

IMPLEMENTATION OF OUT-GROWER SYSTEM IN TEA PLANTATIONS

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Sri Lankan tea industry is facing many challenges and among them low productivity, high cost of production and worker scarcity are the crucial ones. Land productivity of tea sector in Sri Lanka is reported to be less than that of many other tea producing countries (*eg. India, Kenya, Japan etc.*). Some of the major reasons for this situation are ageing of tea bushes, poor soil fertility status, lack of adoption of good agricultural practices and low rate of replanting. In addition, worker productivity of tea plantations in Sri Lanka is also comparatively low. As a result, the cost of production is highest in Sri Lanka in comparison with other tea producing countries.

Shortage of workers to undertake regular agricultural operations in tea estates has become a common problem in almost all the tea growing districts in the country. Some of the productive lands have to be abandoned due to non-availability of workers. The ultimate result of declining workforce would be declined productivity of tea lands. Therefore, tea is becoming a less profitable venture today. However, tea industry retains more than 10 percent of the active work force in the country and has a leading role in the social and financial upliftment of the poor. Further, tea sector is one of the most important sectors in the economy. It is the second largest foreign exchange earner and the third largest agricultural industry in Sri Lanka. Annual contribution of Sri Lankan tea industry is approximately 1 percent of the Gross Domestic Product (GDP).

Out-grower farming

It is evident that improving both land and worker productivity is the preferred strategy for the sustainability of tea plantations. Hence, estate sector in Sri Lanka requires a system to develop and maintain its productivity and profitability in the current socio-economic context. Introduction of tea out-grower system to the tea plantations is such a concept to improve productivity of tea lands. Out-grower farming can be referred to as “agricultural production carried out according to an arrangement between farmers and a buyer or land owner which places conditions on the production and marketing of the commodity”. In this system, a plot of under-utilized or unproductive land (due to lack of labour) is allocated to a worker family on the estate and improved with their effective participation. They are given fertilizers and other inputs and also technical know-how to manage the tea land and in return out-growers are required to supply their green leaf to the factory.

Out-grower schemes have different modalities in terms of type and number of farmers, their spatial distribution, contract arrangements, delivery of technical support (extension services), marketing mechanisms, and quality requirements. In the out-grower systems of other tea producing countries such as Kenya, Tanzania, India *etc.*, where farmers have their own lands, the management companies provide inputs on credit basis, advisory services and marketing services to the tea smallholders on an agreement between management companies and the tea smallholders.

Researchers have evaluated the out-grower system in terms of employment opportunities (Arnold, 1994), gender issues (Ojwang, 1999), sustainability indicators (Taylor, 1999), land reform (Saville, 1994), development policy (Vaughan, 1996) and contribution to livelihoods of workers (Mcintosh and Vaughan, 1998). A study carried out by Cairns (2000) revealed that out-grower system contributes significantly to the household income.

This system has long been used in developed countries where it is estimated to account for 15% of agricultural output. According to the World Bank, the estate sector comprising of 5% of the country's population poses a significant challenge to Sri Lanka's poverty alleviation programme. Poverty Gap Index (PGI) in estate sector is 2.1, whereas PGI in urban and rural sector are 1.2 and 1.8, respectively. The mean monthly per capita income at national level was Rs. 9,104 in 2009/10. Considering the average monthly per capita income among these three sectors, the values of rural and estate sector are less than all island value amounting Rs. 8916 and Rs. 5782, respectively. That value of the households in urban sector is about Rs. 2145 greater than the national value.

The contribution to poverty (%) by urban, rural and estate sector in 2009/10 is 8.8%, 84.7% and 6.5% respectively. An average estate sector poor was short by Rs. 539 per month in 2009/10 (Anon, 2009/10). It was also revealed from the studies that one of the main reasons for labour scarcity is out migration due to low income earned from the estates. Out-grower system helps increasing workers' family income and thereby preventing worker out migration too.

Considering the above facts, the Agricultural Economics Division of the Tea Research Institute of Sri Lanka conducted preliminary studies on out-grower systems in tea estates. The ultimate aim of these studies is to develop the institutional capacity (gathering knowledge and experience in financial and resource management as an individual), improve their self confidence and motivate them towards self reliance, in addition to the financial gain. Given below are the results of the data analysis and some proposals for implementing out-grower farming in tea estates.

Proposed terms and conditions for out-grower system

- Estate worker families on the payroll should be given first preference to be an out-grower
- Land should be allocated on long lease terms so that appropriate land development programme is undertaken
- Other than tea, no crops can be cultivated on the land identified for this model
- Construction of buildings (temporary or otherwise) will not be permitted
- The workers should be provided with a sufficient number of days of work per month to secure a sufficient income for living until such time the land is sufficiently developed for them to have an optimal income
- Estates should provide technical know-how to the communities with material supplies, on a cost recovery basis
- The green leaf harvested by the out-growers should be purchased by the estate at a price based on the Tea Commissioner's formula or higher
- The management can recover some amount from the green leaf harvested as a royalty for the land ownership
- All accounts pertaining to each individual out-grower should be maintained by the estate office
- The allocation of land for each out-grower should be on the basis of either 1 hectare or 5,000 to 6,000 tea bushes so as to enable him to obtain a reasonable harvest (Anon, 2006)

Some *Pros & cons* of the out-grower system are given below;

Advantages to out-grower

- Out-growers can increase their family income thus reducing poverty among estate workers
- Agricultural inputs on credit basis and free technical assistance can be obtained for improving productivity of the tea lands

- The out-grower will have an opportunity to take over the responsibility of developing and managing the given plot of tea land. This strategy will on one hand lessen their dependency on estate work for monthly income whilst on the other hand it will develop their skills on managing a tea land
- Improving quality of life enabling them to acquire the status and dignity of being a lessee of the land where they are able to resource and manage the land on their own and the additional income will help to improve the "material quality" of life
- Improving the livelihood security when plantations are not productive and profitable in the event of natural disasters such as drought, heavy rains, pest and disease attacks affecting the crop
- Create flexible work arrangements, since out-grower has the facility and freedom of employing workers based on the needs

Advantages to estate

- Achieving a higher level of production and productivity
- Reducing cost of production and enhancing profitability per unit of land and worker
- Estate can reduce extra payments that workers are entitled through the collective agreement
- Efficient utilization of currently under-utilized land
- Enabling the company to deliver due benefits to the worker more efficiently, thus improving their living conditions
- Reduce the impacts of bad agricultural practices on productivity due to worker scarcity
- Minimize the burden of maintaining uneconomical tea lands
- Minimize the impact of worker wage increase on profitability of the company
- Minimize land encroachment problem of the estates

Some risk and limitations associated with out-grower system

- Increased workload of workers could attract child and family labour for field work
- Lack of leisure time of workers may reduce other social activities in the estate
- Risk attached with land ownership to the estate
- Conflicts between out-growers and other workers in the estate
- Violation of conditions in the agreement (selling of green leaf to outside parties, not adopting agricultural practices recommended by the company *etc.*)
- Less work for registered workers
- Low quality of green leaf because payments are made on kilo basis
- Estate needs well motivated, knowledgeable and qualified field staff to attend to the out-growers

Some elements of out-grower model

Important elements that need to be incorporated in to the out-grower models, and to be taken in to account are the selection criteria for out-growers, registration of growers and maintenance of individual records, agreement, input supply and loan recovery, extension services, pricing mechanisms, payment modalities and group development facilitation.

Study in Selagama estate

One preliminary study on out-growers system was initiated in Selagama estate, Elkaduwa Plantations Ltd, during March 2011. In this study low yielding and abandoned (below 500 kg/ ha/ yr) seedling tea fields (about 3500-4000 bushes) was allocated among 29 registered progressive workers. It was revealed from the preliminary analysis of the data that average monthly productivity of out-growers' fields has improved in the year 2011 and 2012 in comparison to year 2010 by 15.62% and 40.12% respectively. This can be attributed to timely application of fertilizer, weeding, soil conservation and proper plucking

practices adopted by the out-growers. Average monthly income from out-growers' fields in the year 2011 and 2012 was Rs. 2600.00 and Rs. 3471.00, respectively and income in 2012 was 33.5% (Rs. 871) higher than that of 2011. Difficulties in changing attitude of some workers on out-grower concept, not sufficient time to work on out growers' plots, no provision to increase number of plucking rounds, difficulties in motivation due to low prices (poor green leaf prices) were identified as some constraints faced in this preliminary study.

Factors to be considered for implementing a sustainable out-grower model

The success of an out-grower system depends on many factors. Out-grower system introduces some changes to management system in tea estates. Therefore, all the stakeholders in the system should be clearly aware of and convinced to accept the system and conditions to ensure each party's commitment during the transitional (establishment) period of out-grower system and its continuation. In short, effective monitoring system involving a holistic approach is a must, especially during initial stage of establishment of the out-grower system. Proper supervision of all cultivation activities, building up of a strong relationship with the out-growers and developing confidence among them are also essential for minimizing risks and the successful continuation of the system. Some limitation of the system mentioned in the previous section (both management and out-growers) could also be overcome through the proper understanding of the system and identifying the importance of the system for future of the tea industry by both the management and out growers.

Continuation of this model depends largely on the amount of additional income earned by the out-grower from the allocated plot/ bushes. It is essential to have an additional income exceeding the cost of family labour spent for maintaining and improving out-growers' plots. Therefore, it is required to give more attention when selecting the fields for out-growers and allocate adequate and

manageable number of bushes to get a reasonable income. Also a reasonable green leaf price should be paid to out-growers' crop.

The extent of tea lands to be allocated for the out-grower system should be decided based on the degree of worker scarcity. Because, the estate should have adequate extent of tea lands to employ registered work force (those who are not out-growers) and provide a minimum number of days to out-growers that enable to get other fringe benefits entitle to them. The agreement between out-growers and management should be on long term, in order to encourage the out-growers engaged in the expected land development programme.

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