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The Soko Huru Trade:
Network Building, Informal Contracts and Compliance Failure in the Marketing of Green Leaf Tea in Rural Kenya.

by
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Abstract

This paper is based on the premise that although liberalisation is assumed to result in market friendly incentives that can encourage the accumulation of capital and more efficient allocation of resources, the interplay between market forces, government policy and social processes continues to shape and re-shape the tea commodity market. In the midst of what seems like expanded choices are struggles and uncertainties, some of which determine what the actors concerned come to count as success or failure. The paper is an attempt to understand the smallholder tea commodity market from the point of view of the Soko Huru trade. More specifically, the paper looks at how the Soko Huru trade is organised, the forces that direct and influence the buying and selling of green leaf, the resultant formal and informal linkages, and how these structures affect the role of tea as a source of livelihood among rural households. Attention is paid to the written and unwritten rules that govern the linkages that Soko Huru traders maintain with tea growers and various categories of end users, and how these come to influence the tea commodity market and the strategies that traders apply so as to protect their interests.
Introduction

Tea was first planted in Kenya in 1903 and later spread to other districts on a commercial basis in the 1920s. However, it was not until about 1959 when tea was first introduced to African areas on experimental basis under the auspices of the Special Crops Development Authority (SCDA). In 1952 tea growing was introduced among smallholders on a pilot basis in Kirinyaga and in 1957 a tea factory was constructed for purposes of processing green leaf from small-scale growers. This was followed by the introduction of field extension services for smallholder tea growers and the establishment of two marketing boards, namely: Central Province African Tea Growing and Marketing Board (CPATGMB) and the Nyanza and Rift Valley Provinces African Tea Growing and Marketing Board (NRVPATGMB). The most radical shift, however, involved the privatisation and liberalisation of the tea sector that culminated in a change over from the Kenya Tea Development Authority to the Kenya Tea Development Agency Limited, for the express purpose of handing over power to tea growers.
The Kenya Tea Development Authority (KTDA) was first established as a State Corporation in 1964 with the primary mandate of managing the smallholder tea sector, consisting of growers with less than 10 hectares of land under tea. The KTDA has a membership of over 300,000 tea growers and these are served through 45 factories, all of them fully owned and managed by smallholder tea growers. The KTDA renders certain services to smallholder tea growers, including the management of tea factories, green leaf transportation, procurement of production goods, and marketing and payment of tea proceeds to growers (Kenya 1999, p.8). One of the emerging consequences of the privatisation and liberalisation of the tea sector is the mushrooming of private traders, commonly known as Soko Huru.

The rest of this paper looks at how the Soko Huru green leaf traders organise and interact with the tea market and the type of opportunities that these operations portend and how those who utilise them perceive this outlet. It is noted that some of the forces that contribute to how people utilise market opportunities include externally stimulated processes such as policy guidelines and the presence of competitors. The interface between Soko Huru
operations and rural livelihoods is analysed in light of the options that tea producers and traders face, in an attempt to meet their consumption and economic necessities and the context in which these decisions are arrived at. It is observed that the forces that govern *Soko Huru* could be social, cultural, political or economic in nature. Therefore, whereas the tea market is fairly structured with rules and regulations that touch on almost every step that those concerned must take as they market their green leaf, the structure of this market is a product of externally driven requirements and standards, many of which are, however, constantly negotiated. To this end, it is concluded that the totality of the environment where a business operates is fundamental to understanding the *Soko Huru* trade.

Discussions draw from open interviews and survey data focusing on *Soko Huru* traders in the Nyamira-Kericho tea corridor. Open interviews preceded the survey and respondents were identified on the job and through references. A total of 12 open interviews were conducted. Knowledge and information gathered during this period contributed to the compilation of a sampling frame for the survey. Actual respondents were drawn from the *Soko Huru* traders.
operating within designated KTDA buying centres or in the vicinity. A total of 50 questionnaires were administered. These data sources were triangulated using informal discussions with groups of growers at the buying centres and direct observations of what takes place as growers and Soko Huru traders link and de-link with one another.
The *Soko Huru* Structure and Organisation

*Soko Huru* traders consist of various segments of green leaf traders who operate as middlemen linking up tea producers with processing factories. Levels of involvement for these traders vary with the nature of linkages that these traders maintain with both the sellers and the buyers of green leaf. Generally, however, this categorisation is a function of the role that each trader plays in the marketing chain. Three main types of *Soko Huru* traders thus emerge: agents, brokers and out-growers. Out-growers are large-scale tea producers who are registered with the Kenya Tea Growers Association to deliver green leaf to multi-national tea factories. Some of the out-growers obtain part of the green leaf that they sell to these factories from small-scale tea growers who cannot sell directly to multi-national companies. It is this outsourcing that brings about the need for brokers and agents. Brokers form the linkage between small-scale tea growers and out-growers and they play a key role in the *Soko Huru* trade. It is them who source green leaf from the smallholder tea growers and then deliver it to multi-national factories on behalf of the out-growers who contract them. In almost all cases, brokers depend on agents to reach the
small-scale tea producers. In some instances, a broker may be given money by an out-grower to go and source leaf and deliver it to the factory on behalf of an out-grower. The broker may or may not use an agent. In either case, however, there is no time when the small-scale tea farmer is in touch with a multi-national tea factory.

Conversely, some small-scale tea growers operate in Soko Huru by leasing out their tea farms to registered out-growers or other traders for a specified period of time. Once they agree on a price, the out-grower may get his own labour to pick the leaf or the small-scale farmer may pick his/her own leaf and deliver it all to the out-grower. On the part of the out-grower (or any other person leasing land under tea), the incentive is ready access to green leaf at a time when it is in short supply. At this point, the tea trade operates with the bare minimum of linkages.
As is evident from Figure 1, green leaf from small-scale growers finds its way to multi-national tea factories through three main outlets. The first and most intense is where agents solicit green leaf from small-scale growers on behalf of brokers. Upon making cash payments, the brokers deliver the green leaf to out-growers who then deliver this to the multi-national tea companies with whom they are registered. On the other hand, some brokers solicit green leaf from small-scale growers without using an agent and then
deliver this directly to the processing factory but in the name of a registered out-grower, with whom this broker has an agreement. The third line of purchase involves out-growers who buy green leaf directly from small-scale growers and deliver it to the multi-national factory without the assistance of agents or brokers. In all instances, agents and small-scale growers do not deliver green leaf directly to the multi-national factories, largely because of logistical constraints. These include lack of a working capital to invest in the purchase and transportation of green leaf.

Many of the agents and brokers claimed that they were introduced to the Soko Huru trade by KTDA green leaf buying clerks in response to requests from brokers and out-growers to find them reliable persons to work with. Others, however, joined through being introduced by brokers who knew them and considered them to have good public relations. In addition, people who get considered for the position of agent also need to come from the locality where the green leaf is to be obtained. Agents are paid at a daily rate of between Ksh.100 and Kshs.150, exclusive of lunch, and all of them reported that they went into Soko Huru because it pays well and they were jobless. On the other hand, brokers are paid on
commission or they may draw their profits by re-selling the green leaf to out-growers at a negotiated margin. Apparently, there is some interdependence between the Soko Huru trade and the KTDA green leaf market to the extent that employees deal with one another more as collaborators than competitors. This relationship is, however, full of contradictions. The KTDA Leaf Buying Clerks continuously complain about the damage that Soko Huru is causing their market. They state that Soko Huru is an unfair competitor because it reaps where it did not sow with regard to the provision of support services to small-scale tea producers, such as extension, farm inputs and infrastructure development. On the other hand, a general ranking of the problems facing Soko Huru suggests that the KTDA is the biggest impediment to the advancement of this trade, largely because of the restrictions that the KTDA puts on small-scale growers. Paradoxically, agents come second on the list of impediments and ahead of even the local administration. This begs the question, who is engaged in Soko Huru and what governs entry into this trade?

Getting Enlisted in Soko Huru: Working Capital, Negotiation Skills and Know-how
The overriding assumption of the structural adjustment programmes, first introduced in Kenya in the 1980s, was that market-oriented policies will lead to enlarged opportunities and these will in turn result in improved institutional performance and an enhanced well-being for producers, among other actors. The experiences of the *Soko Huru* traders examined suggest that the expected enlarged opportunities cannot be realised in isolation. Instead, utilisation of opportunities arising from liberalisation is a function of resources at hand, interpersonal skills, and access to relevant information. The discussions below, therefore, look at some of the salient characteristics of *Soko Huru* traders and how these come to determine the nature and level of operations, and the contribution of this trade to the rural economy.

Generally, *Soko Huru* is a male dominated business. However, within this, there are several variations. Most *Soko Huru* traders operate as agents (70%). The rest operate as a brokerage (18%) and out-growers (12%). Agents dominate *Soko Huru* operations because this level of operation requires fewer investments, if any, especially those of a monetary nature (Figure 2). Agents mainly operate in the vicinity of their homes and therefore only require
good inter-personal skills, negotiation abilities, and a reliable network of green leaf growers. On the other hand, brokers must have some working capital to purchase and/or transport green leaf and this involves taking some amount of risk. Out-growers are even fewer because of the stringent rules and regulations that they must fulfil before being registered with any of the multi-national tea processing companies.

At the time of joining Soko Huru, start-up capital invested ranged between Kshs. 2,000 and Kshs. 200,000 and about 30 per cent of the traders borrowed the money. The amounts borrowed ranged between Kshs. 3,000 and Kshs. 300,000 and the majority of traders borrowed Kshs. 10,000 only. Although over two thirds of the Soko Huru traders work in league with others, only very few of these work-mates have a share in the business.
Generally, *Soko Huru* traders comprise of the young and previously unemployed. Most of the traders are in their twenties or early thirties and many of these are engaged as agents or brokers. On the other hand, out-growers are comparatively older, suggesting therefore that access to land and associated resources gets better with passage of time. However, the fact that young people who could otherwise have the energy required to participate in *Soko Huru* cannot do so because of finances testifies to the fact that there are obstacles that make liberalisation less meaningful, especially among the resource poor (Figure 3).
In terms of levels of education, most of the people engaged in Soko Huru are school-leavers with no formal training. The majority had a secondary school level of education (64%) and a sizeable proportion (26%) had completed only primary level schooling. However, some of the traders had undergone college level training (6%) and another 4 percent were university graduates. Again, the need for some skill and possible exposure is clearly evidenced by the fact that all the traders have some education and their level of involvement in Soko Huru tends to vary with level of schooling. For instance, all the university graduates engaged in Soko Huru were operating at the level of out-growers and this was also the
case with almost all those with a college level education. Both primary and secondary school leavers mainly operate as agents or brokers (Figure 4).

Figure 4: Level of involvement in the Soko Huru trade by education (%)

Much as the tea market was liberalised only recently, some of the traders reported having been engaged in the Soko Huru trade for over six years already. The majority, however, had been in Soko Huru for four years and some of the entrants were only in their second month. Again, people with the least experience are mainly engaged as agents, although some of the longest serving traders continue to operate at the same level. In other words, although level of involvement is a function of resources at hand, a change in
circumstances for the better does not always occasion an upward movement in terms of level of operation and subsequent earnings. Instead, some of the longest-serving Soko Huru traders have continued to operate as agents (Figure 5).

*Figure 5: Level of involvement in Soko Huru trade by number of months operated in the trade (%)*

Sixty per cent of the Soko Huru traders are also tea growers with acreage under tea ranging from less than one acre to as many as 164 acres. Most Soko Huru traders are small-scale tea growers and all of them operate as agents or brokers. Brokers are spread rather equally between tea growers and non-growers whereas most of the agents are non-tea growers (Figure 6). Seemingly, Soko Huru has brought non-tea growers on board the tea commodity market.
At the same time, however, tea growing is in itself a boast to involvement in Soko Huru operations. And, except for out-growers who sell all their green leaf through multi-national companies, the rest of the Soko Huru traders attempt to utilise all existing tea market outlets by selling simultaneously through the KTDA and the Soko Huru.

Figure 6: Level of involvement in the Soko Huru trade by acreage under tea (%)

Comparatively, Soko Huru operations are a major source of income for those concerned. For instance, monthly earnings from Soko Huru operations average about Kshs. 27,800 and the highest paid person earns Kshs. 250,000. On the other hand, combined incomes from other sources for Soko Huru traders average only Kshs. 7,520.
and the highest paid of them received Kshs. 100,000 per month. However, in both instances Soko Huru traders earn an average of Kshs. 4,000 per month and the lowest paid person receives only Kshs. 500 a month.

As would be expected, earnings from Soko Huru vary with level of involvement. Out-growers earn the most money with one half of them earning over Kshs. 100,000 per month from Soko Huru. Brokers are the next best remunerated with a majority of them earning up to Kshs. 50,000 per month. However, most agents earn less than Kshs. 5,000 per month from Soko Huru (Figure 7).
Figure 7: A comparison of monthly earnings from Soko Huru operations (Kshs.)
Seemingly, the pattern of monetary gain derived from *Soko Huru* is closely related to earnings from other sources. Although earnings from these other sources don’t seem to bring in as much money, out-growers are still the highest income earners with over three-quarters of them getting Kshs. 50,000 or more per month. Brokers and agents alike earn no more than Kshs. 50,000 and the majority earns only Kshs. 5,000 or less per month (Figure 8).

Evidently, the *Soko Huru* trade is a preserve of those who have resources and/or the knowledge required for making an entry.
The traders constitute a group of people that is knowledgeable of the going in the tea sector and who have therefore devised a strategy for making a living. To be able to join the chain and remain in it, aspiring traders must also have the right networks. In the next section, we look at what it takes for Soko Huru trader to obtain green-leaf.

Linking Up with Green Leaf Producers: Trust, Networks and Relationships

In spite of a seeming spontaneity, the Soko Huru market is fairly organised and structured. But, this structure is neither fixed nor smooth. What happens and when this does happen is determined by the supply and demand configuration and the eventual direction is a function of existing networks and how well these are reinforced and sustained. Hence, much as the Soko Huru traders do not have a written contract with the growers from whom they purchase green leaf on a constant basis, there are many unwritten rules that guide and stabilise operations. Similarly, amongst themselves, the dealings of Soko Huru traders are fairly informal and dependent on consistency, trust and network building.
The Soko Huru traders follow fairly definite routes every day, and most of these are designated KTDA buying centres and major markets. The choice of these buying points is deliberate and guided by the consideration that this gives traders easy access to green leaf, especially what may be rejected by the KTDA. At these buying centres, the agents inspect the leaf while awaiting brokers or out-growers. They also ensure that green leaf is available and ready for collection by brokers or out-growers at a designated time. However, these agents do not discuss the price of green leaf with the farmer, except in times of scarcity when they may negotiate upwards in order to lure growers into selling to their networks. The brokers too do not negotiate the price with the growers because the entire group of traders has an agreed upon price of seven shillings per kilogram of green leaf and nobody is allowed to undercut others. Traders who dare undercut face assault or their vehicles are blocked from reaching the factories, the final point of sale.

Generally, the Soko Huru operations are fairly networked and peaceful with each dealer having a demarcated territory, and a majority of them (40%) visit between one and two centres. However, some traders go to as many as 12 buying centres.
In spite of being regular buyers, only one out of the fifty traders interviewed reported having a written contract with the growers from whom he buys the green leaf. The rest depend on monopolising and frequenting buying centres from which they obtain their green leaf. In a month, these traders handle an average of 35,000 kilograms of green leaf, ranging between 200 kilograms to 240,000 kilograms.

Most of the traders are known in the areas where they operate either because of frequenting these places or through their representatives on the ground, namely, agents. On any one given day, the traders purchase green leaf from as few as two people but this sometimes goes as high as 400 growers. The majority of growers who sell to Soko Huru traders are women (92%). In a few instances, these traders also buy from men and children. Women dominate the list of supplies to Soko Huru because of skewed household level resource and asset distribution. Generally, payment for green leaf marketed through KTDA is made to registered landowners and the majority of them are men. This means therefore that women’s access to these cash incomes is not guaranteed yet; most of these women are directly responsible for the daily needs of their
households. And since many of the women lack other sources of income, *Soko Huru* becomes a practical solution.

When there is scarcity of leaf, agents apply all sorts of strategies to ensure that growers sell green leaf to their preferred outlets. For instance, the agents make sure that growers can trust them and their networks by buying from them regularly, by paying instantly or on time, and by appearing fair in determining the amount of green leaf received. They also entice these growers with persuasive language and ensure that they are not mistreated in the course of weighing. Some of the agents reported that they select their growers on the basis of their economic means on the assumption that the needy ones will be easy to influence and contain. They also go for growers whom they know and who therefore have a relationship to keep. When all else fails, the agents use propaganda against their competitors.

However, the amount of green leaf purchased is also determined by cash at hand, the willingness of the farmer to sell to *Soko Huru*,

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the carrying capacity of the vehicles in use and the amount of leaf that the out-grower in question is expected to deliver to the processing factory. However, in the case of the latter, out-growers are allowed to exceed their daily capacity whenever their fellow suppliers are unable to meet their designated quantities. Therefore, each of the out-growers and their agents and brokers alike will keep watch over the performance of their competitors with the intention of stepping in to fill their daily quarters. In some instances, this may entail taking a chance at the factory gate and in the event that there is no such room, the green leaf is discarded.

Between the Buying Centre and the Factory: Competition, Mistrust and Compliance Failure

*Soko Huru* demands long working hours. Most of the traders reported that their day begins at 5.00 a.m. and ends late in the afternoon when they deliver and finish weighing their green leaf at the multi-national tea factories. On average, operations take 10 hours daily, although some of the traders reported that they work for only two hours. The traders cover up to 200 kilometres each, and some travel for less than a kilometre in the search for green leaf. Ordinarily, the traders start collecting leaf from the furthest
buying centres early in the morning and advance toward the factory where they then deliver their day’s collection by mid afternoon. This process is repeated daily for five days a week (Monday to Friday), during which period the traders compete for a market to sell their green leaf, giving way to mistrust and a failure in required rules and regulations.

Although Soko Huru involves several people, some actually serve the interests of the same ‘master’. All the green leaf purchased through Soko Huru ends up with multi-national companies operating in the surrounding areas. These Soko Huru participating processing factories are found within a radius of 12 to 40 kilometres. However, only out-growers registered with these multi-national companies and who have the approval of the Tea Board of Kenya can sell green leaf to these companies. Therefore, the brokers sell the green leaf that they purchase to out-growers on a day-to-day basis or on a monthly account whereby some of them actually deliver green leaf directly to the factories but in the name of an out-grower. On the other hand, some agents work for brokers or out-growers or both depending on the demand for green leaf.
Purchased green leaf is stuffed into sisal sacks and transported in pickup trucks, which must be roadworthy and registered with the receiving factories. In response to the question on where they sell their green leaf, slightly over one third (35%) of the traders stated that they sell directly to multi-national companies and a similar number sell through brokers (33%) and out-growers (31%). Only a few traders sell through several of these outlets (2%) simultaneously. (Figure 9).

*Figure 9: The relationship between the small-scale tea growers and the various players in the Soko Huru trade*
Like the growers from who they buy, most of the Soko Huru traders that sell directly to the factories have no written contract with intermediary buyers of their green leaf. Many of the traders are commissioned on a daily basis with or without the capital with which to purchase green leaf. Others just go ahead and purchase green leaf from growers in anticipation of selling to out-growers. In spite of these arrangements, only 57 percent of the traders were able to sell all the green leaf that they purchase, due to limited capacity at the factory level. The left over leaf is taken back home and discarded in the farm or it is dumped on the roadside.

The relationship between small-scale growers and the various Soko Huru traders that they come into contact with is sometimes full of mistrust. Growers gave accounts of traders who exploited longstanding relationships to con them out of their green leaf. Such traders seek green leaf on credit from growers and refuse to honour their pledge. Others literary take off with the money as soon as they weigh and receive leaf. In both instances, such traders thereafter change routes or personnel and growers are left with no alternative for redress.
The agents too had their story to tell. They reported that there are times when brokers take leaf on credit and the agents stand surety. However, some of these brokers thereafter avoid routes where they have debts and this ruins the agent’s relationship with his clientele. On other occasions, when leaf is in plenty, brokers and out-growers become so choosy about “quantity” that most growers are not able to sell yet they operate on the belief that leaf that is sold to Soko Huru has no quality requirements and they therefore expect the brokers to just buy. When leaf is rejected, it is the agents who face the wrath of the growers and this becomes quite challenging as their survival hinges on the co-operation of growers. This is also heightened in instances where brokers fail to collect leaf because of strict quarters, poor transport, or any other factor that may constrain them from going to collect leaf from regular clients. The question is therefore does Soko Huru have a future?

Conclusion and Recommendations
This paper set out to analyse the Soko Huru tea market chain. Discussions have shown that both formal and informal rules and regulations govern this market.
In general, the future of Soko Huru is dependent on the monetary gains that this trade will continue to bring to the farmer. Hence, much as small-scale tea growers understand that selling through Soko Huru reduces or even totally denies them access to an end of year bonus; their immediate needs continue to give logic to the decisions that govern such choices. There is a general consensus from growers and traders alike that money earned through Soko Huru continues to enable them educate their children, meet their day-to-day needs, and investments in several businesses including the Soko Huru itself. In spite of these perceived benefits, the losers are many largely because of the process through which liberalisation came into being. Therefore, whether the KTDA will succeed in convincing small-scale tea growers that selling through Soko Huru will impact negatively on the productivity of their crop because farmers go against recommended agronomic practices is dependent on whether the growers will be in a position to access much needed cash incomes. The leaf that is sold through Soko Huru is, if left on the farm, expected to drop and contribute to necessary biomass and hence raise soil fertility etc.
It is also reported that pruning this leaf delays regeneration. The onus therefore is on the KTDA to make their prices competitive, and this begins with providing an efficient marketing system that would, among other things, allow small-scale tea growers the opportunity to make informed and untethered decisions.
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