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# THE IMPLEMENTATION OF OUTGROWING SYSTEM IN SELECTED TEA PLANTATION SECTOR IN SRI LANKA


# THE IMPLEMENTATION OF OUTGROWING SYSTEM IN SELECTED TEA PLANTATION SECTOR IN SRI LANKA

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## ABBREVIATIONS USED

| | |
|---|---|
| ADB | Asian Development Bank |
| ISD | Institute of Social Development |
| JEDB | Janatha Esate Development Board |
| NSA | Net Sale Average |
| PAC | Planters Association of Ceylon |
| PDP | Plantation Development Project |
| RPC | Regional Plantation Corporation |
| SIPC | Statistical Information of Plantation Crops |
| SLSPC | Sri Lanka State Plantation Corporation |
| SOE | Sate Owned Enterprises |
| UP | Upper Division |
| USAWASAMA | Upcountry Estate Development Borad |

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## PREFACE

The Sri Lanka plantations were nationalized in 1972 with the introduction of the New Land Reform Act. Until 1992, the tea, rubber and coconut plantations were managed by two major state corporations namely the Sri Lanka State Plantation Corporation (SLSPC) and the Janatha Estate Development Board (JEDB). The state corporation encountered major financial crisis at the end of nineties as a result of mismanagement. The Sri Lankan government approached the World Bank to seek a remedy. The World Bank expertise recommended privatization as a solution. In 1992, twenty-three regional companies were formed and the management was given to the private companies. Among the twenty three regional companies only twenty one were taken over by the private management companies and rest remained with the government and were managed by JEDB, SLSPC and Elkaduwa Plantations.

The state owned three companies struggled to overcome the crisis. In 2002 the Asian Development Bank (ADB), International Fund for Agricultural Development (IFAD) and Food and Agricultural Organization (FAO) came to the rescue of the companies by recommending outgrower model. The two state owned companies namely the Elkaduwa Regional Plantation and the SLSPC initiated to introduce the outgrower model in selected estates of Matale and Kandy districts.

According to the ADB the main focus of the outgrower model is “In recognition of the looming labour shortage, some RPCs recognize that satisfactory arrangements will eventually have to be developed to transform the workers to outgrowers (or contract growers). RPCs operations will then be limited to factory operations and extensions services to outgrowers. In this regard, some RPCs have allocated blocks of land to the workers for maintenance and plucking/tapping to develop a sense of ownership, as a prerequisite to subleasing blocks of land to the workers. As land is a sensitive issue, such subleasing can only be piloted after an in-depth study of the legal, social and ethnic implications. The project will support the study and implementing of the pilot schemes” (ADB,2002) (quoted by Kalinga Tudor Siva- Transition from tea worker to outgrower -ISD -2007)

As an advocacy organization, in 2005, the ISD initiated a dialogue with the workers who became outgrowers and also had a dialogue with stakeholders such as trade unions and civil society organizations. Following the responses from the dialogues, the ISD conducted a study on the impact of the outgrower model by hiring Professor Kalinga Tudor Silva. The study had highlighted some pros and cons.

In this background, currently all RPCs have initiated to introduce outgrower models in the respective plantation in order to overcome the cost of production. Already some RPCs introduced outgrower models according to their desire. There is no single outgrower model. Some RPCs terminated employees and distributed the block of tea lands. Some RPCs provided 1500 tea bushes instead of block of lands. These models created confusion among the workers and the stakeholders such as trade unions who focused on the labour rights of the workers.

In this context, the ISD organized a workshop inviting the trade unions, Planters Associations and RPCs to have a common understanding on the outgrower models and identifying a common outgrower model which can safeguard the workers' right.

In order to identify a common outgrower model which can safeguard the workers' right and ensure sustainability of the industry, we have tasked Dr. S. Chandrabose to do a study on the existing model and to recommend a common ourgrower model. Dr. S. Chandrabose has provided some suggestions. These suggestions can help to identify a common model which can be used by the industry. This study will open a dialogue as well as be a tool for trade unions and civil society for lobbying.

P.Muthulingam,
Executive Director
Institute of Social Development

# THE IMPLEMENTATION OF OUTGROWING SYSTEM IN THE SELECTED TEA PLANTATION SECTOR IN SRI LANKA

## INTRODUCTION

The plantation sector has undergone several changes in Sri Lanka. Presently, the changes in terms of the field operations like plucking of tea leaves and the maintenance of the tea bushes by adopting outgrower principle is the major changes is taking place in the privatized tea plantation in the country. The changing pattern in terms of outgrowing system was one of the sub-activity that was proposed under the Plantation Development Project (PDP), funded by the Asian Development Bank dating back to 1993 and the proposed system was introduced only in a few tea estates in 2005 in the country. However, the apex body of privatized tea plantation i.e The Planters Association of Ceylon is currently thinking about extending the outgrowing system extensively in the tea plantation. The association also prepared a concept paper, titled 'Productivity based Wage Model & Current State of Regional Plantation Companies 'in 2016. The concept paper mainly focused on outgrowing system. This study is try to trace the changing pattern of tea plantation and attempts to highlight some experiences of outgrowing system implemented in a few tea estates, in recent years in Sri Lanka.

## THE OUT GROWING

The outgrowing system is prevalence in the agriculture system and it gives significant benefits not only to the farmers converted as an outgrower but also productivity particularly in Sub-Saharan in Africa and China (Arnold, 1994, Macintosh et al, 1994 and Lv Yaofu et al, 2013). The Outgrower schemes, also known as contract farming in many countries. The analysis carried out by Katharina Felgenhauer and Denise Wolter in their study is on 'Outgrower Schemes – Why Big Multinationals Link up with African Smallholder**s'** are broadly defining 'Outgrower Schemes' as binding arrangements. The ooutgrowing farming can be also referred 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 (Syamalie, H.W;2012)

Generally, the outgrowing system is a firm ensures its supply of agricultural products by individual or groups of farmers. Further, it is a system in which farmers agree in a written or verbal contract to supply produce to a buyer, usually at a pre-determined price, on a specific date and to a certain quality. Typically, the buyer provides the necessary inputs and services to the farmers on credit and exercises some control over the conditions of production. In other words, ad hoc trade agreements are being replaced by co-ordinated commercial relations between producers, processors, and traders leading to a vertical integration of the agricultural value chain.

The company often also agrees to support the farmer through, e.g., supplying inputs, assisting with land preparation, providing production advice and transporting produce to its premises. The term "outgrower scheme" is sometimes used synonymously with contract farming, most commonly in Eastern and Southern Africa. Contract farming can be used for many agricultural products and it is not commonly introduced for staple food such as rice and maize in developing countries.

The study carryout by K.T.Silva and B.Sasikumar(2007) have focused on the impact of outgrower pilot scheme introduced in Elkaduwa Plantation Limited in Matale district. The qualitative method was used to collect data from the out growers in the estate and study found the system has the potential transformation of workers to owner operators linked to the organized private sector and to liberate the workers from bondage of plantation system in Sri Lanka.

The outgrowing model was analyses by Shyamalie, H.w and Wellala, N.N.K of the Agricultural economics Division of the Tea research Institute in Sri Lanka and published in Tea Bulletin in 2012. The authors have given the good accountability of the outgrowing system adopted in agricultural system and stating it is contributes around 15 percent to the total production in the developed countries. The authors have conducted a field survey at Selagma tea estate comes under the purview of Elkaduwa plantation and stress the importance of long leasing and ensure the good price for the tea leaf to get rid of poverty. The authors also pointing out the advantages that could be received by the both party i.e. estate management and the workers through extending the out growing system in Sri Lanka.

The study was commissioned by the Institute of Social Development in Kandy and the objectives are as follows.

1. To study the factors that were attributed for the formation of outgrowing system in the tea plantation in Sri Lanka.
2. To examine outcome of the outgrowing systems implemented in the selected tea estates and its influence on sustain the tea production.
3. To identified the overall impact on the expansion of outgrowing system amongst the plantation community.

## METHODOLOGY

The study is based on both the secondary and the primary data. The primary data were collected from the four estate which are implemented the outgrowing system in the country. A team of members from the institute of Social Development in Kandy also visited the selected two estate to collect the basic information about the new system. Initial meetings were held with the estate management and followed by the visits to the household who are handling the outgrowing system in the estate. The discussions held in the filed were recorded for the purposes of analyses the issues. Apart from the field surveys some meetings also arranged by the ISD to get the members of experts in the field of tea plantation management to get their experiences of the various issues not only the proposal on enchantment of the productivity but also the usage of labour in the tea sector. Relevant information also collected from the staff of the respective estates in the sample. The secondary data were collected from the published documents and the information published in the various issues of the Plantation Sector Statistics Pocket Book which is an annual publication of the Ministry of Plantation Industry in Sri Lanka and various issues of the annual reports of the central bank of Sri Lanka.

## RECENT CHANGES IN THE TEA PLANTATION

The recent changes of the tea plantation sector have taken place during the last three decades in Sri Lanka. The changes were not merely confined to the transfer of the management of the plantation but it also considerably influences the community depended on the plantation sector as well. Indeed, the British owned plantations were nationalized during 1972-75. The management of the nationalized plantations were distributed to the State Owned Enterprise (SOEs) of the State Plantation Corporation (SPC) and two other institutions namely Upcountry Estate Development Board (USAWASAMA) and *Janatha* Estate Development Board (JEDB) and these three institutions were controlling about 35 percent of the total area under plantation agriculture in the country. The administrative setup, however, did not remain static. For instance, USAWASAMA which were controlled 107 estates with the aggregate extent of 29,500 was disbanded at the end of 1977 on grounds of inefficiency and the properties under its controlled were re-allocated among the SPC and JEDB. It should be noted that the two corporation was considered as gigantic organization controlled the plantation in Sri Lanka(Peiris, G.H., 1984).

However, the gigantic organisations of the SLSPC and JEDB were failed to improve the productivity and to respond to changing consumption pattern in the market.

When compared with the international competitors, the SLSPC and JEDB labour productivity and land yield were the lowest. An examination of historical yield data for Sri Lanka, India and Kenya from the early 1950s to the 1990s shows that Sri Lanka has consistently been falling behind the other two countries (Ekanayake, 1996) which today have reached average yield levels of above 2500 kg/ha

The labour productivity in tea cultivation is highly dependent on land productivity, given the labour intensive nature of tea plantation. The low productivity is manifested of the cumulative effects of several factors such as poor rates of replanting, and infilling, inadequate fertilizer applications and neglect of soil and water conservation. Even though these failures have a history that predates nationalisation they continued after nationalisation as well (Shanmugaratnam, N, 1997). Apart from the failures of improvement of productivity the raise of the export duties imposed by the government also become additional burden to the sector. In the 1970-77 period, the average taxes on tea of FOB prices were 20 percent and in 1978 it was increased to 50 percent. However, the taxes were finally abolished in 1992. In addition to the tax collection wage increase and guaranteed of 300 days of work per year for the estate worker agreed by the government due to the trade union pressures also made difficulties to the most of the plantation mangers to persist the plantation as a profitable venture in the country.

The government finally decided to privatize the plantations which were managed by the SLSPC and JEDB. The World Bank and other International finance institutions (IFIs) put pressure to the government to a total privatisation of the state plantation. However, the government was not prepared to take the political risk of involvement in total privatisation. Thus, government was succeeded to embarking on privatisation of state-owned enterprises. The government first created 23 state owned regional Plantation Companies (RPC) out of SLSPC and JEDB and 449 estate with extent of 190,802 hectares (this including the extent of rubber estates as well) relocated to these 23RPCs. The RPCs were granted the land on a 99 year lease at a nominal annual rent of Rs. 500/= per estate. The RPC entered into an agreement with a private company to manage the estates in 1992.

The tea estates which were brought under the privatisation through RPCs have now reached 25 years (1992-2017) of experiencing of managing the estates. Hence, the performances of the privatized tea estates are far from satisfactory. The Statistical Information on Plantation Crops (SIPC) published by the Ministry of Plantation Industries illustrates the performance of tea plantation in the country. The annual publication of SIPC is gives about vital information about tea plantation crop not only managing by the RPC estate but also the state agencies and tea smallholding sectors in the country. According to the data the performance of the RPC and the tea estate comes under the purview of state agencies are not par with the performance of tea smallholdings. The RPC shows the downward trend when comparing in the context land extension, production and replanting activities. It should be note that the number of registered labour have also declined significantly in the RPC and the tea estate managing by the state agencies as well. Table 1 shows the combined data on changes of tea lands during the post-privatisation period in Sri Lanka.

**Table 1**
**Extent of Tea Estates in Sri Lanka 1995-2012**

| Year | Extent of Tea in hectares | | | |
|---|---|---|---|---|
| | RPC | Other State Agencies* | Smallholdings | Total |
| 1995 | 89,244<br>(48.97) | 9,964<br>( 5.44) | 83,369<br>(45.59) | 182,914<br>(100.00 ) |
| 2000 | 89,843<br>(48.75) | 9,721<br>( 5.27) | 84,703<br>(45.98) | 184,267<br>(100.00) |
| 2005 | 86,336<br>(40.76) | 8,952<br>(4.22 ) | 116,492<br>(55.0 ) | 211,780<br>( 100.00) |
| 2010 | 76,534<br>(37.40) | 7,580<br>( 3.70) | 120,500<br>(58.90 ) | 204,619<br>( 100.00) |
| 2012 | 72,684<br>(35.80 ) | 7,391<br>(4.63) | 120,955<br>(59.57) | 203,020<br>(100.00) |

*Source : Compiled from the various issues of Statistical Information on Plantation Crops published by the Ministry of Plantation Industries, Colombo 2*

The data presented in the Table 1 reveals of the extent of tea land from 1995 to 2012 in Sri Lanka, the total tea land has increased from 182,914 hectares in 1995 to around203,020 hectares in 2012. However, the expansion of total tea lands is not reflected both in the tea lands come under the RPC and the state agencies. Accordingly, the extent of tea lands under the RPC was 89,244 hectares which was 48.97 percent and it was distinctly higher than the extent of tea lands of the tea smallholdings, which had the extent of 45.59 percent to 83,369 hectares in the same year. However, the situation has changed during the last decades. The tea land extended to the RPC has steadily declined to 72,684 hectares and it is only 35.80 percent of the total tea land in the country, whereas, the tea smallholdings has by passed the RPC and state agencies and has the extent of 120,955hectares of tea and it is almost closer to 60 percent of the total tea land in the country. It should be noted from the above table, the extension of tea land of the state agencies also had the same experiences of downward trend of RPC.

The declined which can attributes largely to the progressive abandonment of uneconomic tea land in the physically marginalised RPC estates particularly in the mid country. It is also revealed that the abandonment of uneconomic tea land have been utilized for the implementation of diversification projects such as planning trees and other plantation crops during the post-privatisation was attributes for the declined. The changes not only happened in the tea land but also production of tea as well. The Table 2 is give the shifting pattern production of tea in the country.

**Table 2**
**Production of Tea in Sri Lanka 1995 -2012**

| Year | Production in Million Kgs | | | |
|---|---|---|---|---|
| | RPC | Other State Agencies* | Smallholdings | Total |
| 1995 | 133.70 (56.83 ) | 6.5 ( 3.00 ) | 94.00 (40.17 ) | 234.20 ( 100.00 ) |
| 2000 | 114.27 (37.37 ) | 7.9 (2.63 ) | 183.4 (60.00 ) | 305.7 (100.00 ) |
| 2005 | 106.00 (33.43 ) | 5.4 (1.91 ) | 205.8 (64.66 ) | 317.2 (100.00 ) |
| 2010 | 96.90 (29.00 ) | 4.4 (1.52 ) | 230.1 (69.48 ) | 331.4 (100.00 ) |
| 2012 | 90.20 (27.43) | 4.0 (1.23 ) | 234.2 (71.34 ) | 328.4 (100.00 ) |

*Source: Compiled from the various issues of Statistical Information on Plantation Crops published by the Ministry of Plantation Industries, Colombo 2*

The Table 2 shows the production of tea during the pot-privatization period from 1995 to 2012 in Sri Lanka. The total production of tea in 1995 was 234.20 Million Kgs with contribution of almost 60 percent (56.83 percent + 3.00 percent) from RPC and the state agencies in the country. Total production of tea steadily increased and produced record level of production 328.4 Million Kgs in 2012. However, the share of the total production by the RPC and the state agencies were substantially declined to around 28 percent (27.43 percent + 1.23 percent) in 2012. Effective financial incentives and subsidized inputs for cultivation and fertilizer provided by the government was the main attributing factor for increased share of production in smallholdings in the past few years. In contrast, low labour productivity, low rate of replanting/new planting and low levels of fertilizer application were some causes for reduction of the total share of the RPC estates, especially the state owned tea estates in the country.

As far as the replanting activities are concerned the tea smallholding sector has significantly increased and around 90 percent of the tea bushes of them are extended with high yielding varieties and it gives around 1800 kilograms per annum from a hectare and that of around 1200 kilograms in the RPC and the state institutions in the country. Amongst the tea estates the lowest yield have found in the mid grown tea region and it is 750 kilograms per hectares per annum which is managing by the RPC. Apart from above the lowest yield of roughly 550 kilograms per hectares per annum have been found in the tea estates managing by the state agencies. Ironically, it is the major contributory factors for overall record of low level of yield by the RPC estates. Indeed, nearly 47 percent of the total tea land comes under the purview of RPC are high yielding varieties and mainly intensified in the high grown tea region in the country. However, the large extent of tea bushes i.e. 53 percent, managing by the RPC and the state agencies are very old seedling tea bushes and these were planted during the British period in the country.

The above information evidently proves the retardation of cropping pattern of tea plantation which are, particularly manging by the RPC and state agencies. It is also shows the deviations of RPC and the state agencies in the context of extent of land and production were significantly made impact on social life of the tea plantation workers during the post-privatisation.

## TEA WORKERS IN THE POST-PRIVATISATION

The tea plantation is a highly labour intensive sector and the worker hectare ratio of the sector is 2.5:1 and the production requires both the male and female to be work in the estates. Therefore, the labour requirement is numerically strength from the inception of tea plantation sector in Sri Lanka. However, the strength of the registered labour have dropped during the pot-privatisation. The total registered labour in the tea estates at the time of privatisation in 1992 was 327,123 and it has dropped to 280,788 in 1995. Subsequently, at present numerical strength of registered workers in the tea estate is 180,168 and it is the cumulative drop of (152,191) 44.30 percent from 1992. The Table 3 illustrates the distribution of labour and staff concentrated in the tea estates of RPC and s in the country from 1995 to 2012.

**Table 3**
**Registered Labour and Staff in the RPC Tea Estates 1990 - 2012**

| Year | No. of Labour | No. of Staff | Total No. | Total No. Declined | Cumulative Total No. Declined |
|---|---|---|---|---|---|
| 1992 | 327,123 | 16,413 | 343,536 | - | |
| 1995 | 280,788 | 13,744 | 294,532 | 49,004 | |
| 2000 | 261,417 | 14,260 | 275,677 | 18,855 | 67,859 |
| 2005 | 233,946 | 13,279 | 247,225 | 28,452 | 96,311 |
| 2012 | 180,168 | 11,177 | 191,345 | 55,880 | 152,191 |

*Source: Compiled from the various issues of Statistical Information on Plantation Crops published by the Ministry of Plantation Industries, Colombo 2*

The drop of registered labour in the tea estate was one of the strategic of retrenchment of the privatized tea plantation. Through the retrenchment, the estate managements were attempt to reduce the burden of high cost of production and leave behind the provision of guaranteed 300 days of work for the registered workers.

However, the recent studies carried out amongst the plantation community shows the discontinuity of immovable labour situation in the tea estates. Accordingly, the deployment of workers is divided into three categories based on their occupation. These are; i) The workers fully involved in estate jobs (52 percent) ii) The workers partly involved in estate jobs (35 percent) and, iii) The workers fully engaged in non-estate jobs (13 percent). It is also revealed that the male workers are heavily dominate non-estate jobs. Large segment of the workers who have partly involved in the estate jobs are retired under the pre-retirement scheme which was encouraged by the estate management under retrenchment. Many of the retired persons are living in the estates and engaged as either temporary or casual workers in the estates. The temporary or casual workers are do not receive any entitlement other than occupying the estate house from the estate management enjoyed by the registered workers. The management is considered only for the basic wage for the temporary workers that determined at the collective agreements. Through this the estate management also try to mitigate the issues of cost of labour of the tea production.

The steps taken through retrenchment have led to drop the numerical strength of registered labour and the decision on deprived of demand to increase the daily wage by the tea workers also directed to demotivate the registered workers to continue their engagement in the estate work. The estate workers are still considered as the low income group in the country and poverty and indebtedness are dominant features amongst the estate workers.

As mentioned above the RPC management companies collectively employ over 180,000 workers, and the daily cost of employing a worker is Rs. 700 with the EPF and ETF. This is without the cost of other commitments such as gratuity, holiday pay, attendance bonuses, etc. Daily plucking average of a tea estate worker is around 18 Kgs. Even this 18 Kgs average in Sri Lanka often drops to 14 Kgs to 12 Kgs during the dry season and in wet weather. The daily plucking average of 18 Kgs converts to 3.87 Kgs of made black tea. There are almost as many workers involved in weeding, fertilizing, pruning, and maintaining the estates and in factory work and when all these workers who are involved in the production of tea are taken into account, the output per worker is 2.12 kg of made tea. Thus the labour component in the cost of production of made tea is 67 to 70 per cent. The rest being other inputs including chemicals, material, fertiliser, fuel and on staff.

A consultant study said that even though the tea estates managed by the RPC and the state agencies were suffered severely from inadequacy of investment, they were marked improvement in agricultural standards on the estates and making profits in 1995 due to favourable export prices for rubber which they produced in addition to tea (Shamugaratnam.N.1997). A senior government technocrat also stated about the crisis of managing the large scale tea estate in the country. According to the technocrat, even though biggest Sri Lankan firms that succeeded in becoming managing the tea estate have never managed an enterprises as an RPC. Their own experiences in plantation management was limited but they have been able to hire former estate managers and staff.

According to the veteran trade union leader late Mr S. Thondaman in 1997 charged the companies failed to pay an extra cost of living allowances of Rs.8.00 per day due to the workers; deliberately cutback employment by abandoning replanting, weeding and land development.He also went on to state that the performance and management style of these companies have led to pervasive sense of frustration, insecurity, disillusionment and lead to new modes of labour grievance. Thus, it is clear from the fact that the task of the RPC to transform the large scale tea estates into a profitable venture in this country, is not feasible. Consequently, the Planters' Association of Ceylon (PAC) is come out with extending the outgrowing model to sustain the large scale tea sector.

## THE PROPOSED OUTGROWING MODEL OF PAC

The outgrowing system proposed by the PAC also uses the terminology as Revenue Sharing Wage Model. According to the proposal of the PAC the system is not completely break away of management based wage model. The proposal of the PAC is the model productivity based on self-management wage model to the plantation sector.

**The following guidelines will be adopted in the proposed model.**

1. The proposed productivity based wage model will guarantee 10 days' work at the current wage model. Accordingly, the minimum wage will be paid at the rate of Rs.500.00. However, those who return more than 75 percent of work offered by the estate management will be paid at the rate of Rs.730.00 per day.
2. The rest of the days the workers will be paid on productivities base payment scheme where each kilo they pluck they will be paid a specific rate as it is done in the Tea Smallholding Sector. This allowing people to make their own choice with free movement mechanism.
3. All agricultural work, agronomic practice and the harvesting be done by the grower himself
4. The harvest – the green leaf will be compulsorily supplied to the designated estate factories.
5. Predetermined percentage of 35 percent of the Net Sale Average (NSA) is to be paid as green leaf cost as done in Tea Smallholding Sector.
6. Essentially the government will continue to own the land. The estate will own the stock of the tea bushes while the grower will own the crop (tea leaves) generated from the bush.
7. The estate management will recover trade union subscriptions and other statuary dues from their earnings.
8. Each work will be assigned sufficient tea bushes for 3 days of work for a week with a maximum of all categories of tea field probably in different location.
9. A printed agreement is to be signed between the grower and the estate management for duration of one year and will be automatically renewed if the conditions and standards are maintained in the assigned block.
10. The cost of fertilizer, chemical and other inputs are recovered by the estate as monthly instalment cost recovery basis.

11. If the important agricultural work is not done by the grower the estate will undertake it and recover the cost from the growers.
12. It is also planned to pay 50 percent of the previous month bought leaf rate to the growers.
13. The payment will attract EPF/and ETF and payments will be made in the following month
14. The estate management will assist, create awareness, training, monitor, evaluate and give solutions for proper agricultural management of the blocks
15. The estate management will ensure the supervision and the execution of all the standard harvesting and field maintenance practice related to plantation agricultural, while maintaining records of inputs supplies, purchase of green leaf and adherence of the 'terms and Conditions' of the agreement.

**CONDITIONS OF THE PROPOSED MODEL**

1. The assistant block cannot be transferred to another party.
2. The plucking of tea leaves to be done on days and areas of the estate specified by the estate management.
3. All field practices and agricultural work carried out will be subject to estate management no constructions of any sort will be permitted.
4. No other activities or agricultural crops other than the plantation crop/activities can be done in the assigned block.
5. The assigned grower has no claim of outright ownership for the land as the land is anyway owned by the government and the estate will retain the right to take back the block within 7 days' notice for contravening conditions in the agreement or for neglecting the agricultural or the agronomic condition of the crop or field.

The report also demonstrates the potential earnings of the workers per month at the proposed model.

**Table 4**
**Potential Earnings from the Proposed PAC's Outgrowing Model**

| Potential Green Leaf Harvest (in Kgs.) | Income from the Varieties of Tea Bushes | | |
|---|---|---|---|
| | VP | Old Tea Bushes | Average Earnings |
| 400 | Rs. 24,200 | Rs. 13,720 | Rs. 19,040 |
| 450 | Rs. 27,245 | Rs. 15,435 | Rs. 21,420 |
| 500 | Rs. 30,275 | Rs. 17,150 | Rs. 23,800 |

*Source: Compiled from the Concept paper on Productivity Based Wage Model & Current State of Regional Plantation Companies,(no date mentioned), p 9*

The Table 4 gives potential harvest of green leaf from the VP and Old tea bushes in the field and the prospects of earning. Accordingly, a total of Rs 19,040/= could be earn by producing 400 Kgs of green leaf and it will increase to Rs. 23,800/- by producing 500 Kgs of Greenleaf. The earning also varies based on the varieties of tea bushes. Thus, the table data evidently prove the VP tea bushes gives more income than that of old bushes.

## FIELD EVIDENCE ON OUT-GROWING MODEL

Study was carried out in four estates to understand reality of implementation of outgrowing model proposed by the PAC. The tea estates and the date visited to conduct the study is as follows:

Case 1 Dam Division of Mahauwa, Walapana on March 2017

Case 2 Enthane Estate, Kahawatha on May 2017

Case 3 Battalgala Estate, Dickoya on July 2017

Case 4 Nuwaraeliya Estate on July 2017

The study team able to conduct an independent interview with the out growers only in the tea estate of Mahauwa - Dam Division. The interview with the Out-growers in the tea estates of Enthane, Battalgala and Nuwaraeliya were organized by the respective estate managements and allowed us to interact with the selected Out-growers to collect information for the study. All most all interaction in these three estates were carried out in the presence of the Assistant Manager or the in charge of Out-growing system in the respective estates.

## CASE 1: DAM DIVISION OF MAHAUVA, WALAPANA

Study about the outgrowing system was carried out at the Dam Division of Mahauva Estate in Walapana on March 2017. The cultivation of tea is extended in four divisions namely Factory Division, Dam Division, 2nd division and 3rd Division. Among the divisions the Dam Division was introduced with outgrowing system which is the large extent of old tea bushes among four divisions. The extent of total tea bushes in the Dam Division is 87.25 hectares and out of that 79.25 hectares (90.8 percent) are old tea bushes and entire old tea bushes was considered for outgrowing system in 2015. The total number of family living in the Dam division was 202 and the population was 874 and the total registered workers in the estate was 445 and out of them 416 workers farmers have offered with the outgrowing system and other 29 workers are continue with the Mathurata Plantation PLC. The outgrowing system in the Dam Division of Mahauva estate is managing by the Bio Food Private Ltd. The Bio Food Private Ltd is based in the Kandy District and involved in the estate management through the leasing system adopted by the Mathurata Plantation PLC. As mentioned above, the Bio Food Private Limited has changed the entire cropping system and adopts the outgrowing model particularly in the dam division from August 2015.They do not want to adopt the new management system. Therefore, they are still fighting for letting the new management down and to be quit it off. Additionally, the MPL has to pay 1.6 million Sri Lankan rupees from their benefits which will cover neither their staff salary nor the maintenance cost. The old tea bushes were distributed among the workers in the division and each received roughly 1500 tea bushes plot under the outgrowing system. It is also reported about the malpractice taken place at the time of distribution of tea bushes to the workers. Accordingly, some of them received more than 6000 tea bushes as well. In addition to that, those have closer to the estate management also received plat land as their share. Since it is distributed for individual workers, even if five members in a family have been worked in the certain estate, all five of them are given with the mentioned amount of plants as per head. Yet, as per the rule of this leasing company, no more maintenance or any other supports would not be provided. They would be paid for their harvest at the rate of Rs.55.00 rupees per Kg.

The preliminary information among the workers who have involved in the outgrowing system was collected. Among them 46 out growers were responded in the Dam Divisions. The Table 5 illustrate the tendency of production and income received by the out growers in the Dam division.

**Table 5**

**Production of Green Leaf of tea and Incomes from the Outgrowing Model -2017**

| Production | | Income | |
|---|---|---|---|
| **Number of Out Grower** | **Range of Greenleaf Produced per month (in Kgs)** | **Number of out Growers** | **Income Received from the sales of Green Leaf** |
| 09 | 75-100 | 04 | Rs. 4000 - Rs.4500 |
| 14 | 101-125 | 06 | Rs.4501 - Rs.5000 |
| 06 | 126-150 | 10 | Rs.5001 - Rs.6000 |
| 07 | 151-175 | 06 | Rs.6001 - Rs.6500 |
| 04 | 176-200 | 06 | Rs.6501 - Rs.8000 |
| 04 | 201-225 | 08 | Rs.8001 - Rs.9500 |
| | | 04 | Rs.9501 - Rs.10,000 |
| | | 02 | Rs.10,000 - Rs.12,000 |

*Source: Compiled from the Field data*

The table shows that though all 46 out growers allocated the same number of tea bushes, but the production is varies. There are people have harvested only 75 Kgs of green leaf as an average per month. Among the 46 out growers 13 of them were harvested between 101 – 125 Kg per month and only 4 out growers have produced between 201- 225 Kg per month.

Apart from the production, the average income received by selling the green leaf also tabulated in the Table 5. Accordingly, out of 46 growers 10 of them are receiving the income between Rs. 5001/= to Rs.6000/= per month per outgrower. Those who received more than Rs.10, 000/= is only 2 out growers have been found in the Dam division. The out growers are also spending certain amount of money for maintenance of the tea bushes. The cost for chemical application for weeding, manual weeding, spreading over the fertilizers, pruning etc. are some of them and it cost an average of Rs.975/= per month.

Thus, it is clear from the fact the proposed PAC rate on production and income that are compiled in the Table 4 not feasible could not traced in the outgrowing system implemented in the estate.

## CASE 2 : ENTHANE ESTATE IN KAHAWATHA

The study was carried at Ethane estate in Kahawatha on May 2017. The outgrowing system implemented in the Enthane estate located in Kahawatha is slightly different from the Dam division of Mahauva. The outgrowing system was introduced in Enthane estate around sixteen years before in 2000. A total of 235 registered workers are involved in the outgrowing system and the ranges from 1000 to 2150 tea bushes were distributed among the out growers. Unlike Dam division the estate management is significantly involved in managing the out growers and assistant manager is fully in charge of in and out of the out growing model in the estate. The estate is mainly use the terminology of 'contract model' instead of 'out growers contact' which is generally used elsewhere in the country. The assistant manager gives the instruction of usage of chemicals; fertilizers etc. and the cost of the inputs will be recovered from the assigned contract person within three instalments. Mostly the assigned contract workers are involved in plucking and maintaining the given area under the system. If additional workers hired from the estate by the assigned contractor, Rs 805/= will recover from the contactor as the cost of labour incurred by the estate.

The payment for Greenleaf will be paid on the basis of bought leaf rate which are practice in the tea smallholdings in the country. Accordingly, 64 percent of the bought leaf rate will be remitted to the workers and the balance 36 percent will send to the estate account for their expenses incurred for the provision of security etc. by the estate management.

The estate has various type of tea bushes, according to the statement of the estate manager, the tea bushes of VP, Old type of seedling tea bushes and the medium level (well maintaining old tea bushes) are equally distributed in the estate and it is shared among the contract workers on the same ratio. Accordingly, a total of 125 hectares were distributed to 235 the contract workers for outgrowing activities and each received roughly 0.5 hectares. As far as the distribution of tea bushes is concerned, each out growers has received on average 1750 tea bushes in the estate.

Unlike in Mahauva the out growers in the Enthane are registered workers and the estate management is expecting the registered workers to be worked 10 days in the estate and allow them to engage in their out growing filed. A minimum of Rs.500/= will be paid per day for the 10 days' work in the estate as it was agreed in the collective agreement.

A selected out growers were allow us to meet by the estate management of Enthane and the meetings of the out growers was held in the estate office. The assistant manager in charge of the out growers also presented and showing the records of the expenses of varies inputs like chemical application, fertilizer and labour supply for the out growers. According to the records on average Rs.13,289.60 is spent to maintain the given tea bushes by the out growers. The total amount spent for maintaining the tea bushes by the out growers will detected by the estate management within the three instalment. The out growers brought for our interaction were relatively best performing and bono bite out growers of the estate. Among them one has the record level of income of Rs. 17,150/= and he is relatively young out grower and received in the month of April 2017. Whereas the other incomes are ranging from Rs.9,510/= to Rs. 12,124/= per month from the beginning of the year 2017.

## CASE 3 : BATTALGALA ESTATE IN DICKOYA

The study was carried at the Battalgala Tea estate in Dickoya on July 2017. The outgrowing system implemented in the Battalgala estate is considerably different from the Dam division of Mahauva and Enthane estate in Kahawatha.

The Battalgala estate is managed by the Kelani Valley plantation company. The estate is located nearly 3 kilometres away from Dickoya town and it is placed in the ***High Grown*** tea region of Sri Lanka. Total extent of the estate is 260 hectares and it is distributed among three divisions i.e Upper Division (UP), Lower Division and Hedly. The Out- growing system was introduced in the Upper Division by a system called ***'Block System'*** in the Battalgala estate. The UP has the largest extent of old tea bushes and it is distributed among the 120 registered workers in the estates. Around 1000 tea bushes were distributed on contract basis for two years to each registered worker. The contract is renewable. Those who obtained the tea bushes are only involved in maintaining the tea bushes and plucking of standard tea leaves and the harvest of green leaf is to be supplied to the estate management. Apart from these, there are a number of conditions that were also imposed by the estate management and many of them are in favour of the estate management. Inputs like chemicals and fertilizers were supplied by the estate management and the cost of these items were recovered within two instalments from the assigned Out-growers.

The plucking of tea leaf and maintenance of the tea bushes are the major occupation of the Out-growers in their respective field. The Out-growers also occasionally hired workers from the estate payroll to be engaged in maintain the tea bushes. The cost of labour per day is Rs.805/= and it will recovered from the Out-grower by the estate management. . The Out-growers are able to pluck around 80 Kgs. to 100 Kgs. of green leaffrom the allocated tea bushes per month and received Rs.4000/= to 5000/= for selling it to the estate management. The price of green leaf will be decided by the estate management. Accordingly, 65percent of the bought leaf rate will be remitted to the workers. The price of bought leaf also varies in every month. Accordingly, the price of one Kg. of bought leaf in the month of May 2017 was Rs.52/= and subsequently it has slightly increased to Rs58/= in the month of June2017 and declined to Rs. 56/= in the month July 2017 in the Battalgala estate.

The Out-growers are registered workers in the Battalgala estate. Indeed, most of the Out-growers seem to be the bonofide workers of the estate and have close interaction with the estate management. They work for more than 75 percent of the work offered by the estate management and are able to receive Rs. 12,000 to Rs.14,000 from the estate work and Rs.4,000 to Rs.5,000 from their Out growing garden. Finally, the income of the estate workers engaged in both the estate work and Out-growing are able to raise their monthly income from Rs.16, 000 to 19,000.

The out-growers are allowed to engage in their gardens, either during the off hours of the estate work or during the weekends or holidays. Thus, the Out-growing system is introduced as a part time business of the registered workers in the estate.. The workers involved in both the job received a monthly income ranging from Rs.16,000 to Rs.20,000/= per month. This is roughly 30 to 35 percent of additional monthly income of the tea workers in the country. However, the opportunity is not given to every estate workers in Battalgala estate. Moreover, this system is giving considerable benefits to the estate management as well. On one hand, the estate management is able to carry out the harvest from very old seedling tea bushes without any capital inputs from the estate management and on the other hand the management is able to retain the labour force to engage in the estate work. The assistant manager also reported that the total workforce in the estate was reduced by almost 50 percent during the last seven years and are not in a position tolerate further reduction of labour in the estate and stated that the labour could be retained within the estate if the implementing of Out-growing is done successfully.

The estate management also is preparing various documents to show the benefits of Out-growing model implemented in the estate. Accordingly, the monthly earning of the people who are involved in the system was increased. For an example R.Udayakumar registered worker in the estate has received Rs 11,173/= as the average monthly income prior to the Out-growing system from April to July in 2013 and now as he is involved in the Out-growing system, his monthly average income is raised to Rs.30,286/=. Likewise the estate management is keen to show the benefits of Out-growers in the estate.

## CASE 4 : NUWARAELIYA ESTATE

The study was carried at Nuwrareliya Tea estate in Nuwaraeliya on July 2017. The outgrowing system implemented in this estate is completely different from the other estates under study.

The estate is also managed by the Kelani Valley plantation and is located in the higher elevation in the district of Nuwaraeliya and positioned around 5 kilometres away from Nuwaraeliya city towards Kandy road. Indeed, the estate was created in 1964 and the total extent of the tea bushes in the estate is 168 hectares. Almost all tea bushes are high yielding varieties. The village communities from the Walapana, Hangurangetha and Kotmale were brought here to work in the estate. A total number of registered workers in the estate were 610 in 2010. According to the estate manager the number of registered workers in the estate has now been reduced and only 50 percent of the registered workers are involved in the estate jobs. The manager also stated that the people who have migrated from the estate are young people. Therefore, it was decided to implement the Out-growing model which would pave the way for retaining the labour in the estate.

However, out-growing system was introduced only in the lower division of the Nuwaraeliya estate. This system was also called the 'Block System' andwas introduced in the estate only in 2015. Around 31 hectares from the lower division were allocated among the workers. Each of them received 3000 tea bushes. The distribution of tea bushes in the Nuwaraeliya estate is equivalent to the distribution of almost the extent of one hectare of the tea bushes to the estate workers. Indeed, it is three times the size of the share of tea bushes that are being managed by the tea workers in Batalgala and other Out-growing models in other estates.

The out growers in the estate are also registered workers in the Nuwaraeliya estate and the estate management allows them to engage only during off hours or during the weekends and holidays. Since, the Out-growers are plucking the tea leaf from the high yielding varieties in the estate; the income also is significantly higher than the other estates. Accordingly, monthly earning of the Out-growers in Nuwaraeliya estate along with the regular income from the estate is in the range of Rs.18, 000/= to Rs.26,000/= per month. Hence, the Out-growing systemcan be considered as an alternative income generating activitythat are implemented in the tea estates.

## ADVANTAGE OF OUTGROWING MODEL

1. The outgrowing model has increased the estate workers income. Indeed the system has reduced the poverty among targeted family in the estates.

2. The out growing system is a successful strategy implemented by the estate management to renew the benefits from the low yielding old type of seedling bushes in the respective estates.

3. The estate workers, who are involved as the outgrowing system, have received an opportunity to take over the responsibility of developing and managing the tea bushes in the estate.

4. This is also an opportunity for the estate workers to improve their material benefits.

5. The system is improving the status of the estate workers dignity and assets.

6. The system not only paves the way for involvement of male workers in the estate jobs but also continued to living in the estate sector with dignified community.

### THE CHALLENGES

1. Under the outgrowing system only the low yield old tea bushes were distributed to the workers. However much applied the agronomic practice by the out growers, the productivity will be limited and thus not in a position to enhance their income.

2. There are suggestion to distribute 5000 tea bushes per person and long leasing. However, none of the estate is considered the suggestion. Thus, the status of out growers involved in productivity base wage model does not significantly different from the existing workers in the wage base model in the plantation sector.

3. The system is a tendency of mobilizing and manipulating labour for the benefits of the estate as identified the previous study carryout out by the K.T.Silva et all in 2007 is still valid.

4. None of the out growers that the research team interacted are keeping the records of in and out of their activities. Most of them believe the status of

their involvement recorded in the estate or agencies appropriate and try to depending on that.

5. The out growers, particularly living in the Mahauva estate are not entitled for EPF and ETF and these are major savings of the estate workers and give benefits at the retirement. Thus, the out growers have the risk at the retirement stage.

6. The plantation system has covered the statuary social security system such as provision of housing, determination of wages, provision of compensation for hazards while working in the estate, EPF/ ETF etc. being a registered estate worker, the estate manager is the responsible person of implementing the aforesaid system in the estate. These statuary system not provided for none workers. Therefore, an appropriate mechanism should provide to the out grower to be linked with the public administrative system in the country.

7. The system of out growers in the estate will ultimately use the family labour and thereby tendency of utilising child labour also inevitable and it is very much par with tea smallholdings sector in the country. It should be noted that the usage of child labour is common among hired workers living in the in the tea smallholdings sector and the issues are not sufficiently addressed in any studies.

8. The outgrowing system implemented in the Mahaova is considerably different from Battalgala, Nuwaraeliya and Enthane. The former is more independent and other three estates under study.

## CONCLUSION AND SUGGESTIONS

It is interesting to note about the location designated for the outgrowing model and the varieties of tea bushes concentrated in the RPC estate in the country. As far as the distribution of varieties of tea bushes is concerned, the high yielding varieties are largely concentrated in the tea regions of High Grown and Low Grown tea region in the country. In contrast, the tea region of Mid Grown is mainly consists of old type of seedling tea bushes which give low productivity than other varieties in other two regions. Managing these seedling tea bushes by the respective RPC is a costly effort and a considerable extent of these areas were diversified with varies crops and certain extent of areas also converted for reforestation activities in the country. Indeed, the remaining tea areas are now transferring to the out growing model. It is also evidently prove that study conducted in 2007 by Silva et all. in the Elkaduwa and the study on Selagama by Shamalie et al. and the present study covering the tea estates of Mahauva and Enthane are mainly laying in the Mid Grown tea region with low productivity tea bushes.

It should be noted that none of the high yielding field are considered for the out growing model. An interview with a leading personnel and has the thorough knowledge about the tea sector and immensely contributed in tea research in the country clearly stating that out growing model only with old tea bushes cannot be successful model and categorically said the model should not accept unless otherwise a fair distribution of high yielding tea bushes to the out growers.

However, the transition which takes place in the tea region of Mid Grown is definitely influencing plantation community and it will also pave the way emergence of a new social group in the country. The diagram below is give the varies type of tea sector created in the plantation sector and the distribution of plantation community.

## SUGGESTIONS

- A social protection through insurances scheme etc.
- Integrate the out growing farmer into GN and DS divisions
- Integrate the out growing farmers with tea smallholding sector
- Preparation of standard manual on out growing and conduct regular training on maintenance of tea gardens and chemical application. For Example the farm dairy prepared by the ISD can be considered for the purpose.
- Establishment a link between the outgrowing farmers in order to share their experiences of the system
- Establishment an institution or a Faculty in the University to enhance the knowledge and scientific inputs to the out growing system.

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