NTEGRATED TEA TRADING SYSTEM

Issue Contents

USING ICT TO BUILD EFFICIENCY, INTEGRITY AND COMPETITIVENESS IN THE TEA TRADING CYCLE IN EAST AFRICA

The effort that it takes to prepare, move and position a commodity from its source to the market greatly impacts the competitiveness of that commodity in the market.

For perishable goods mostly horticultural and animal products like Fish, Flowers, Fresh Vegetables; the time it takes to get to the market critically impacts their saleability and pricing, as compared to commodities that have lengthy shelf lives.

In East Africa, time has been central in affecting the competitiveness of the regions' key cash crops, like Tea and Coffee. Getting them to the market in time is hindered by tedious logistical, documentary and border compliance & coordination challenges.

These challenges result in tea and coffee taking longer to get to the market, delays information sharing for decision making, and in some cases hinders transparency where pricing is concerned.

ICT USE

Globally, various agricultural sectors have used Information Communication Technology (ICT) to address issues of efficiency, integrity and

competitiveness. The big question then is, – Can we use ICT to overcome challenges facing Eastern Africa's tea sector and in particular the tea trading process?

ICT has achieved positive changes when it is implemented in a holistic and integrated manner, rather than in a disaggregated or segmented manner. Looking at the tea trading cycle, one must acknowledge that the cycle "starts at the farm and ends up in the cup". It is this holistic scope that the proposed Integrated Tea Trading System (iTTS) aims address.

The iTTS project will divide the Tea trading cycle into three parts based on how the auction is undertaken;

Pre-Auction Processes; Auction Processes; and Post-Auction Processes. The project intends to introduce the use of ICT and related technologies to support these three processes and their sub-processes to enhance efficiency and integrity in the trading cycle and ultimate contribute to making East African team more competitive by reducing lead time to market, reducing information and transaction costs, and promoting East African Tea using electronic channels.

The iTTS project aims to be inclusive stakeholder-driven project that will be consultative, adaptive and participative Stakeholders will take ownership by getting engaged; expressing their concerns, fears, challenges, aspirations and how the project can

address some of the process-based problems they face in Tea trading.

The project design envisions continuous interaction with stakeholders throughout the life of the project and beyond; a design that will ensure that the project remains stakeholder-centric. While there will be reliance on consultants to support the iTTS requirements gathering, designing, development and implementation, the sponsor of the project will be EATTA members and its financiers TradeMark East Africa through the Government of Denmark (DANI-DA)

(to read more about the Financiers visit http://www.trademarkea.com).

Management

A Project Coordination Committee and a Project Implementation Team with representation from TMEA and EATTA will oversee the project management.

They will regularly report and communicate with all members of EATTA on key milestones. This is part of actionable points that have been taken into consideration to ensure the stakeholder-centric nature of the project is respected and maintained.

The constitution of the project organs will also take into account the diversity of the EATTA members in terms of stakeholder type and country consideration.

Expected Benefits of the ITTS

The iTTS project anticipates to bequeath the Tea trading fraternity the following benefits:

☐   Reduction of the Tea trading cycle;

☐   Reduction in the information and transaction costs incurred by stakeholders in the process of buying and selling Tea;

☐   Enhanced transparency and accountability throughout the Tea trading process at pre-auction; auction; and post-auction levels;

☐   Better availability and access to data to support business decision making processes in the Tea trading processes;

☐   Availability of information in a symmetrical manner to support all with interest in Tea trading activities;

☐   Support electronic marketing of raw and value added Tea of East Africa;

CASE STUDY

AN ARTICLE ON TEA AUCTION AUTOMATION IN INDIA

**Teething Problems in
Pan-India Tea e-Auction**

For nearly 150 years, the auctions were held manually. Tea auctions account for the sale of about 50pc of tea produced in India, with the rest being accounted for by private sales. In 2009, the government introduced electronic auctions; last year, 534m kg of tea were sold through e-auctions at seven centres — Kolkata, Guwahati, Siliguri and Jalpaiguri (all in eastern India) and Kochi, Coonoor and Coimbatore (in the south).

Earlier this year, the union commerce ministry decided to introduce a pan-India e-auction system to ensure that small growers got a better price

for their tea and to ensure uniform auction rules at all centres. Last month, sale number 25 of 2016 conducted by the Tea Board of India became the first pan-India e-auction of tea, which was unveiled across five centres.

For the first time, the premium Darjeeling tea was also sold through the e-auction system. Buyers from anywhere in India can now bid in any of the auctions held across the country.

According to Santosh Sarangi, chairman, Tea Board, the government had consulted all the stakeholders over

the past 18 months before introducing the system. Nearly 60pc of the tea offered through the first all-India e-auction (about 1.75m kg) was sold. Both corporate and small buyers participated in the auction.

The average price fetched at all the centres was Rs135.75 per kg, slightly lower than the previous week's rate of Rs145.2. Darjeeling tea fetched a price of Rs404.33.

Of course, the roll-out of the pan-India e-auction was not smooth especially in the south. The Cochin Tea Buyers' Association in Kochi approached the Kerala high court

The new system favours corporate buyers and discriminates against smaller buyers, the traders argue. The new rules also prohibit proxy bidding, which small traders often indulge in.

seeking a stay on the implementation of the new rules. While the court refused to stay the auctions, it urged the Tea Board to consider the grievances of the association.

Dharmendra Vora, president, Cochin Tea Buyers' Association, says that the new auction rules would affect small tea traders at the Kochi auction centre. He cited the absence of small traders at the Kochi auction, where only 25pc of the tea was sold.

Of the 120 active tea traders in Kochi, nearly 100 are small and medium players, who will not be able to participate in the pan-India auctions, say the traders.

Vora accused the Tea Board of arbitrarily fixing a minimum lot size of 20 bags to be bought by a single buyer, as against the earlier minimum size of nine lots. The association says it is difficult for small buyers — who buy from different sellers and blend the tea — to invest additional amounts to buy 20 bags.

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Corporate buyers have called for more settlement banks in the new system. Just one state-owned lender, Bank of India, has been appointed as the settlement bank.

However, the National Federation of Small Tea Growers of India, the Darjeeling Tea Association and the Siliguri Tea Auction Committee, among others, are all for the new system, which they feel will prevent cartelisation and lead to improved prices at the auctions.

For India, which ranks number two after China in terms of tea production, 2015-16 was a record year. According to the Tea Board, the country produced 1,233.14m kg of tea (a growth of three per cent over the previous fiscal), the highest-ever production.

According to the Tea Board, north India (which includes the two major tea-growing states, Assam and West Bengal, which are located in the east) saw production grow by 5.52pc last year. But in south India, production fell by nearly 7pc because of adverse climatic conditions and labour problems in Kerala.

Small growers, who account for about a third of total production, are to be found mainly in Tamil Nadu, West Bengal and Assam. More than 90pc of the tea grown in India is CTC (crush, tear, curl), with orthodox production and green tea contributing the rest.

Last year, the Tea Board had made it compulsory for registered manufacturers to sell at least 50pc of their produce through auctions. Thus, north India auction centres saw a nearly 40pc growth in sales and southern centres reported a 26.22pc growth in auctions.

For the first time in 35 years, exports also breached the 230m kg-mark, touching 232.92m kg, a growth of 17pc, and valued at Rs44.93bn (17.51pc). The main export markets included Russia, Iran, Germany, Pakistan, Bangladesh, the UAE and Poland.

India's highest tea exports were in 1976-77, when it sold 242.42m kg of the commodity in the overseas markets.
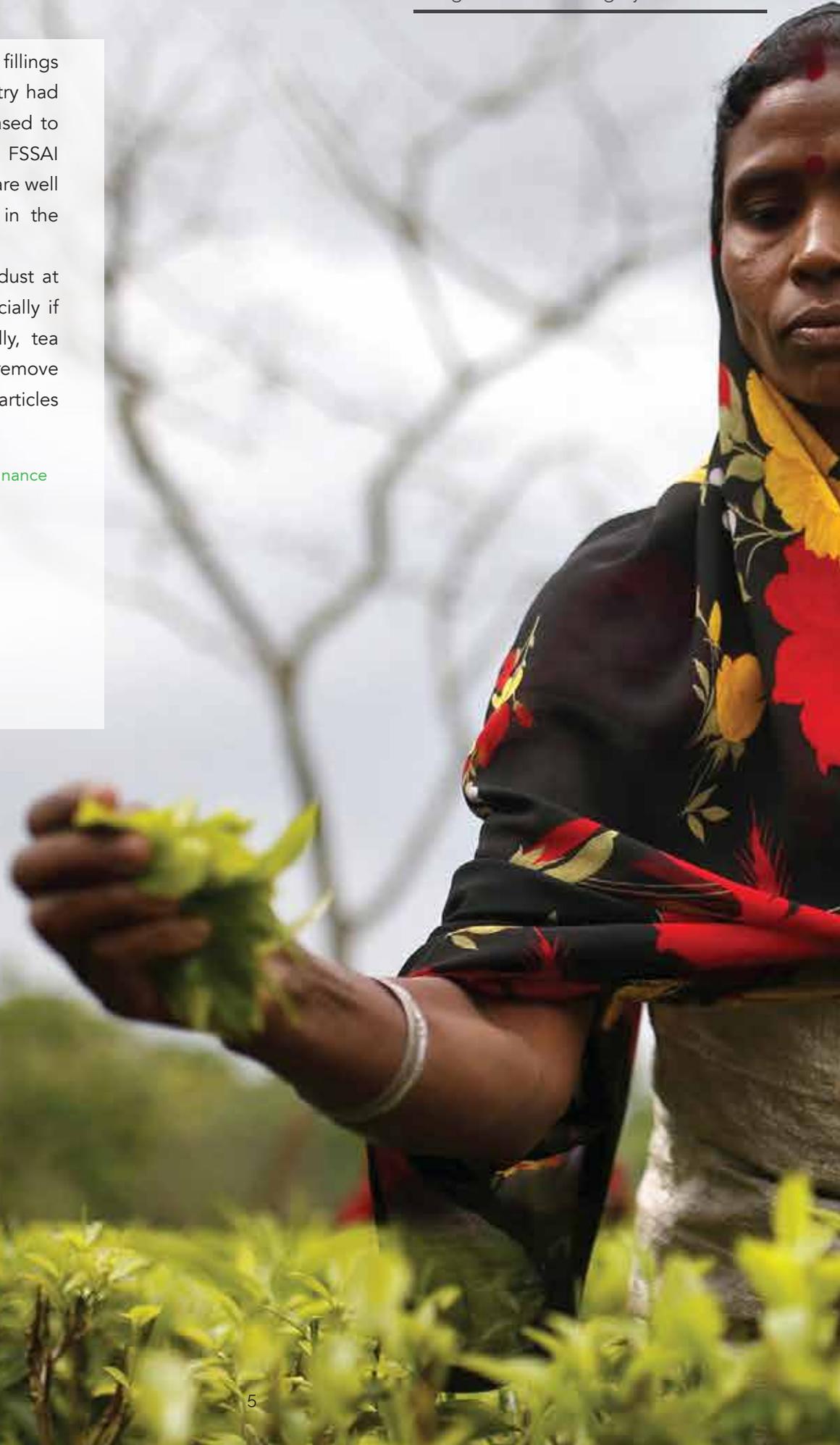
But questions have been raised in recent years about the presence of metals in Indian tea. Worried about the impact this would have on exports, the Food Safety and Standard Authority of India (FSSAI), recently approved a draft standard prescribing a limit of not more than 150mg/kg of iron fillings in tea.

The food regulator has also directed agencies across India to implement

the new rules relating to metal fillings in tea powder. The tea industry had wanted the limit to be increased to 500mg/kg in tea, but the FSSAI refused. The new limits compare well with the limit of 120mg/kg in the developed world.

Iron fillings end up with tea dust at the time of processing, especially if the machines are old. Usually, tea processors use magnets to remove iron particles, but tiny particles remain in the packets.

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FAQs

Who owns the iTTS Project and its Related Outputs?

The iTTS and its components shall be owned by EATTA and its members. iTTS system is a customized solution that is based on the needs of the stakeholders and hence any Intellectual Property Right (IPR) shall be transferred to EATTA and its members. The financier of the project shall have no IPRs over the iTTS and its related outputs.

How is the Project Funded?

The iTTS project is funded using grant funding where EATTA and its members will not be required to pay back any of the seed money either in full or part. Government of Denmark development arm DANIDA has funded the project through TMEA.

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Does the Government of Kenya or any other Regional Government have a Stake in the Project?

The government of Kenya and indeed any other government in the region whose citizens and businesses are part of EATTA interest in the project is that it increases the efficiency of tea trading in the region inorder to increase volumes traded per day and the speed at which the region's tea reaches market. This interest does not translate into any form of ownership or management. The Financing Agreement backing this project is between TMEA and EATTA and no government or government entity is considered to be a party to this agreement.

Will the Implementation of iTTS Restructure the Categories of Stakeholders in Tea trading?

The iTTS project will not reorganize or restructure the Tea trading stakeholders' constitution, it will only reengineer the processes and functions they execute making them more effective in their roles and responsibilities. The iTTS will introduce electronic means of working where realistic, feasible and adding value that will result better working methods for the stakeholders.

What is the relationship of EATTA and TMEA in this project?

TMEA and EATTA signed a financing agreement, where TMEA committed about US $1.5M to support the iTTS project. In the financing agreement, EATTA is considered the beneficiary and sponsor of the project and TMEA the financier of the project.

After the Exit of the Financiers How will the iTTS be Sustained without Negatively Impacting the Bottom-line of the Stakeholders?

In consultation with EATTA a business model shall be developed, validated and adopted by the members. To secure EATTA members from adverse cost effects, a cost-benefit analysis shall be carried out in the early phases of the project with the aim of establishing the costs of running the current processes.

This will be the baseline to be used on the iTTS. The initial and recurrent costs of the iTTS in principle will have to be either equal or less to the current costs for the project to be sustainable without introducing new costs to EATTA members.

Attempts to Automate Tea Auctions have Faced Many Challenges; for Example in India and SriLanka. How sure are we that the East African one will Succeed?

The iTTS does not only look at the e-Auction component of the Tea trading process, it also takes into account other processes that are dependent or related to the auction process. The iTTS project will endeavour to learn from the challenges experienced in other areas where e-Auctioning has been attempted or is working. By benchmarking with such countries, the iTTS will produce a better product that is customized to the needs of the Tea traders regardless of business size or geographical location.

How will the Project ensure that Stakeholders Concerns are Heard and Incorporated in the Project?

The iTTS project will have a change management component where sensitization and awareness campaigns will be carried out. This will involve organising forums with stakeholders to update them of progress and also listen to their views and concerns. Further, the consultants undertaking the initial assignment of gathering requirements will engage directly with stakeholders to hear their views. The final report shall be validated by the stakeholders.

EVENTS

📅 *2016*

DECEMBER 2016

Signing of Financing Agreement between TMEA and EATTA.

📅 *2017*

JANUARY

Setting up of the project structures and signing of the project charter.

FEBRUARY

Consultative meeting with producers in Nairobi.

Consultative meeting the EATTA stakeholders in Mombasa and Kampala.

MARCH

Call for applications from consultants to undertake information gathering, designing and quality assurance of the ITTS implementation.

Procurement evaluation (Technical and Financial) submitted bids

APRIL

Project Coordination Committee Meeting in Mombasa.

Upcoming

MAY

Contracting of the Consultants supporting Requirements Gathering, Designing and Quality Assurance of the iTTS.

Sourcing of system Developers for the designed solution.

Consultative Meeting with EATTA Stakeholders in Kigali and Dar es Salaam.

MAY - AUGUST

Commence the Requirements Gathering and Design of iTTS.

iTTS Facilitators

East African Tea
Trade Association

DANIDA

TRADE
MARK
EAST AFRICA

Growing Prosperity Through Trade

EATTA Members

Associate Members

Broker Members

Buyer Members

Packer Members

Producer Members

Warehouse Members

EATTA Contacts

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