined in the Economic Recovery Strategy Paper for Wealth and Employment Creation (ERS). The Minister indicated that his ministry had taken steps to avert a dispute between the union and the Kenya Tea Growers Association (KTGA), the steps that had been taken by the ministry included hosting a 2 day meeting between both parties. Before the procession, the trade union official had announced that due to the tea plucking machines over 80,000 people would be rendered jobless. On 3rd May 2006, the Minister of Labour announced that he had instructed the companies to revert to using the machines on 3 per cent of their plantations as dialogue continued. The COTU Secretary General on 4th May 2007 however issued a, 21 day strike notice to all tea growers. The strike however did not materialise. As the controversy of the plucking machines gained ground, the management of James Finlays issues a Press Release on 6th May 2006 to clarify the use of the plucking machines. The management noted in their Press Release that the public had been misinformed on the issue of the machines.

The problem of mechanization was most pertinent to James Finlay. It was during the heated debate that 28 workers from James Finlays were sacked. According to the workers and the union, the workers were sacked because they participated in the strike.

Some of the workers interviewed claimed that there was no trade union representation in their estate because workers were scared to take up leadership in the event that they were targeted like their former colleagues. Some workers as noted above felt that machines were introduced to replace them. Some workers noted that the machine pluckers lived in better conditions, were paid more and that they were being moved to inhabitable houses to pave way for them.

The liberalization of the sub-sector has been mainly for the benefit of farmers in that following the introduction of liberalization of the sector, farmers have had a much bigger say in the management of tea factory companies. This had led to improved farmer motivation and satisfaction. Government on the other hand now generates a lot more income by way of corporation tax from these institutions. KTDA has become more transparent in its operations and this has improved its relationships with the farmers. There has been improved management expediency within the individual factory companies thus leading to management effectiveness. There have been minimized bureaucracies in decision making.

Liberalization had exposed the smallholder factory companies to stiff competition that has emerged from new entrants into the tea growing business. Most of these new competitors were from neighboring countries such as Rwanda, Burundi and Malawi. Further competition had also been felt from some of the traditional consuming countries such as Pakistan in the Middle East. Stiff competition has led to an awakened factory management efficiency that was not visible before. Staff rationalization has been one of the major impacts of liberalization in this sector. It was revealed that a majority of the factory companies employed similar strategies in their operations. Cost cutting strategies came out as the single most popular strategies adopted across factories to achieve improved effectiveness in management.

Liberalization fosters management efficiency and effectiveness among firms in order to face severe competition. It forces management into awakening and renewed strategic approaches in order to be able to survive in the hostile and competitive business environments. With renewed and well thought-out strategies, many of these institutions are able to thrive despite an increase in new entrants and competition. Liberalization is strongly associated with the expansion in employment among the indigenous firms. This is possible through the anticipated increase in production.

The DLO indicated that the tensions over the tea plucking machines had arisen when James Finlays completed their green tea factory and consequently started using the machines at 'large scale'. According to the DLO, the issue of mechanization had created tensions at James Finlays. He noted that the growers felt that mechanization of tea plucking and pruning would tremendously reduce the costs of labour. The DLO acknowledged that 28 workers had been sacked from by the James Finlays management; however the trade union official had not submitted any other names of workers that had been sacked or declared redundant to the Ministry.

The Chair of the KTGA noted that the organization supported the use of appropriate technology in the production of tea. And through this, the organization championed the use of technology that would increase productivity and ensure competitiveness. The Chair indicated that the machines were not out to render any people jobless but were introduced to ensure the sustainability of the tea industry. The machines were only used on 2 per cent of the plantations and were only used in particular areas and on a particular type of tea. This claim was confirmed by the Managing Director (MD) of the Tea Board of Kenya who noted that the Board had participated in the debate and they had that less than 3 per cent of the tea estates were suitable for mechanization.

The MD elucidated that machines could only be used on certain topography, the desired type was flat terrain. The machines could also only be used for the production of a particular type of tea – green tea which had to be taken to the factory in less than an hour after plucking to ensure that the leaves did not start to ferment.

The effects of liberation on the daily procedures

The companies in their benevolence provide housing for their workers in the estate villages. For Unilever, the houses are painted white on the outside and have a silver roof while at James Finlay the houses are red with a brown/black roof. The architecture of the houses is basically the same. There are one roomed round houses and two roomed houses that are predominately rectangular. Allocation of houses is done by the 'village elders' who allocate the houses depending on marital status, employment status and in some cases in exchange of sexual favours. Casual workers at the tea estates are usually allocated the one roomed house which they have to share with other casual workers. The workers interviewed noted that in the past housing was not a major problem because each person was allocated their own house. However the situation at present is that sharing of houses is especially common and the situation becomes bleak when the production of tea is high and casual labourers are employed

Sexual harassment was one of the violations that were predominately highlighted by all the workers interviewed from both companies. A former worker from James Finlays noted that a female worker can be told by the (the supervisors are commonly referred to using this term) to remain behind in the just plucked section, if the woman refuses to obey the directive, looks for any excuse to get the woman fired.

Potential employees at both companies are mandated to take a medical test before they are employed; this was attested by all workers that were interviewed. A male worker from Unilever noted that before he was employed he underwent a medical examination where he was asked to remove all his clothes for a physical examination

Majority of the workers interviewed indicated that permanent employees had not been employed in the tea estates for periods ranging from 3 to 4 years ago. A Unilever employee, who has worked for over 25 years, noted that the last permanent worker employed was in 2004. The same case applied in James Finlay where workers noted that the permanent workers were last employed in 2004.

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4.3 Critical Review

The liberalization of the sub-sector has been mainly for the benefit of farmers in that following the introduction of liberalization of the sector, farmers have had a much bigger say in the management of tea factory companies. This had led to improved farmer motivation and satisfaction. Government on the other hand now generates a lot more income by way of corporation tax from these institutions. KTDA has become more transparent in its operations and this has improved its relationships with the farmers. There has been improved management expediency within the individual factory companies thus leading to management effectiveness. There have been minimized bureaucracies in decision making.

Liberalization had exposed the smallholder factory companies to stiff competition that has emerged from new entrants into the tea growing business. Most of these new competitors were from neighboring countries such as Rwanda, Burundi and Malawi. Further competition had also been felt from some of the traditional consuming countries such as Pakistan in the Middle East. Stiff competition has led to an awakened factory management efficiency that was not visible before. Staff rationalization has been one of the major impacts of liberalization in this sector. It was revealed that a majority of the factory companies employed similar strategies in their operations. Cost cutting strategies came out as the single most popular strategies adopted across factories to achieve improved effectiveness in management.

4.4 Conceptual Framework

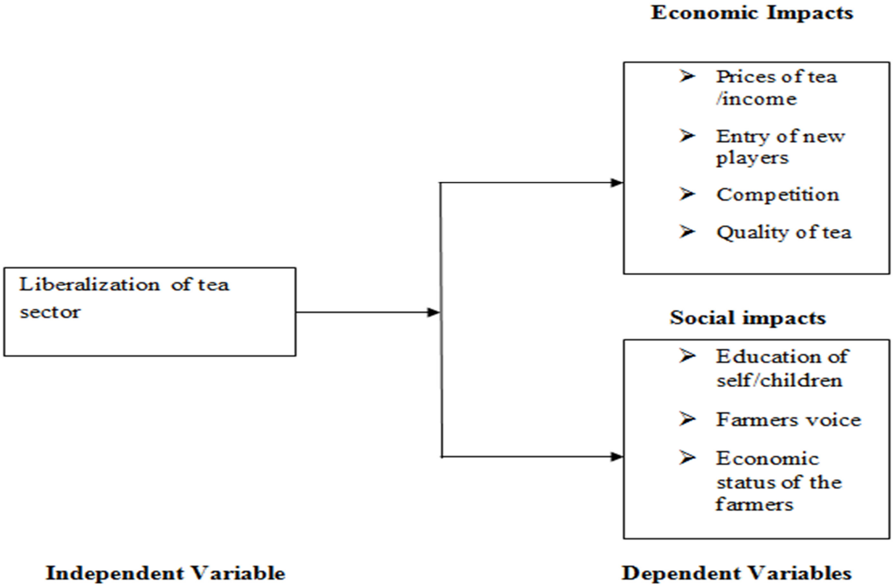

Figure 2.1 Conceptual Framework

Source: Researcher (2013)

Explanation

Prices of tea /income

Liberalization of the tea sector brought about change in the management of tea factories and this

Entry of new players

Following liberalization of the tea sector new entrants to the sector increased. This was due to the removal to much of the bureaucracies which were more before liberalization of the sector.

Competition

Liberalization had exposed the smallholder factory companies to stiff competition that has emerged from new entrants into the tea growing business 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.

Quantity of tea

The quantity of tea produced increased and the farmers started to grow tea in their farms. They were motivated by the fact that the management of the factories had been left to them thereby removing the barriers which were there before.

Education of self/children

The findings shows that there was increase in the earnings of the farmer since the were able sell hence making them to earn more and which enable them to send their children to school. Comparative analysis on educational attainment that farmers supplying middle men had an average of 10 years of formal education whereas those supplying KTDA had 8 years**.**

Farmers voice: the farmers had more say on the managing of their factories and this made easy for them t o come with better policies that could assist in marketing their tea.

Economic status of the farmers

The standard of living of the farmers started to improve following the liberalization of the tea sector. Farmers started to sell their produce to the companies they like and who could offer better prices than it was before.

4.5 Summary

Liberalization fosters management efficiency and effectiveness among firms in order to face severe competition. It forces management into awakening and renewed strategic approaches in order to be able to survive in the hostile and competitive business environments. With renewed and well thought-out strategies, many of these institutions are able to thrive despite an increase in new entrants and competition. Liberalization is strongly associated with the expansion in employment among the indigenous firms. This is possible through the anticipated increase in production as Baumann (2005) observes.

Kavoi, and Owuor, (2008) agrees with Baumann 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, (2008) 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.

5. Research Design and Methodology

A case study research design was used in this study. The organization studied represented other organization in the same field and the sample size would represent the population in the area of study as well as those in related organization (Mugenda and Mugenda, 2003). Research design is needed because it facilitates the collection of data and thereby making it efficient and also helps to yield maximum information with minimal effort and time and money.

5.1 Target population

The study targeted all tea farmers, Kapset tea factory management, and Tea extension officers from ministry of Agriculture and Livestock Development totaling 350. Of these, three hundred (300) were farmers, 10 extension officers, 20 management representatives.

5.2 Sample Size

The researcher took 10% of the target population as the sample size of the study which is equivalent to 38 respondents and they were drawn from different parts of the study area. The size was achieved through stratified sampling where the respondents were divided into stratus and then simple random to be used to get the required number.

5.3 Data Collection Instruments and Procedure

The researcher used questionnaires as a means of collecting information. The questionnaires consisted of both closed and open ended questions. After the construction of the data collection instruments (questionnaires), a few of them were pretested by administering b ten(10) questionnaires among target group who did not participate in the final research. Through test re-test method, the computed correlation coefficient of the two pilot data showed acceptable level of reliability.

5.4 Data Collection Procedure

The study employed stratified random sampling system in which the respondents were divided into various strati. The advantage of stratified sampling is that it ensures inclusion in the sample of the sub- group, which otherwise would have been omitted entirely by the other sampling method because of small numbers in population, (Mugenda and Mugenda, 2003). The researcher distributed questionnaires to various respondents and gave them time of one week to fill them and return.

6. Findings

Of the 38 questionnaires give out ,30 of them were returned giving a response rate was excellent. The response indicated that liberalization fosters management efficiency and effectiveness among firms in order to face severe competition. It forces management into awakening and renewed strategic approaches in order to be able to survive in the hostile and competitive business environments. With renewed and well thought-out strategies, many of these institutions are able to thrive despite an increase in new entrants and competition. Liberalization is strongly associated with the expansion in employment among the indigenous firms

KTDA has become more transparent in its operations and this has improved its relationships with the farmers. There has been improved management expediency within the individual factory companies thus leading to management effectiveness. There have been minimized bureaucracies in decision making. The liberalization of the sub-sector has been mainly for the benefit of farmers in that following the introduction of liberalization of the sector, farmers have had a much bigger say in the management of tea factory companies. This had led to improved farmer motivation and satisfaction. Government on the other hand now generates a lot more income by way of corporation tax from these institutions

Out of the total respondents targeted, 25 which represented by 83.33% agreed that tea owners have had more say on the management on issues relating to the management of the tea factories whereas 5 respondents represented by 16.67% argued that though liberalization has brought changes to the sector, there was no much change in the sector as far as management of tea factories is concerned.

On the issue of motivation and satisfaction of tea farmers, 20 respondents represented by 66.7% highlighted that there was improved motivation and enhanced motivation since the farmers were able to take part in decision making. However 10 respondents represented by 33.3% said that liberalization has led the government to give the farmers full responsibility of running their companies and hence making them accountable-which most farmers did not like. Furthermore the respondent said that by liberating the sector, the government increased it revenue base through levying tax on their companies (corporate tax)

Respondents unanimously agreed that relationship among farmers and the factories management has improved. This was attributed to regular contact among them through meetings to discuss way forward in management decision. They also said that bureaucracies which were there before have been reduced and also access to inputs had improved.

When the researcher seeks to know whether there was completion in the sector 80% of the respondents represented by 24 respondents agreed that there was stiff competition which they attributed it new entrants in the sector. 6 respondents represented by 20% disagreed by saying that even though there was competition, it was not as stiff as such.

When the respondents were asked whether there were any change in their normal operations, 100% of the respondents represented by 30 respondents agreed. They said that staff rationalization and mechanization of tea farms were the main effect of liberalization of tea sector.

6.1 Strategies to enhance effectiveness of factories

Liberalization fosters management efficiency and effectiveness among firms in order to face severe competition. It forces management into awakening and renewed strategic approaches in order to be able to survive in the hostile and competitive business environments. With renewed and well thought-out strategies, many of these institutions are able to thrive despite an increase in new entrants and competition. Liberalization is strongly associated with the expansion in employment among the indigenous firms. This is possible through the anticipated increase in production.

6.2 Conclusion

From the findings of the study it can be concluded that market liberalization has given farmers a choice of where to sell their green tea. The multinational firms have at least managed to access the small holder tea farmers which were not possible before market liberalization. Middlemen are being preferred because they pay promptly for the green tea delivered (KTDA pays on monthly basis, middlemen pay as per demands of the farmer, daily payments are possible). Middlemen are also preferred because they do not impose strict quality requirements unlike KTDA whose code is the bud and two leaves anything beyond is rejected. Middlemen are flexible in their mode of collection, this not the case with KTDA, where a farmer must belong to a certain collection center nearest the farm, and these centers have specific time for tea buying and collections.

The result of the study revealed liberalization of tea sector did not affect tea output by farmers. Farmers continued to grow more tea despite of decrease in price. The findings also revealed that the cost of production was related to the output per factory one of the major cost that reduced the income of the tea producers was the factory production cost. The Kenya tea development agency (KTDA) remained the only buyer of tea hence there was no competition. Thus liberalization did not improve the income of tea farmers but it only meant the changes in management of the sector but the function remained as before. It is also concluded that younger farmers with smaller land on tea are more likely to sell to middlemen that the older generation of farmers with larger land under tea. That farmers selling to KTDA are not benefiting but instead they are losing by foregoing bonus payments.

6.3 Recommendations

It is recommended that the stakeholders of the tea sector should come up with policies that enhance the higher productivity of the sector. There is need to overhaul the structure of KTDA and make it responsive to financial needs of the farmer. This should include shortening the duration of bonus payment to a maximum of three months. Alternative policy is to make each factory independent like the multinational firms; this will increase competitiveness in the tea sub-sector since each factory management will be directly responsible to its farmers. Other policy considerations should include taxing or surcharging multinational for use of rural access roads that were initiated by KTDA, such taxes were being remitted to municipalities who in turn undertake repairs and maintenance of such roads.

6.4 Suggestion for Further Research

It is suggested that further research be done on the impact of liberalization of small tea sector on market prices of green tea and hence income to farmers.

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