

# in focus



# 3

## Value Chains: Lessons from the Kenya tea and Indonesia cocoa sectors

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Report



Natural  
Resources  
Institute



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# Acronyms and abbreviations

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BBK	Brooke Bond Kenya Limited
CBA	Collective Bargaining Agreement
CTTA	Ceylon Tea Trade Association
DFID	The UK Government's Department for International Development
E/r	Exchange rate
EATTA	East Africa Tea Trade Association
EPZA	Export Promotion Zone Authority
ETI	Ethical Trading Initiative
GDP	Gross Domestic Product
GOK	Government of Kenya
ITC	International Tea Council
KETAPA	Kenya Tea Packers Ltd
kgs	Kilogrammes
kms	Kilometres
KPAW	Kenya Plantation and Agricultural Workers Union
Kshs	Kenya shillings
KTB	Kenya Tea Board
KTDA	Kenya Tea Development Agency Limited
KTGA	Kenya Tea Growers Association
Mt	Metric tonnes
MNC	Multinational Company
NRET	Natural Resources and Ethical Trade Programme (at NRI)
NTZDC	Nyayo Tea Zones Development Corporation
PB	Premier Brands Limited
SL	Sri Lanka
RC	Resource Centre for the Social Dimensions of Business Practice
TOR	Terms of reference
TQM	Total Quality Management
TSP	Tea Sourcing Partnership

## Exchange rates

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Exchange rate at the time of the study:

Indonesian Rupiah 12,375 to 1 £

Indonesian Rupiah 9,000 to 1 US\$

Ksh 110 to 1 £

Ksh 76 to 1 US\$



# Executive summary

## Key lessons emerging:

There are two key elements to any effective social responsibility strategy namely:

- defining well-being for the community, and
- managing the process of achieving and demonstrating that well-being.

The smallholder cocoa and tea sectors require rethinking of accepted definitions of well-being. Core labour standards may be relevant to an extent, but they do not cover other major issues such as terms of trade, land and environmental management. Their criteria on issues such as child labour and freedom of association may also harm smallholders.

A social responsibility strategy for cocoa and tea needs to go beyond what is currently on offer. It needs to recognise that

- (i) smallholders are often entrepreneurs, employers and workers, and
- (ii) different types of smallholder have different expectations or concerns.

The strategy for managing the chain needs to be rethought. Other industries often have a single powerful driver (e.g. retailers) able to influence others' behaviour

in the chain. However, a powerful driver is largely missing in cocoa and tea despite the fact that high profile manufacturers (e.g. tea and chocolate companies) are at risk from poor social performance.

The long-term relationships between players in the chain are often lacking which in turn limits trust and stability.

Therefore, for the cocoa and tea industries, the challenge is both to

- (i) understand what constitutes good social performance, and
- (ii) find new ways of working within the chain in order to make responsibility a manageable dimension of business practice.

The next steps in the process for ethical supply chain management for the tea and cocoa sectors largely revolve around developing a new action research agenda. Some ideas on potential indicators for measuring progress are suggested, with the proviso that these can only be indicative while the responsibilities and objectives of key players are still being debated.

The project assesses the use of social standards in value chain management as an approach to socially responsible business. The research examines two major internationally traded commodities, namely cocoa and tea, and explores the social dimensions of their value chains.

The value chain is defined as comprising those stakeholders involved in converting an agricultural crop into a packaged product available for sale to consumers. At each stage along the chain, various activities are undertaken that can add value to the product.

The research focuses on Indonesian cocoa and Kenyan tea, which are converted into highly visible and popular consumer products with generic and brand image. Ethical sourcing, responsible business practice, social and welfare issues and environmental sustainability are already present in these sectors.

Tools and methodologies used in the research included literature and data reviews, case studies, stakeholder profiling, workshops and semi-structured interviews. Various social standards used in value chain management which focus on issues such as core labour and human rights issues were adapted for use

in the research, which was carried out among stakeholders in Indonesia and Kenya, as well as stakeholders operating outside these countries. These approaches enabled issues to be put into context as well as identify relationships and recognise the potential powers, influences and leverages, which can be used as catalysts of change.

The issues identified and analysed which impact on smallholder well-being in the cocoa and tea value chains include:

- Governance (legal framework, land tenure, producers' associations).
- Good working practices (freedom from physical, ethnic and sexual harassment, regulated use of child labour).
- Health, safety, security (use of chemical/pesticide inputs, access to health care, security of tenure).
- Compensation (fair share of crop/export price, timely payment, competitive wage, ability to grow other crops).
- Investment in the future (access to education and loans).



## SECTION ONE: Setting the scene

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### 1.0 Introduction

#### The objectives

The Natural Resources Institute (NRI) of the University of Greenwich was commissioned by the Department for International Development (DFID) and the Resource Centre for the Social Dimensions of Business Practice (Resource Centre) to undertake a research project into the use of social standards in value chain management as an approach to socially responsible business. The research focused on international trade in commodities between developing and developed countries with the aim of examining the social dimensions of value chains in the cocoa and tea sectors.

For the purpose of this project the value chain is defined as comprising those stakeholders involved in converting an agricultural crop into a packaged product available for sale to consumers. At each stage along the chain, various activities are undertaken that can add value to the product. These include processing into an exportable quality product, packing, internal transport, warehousing, sales charges, freight, insurance, interest, blending, further processing and packaging and retailers sales costs. Additionally, stakeholders along the chain should have an economic role to play and must include an adequate profit margin to ensure an acceptable return on their business activities.

#### The context

The project focuses on the Indonesian cocoa industry and the Kenya tea industry. Tea and cocoa were selected as they are:

- 1 two major commodity exports from developing countries to the UK,
- 2 commodities which are converted into visible consumer products, namely confectionery and beverages,
- 3 there is developing country sourcing and generic and brand image,
- 4 tea and cocoa sectors are already active in the areas of ethical sourcing /responsible business practice, social and welfare issues and environmental sustainability.

#### The approach

The project addresses two questions:

- 1 How to understand the impact that non-producer stakeholders have on producers' ability to comply with a range of different social standards?
- 2 How can stakeholders work together to implement responsible business practices along the value chain?

An overriding concern of both the cocoa and tea industries, whose production provides a living for millions of families in the developing world, is that their long-term sustainability is currently under threat from environmental degradation.

A further issue addressed in general terms was that of "externalities" applicable to the Indonesian cocoa and Kenya tea industries. Externalities are generally defined as factors not included in the financial costs of conducting business, but that have a positive and/or negative impact on human welfare, such as social benefits accruing to an area due to the industry's presence (positive) and pollution (negative).

In commissioning this project, DFID and the Resource Centre hope to encourage the private sector to foster business practices that embrace social, environmental and financially responsible business, thus creating sustainable development. Growing interest in responsible business practices has to a large extent been driven by consumer pressure for assurance that the products on sale are produced in a manner not detrimental to the welfare of the workers involved. Concerns cover terms and conditions of employment, health and safety, education, maternity provisions, housing and child labour. Additionally, there is growing concern regarding environmental sustainability, particularly in agricultural development. Therefore, it is important that these issues are discussed and understanding and awareness is raised, particularly to avoid unwarranted and perhaps ill informed media attention.

The following organisations were consulted and kept informed of progress:

- The Ethical Trading Initiative (ETI) — an UK based alliance of companies, non-government organisations (NGO's) and trade unions committed to working together to identify and promote good practice in the implementation of codes of labour practice. Its company members include a number of major retailers of tea and cocoa products.
- The Tea Sourcing Partnership (TSP) which is also a member of the ETI.
- A number of confectionery and trading companies as well as their trade associations.
- Various organisations in both Indonesia and Kenya that were directly involved in the selected sectors.

## 2.0 Stakeholder social and welfare issues

It is probably obvious that the main reason for a stakeholder's involvement in cocoa and tea value chains is to obtain a satisfactory quality of life for the individual and his/her dependants. Each stakeholder has different expectations of what involvement in the chain can do to increase their quality of life. Ideally, the functioning of the chain should allow all of the expectations of the stakeholders to be met.

A "responsible" chain will optimise the expectations of each stakeholder without jeopardising the viability of the value chain as a whole and without putting unfair degrees of risk or hardship on any particular stakeholder or additional costs borne by the consumer.

Examples of stakeholder issues:

- A "living" wage paid to employees and a fair price to be paid to smallholders for their green leaf and cocoa bean production.
- In the case of smallholders:
  - The extent to which their quality of life is solely dependent on their income.
  - Should other stakeholders in the tea and cocoa chain be involved in influencing issues such as health and safety, education, provision of the means to continue in business, e.g., input credit, transport and extension services, prompt payment?
  - What are smallholders' expectations from their involvement in the tea and cocoa trade?
- Employees health, safety, education, housing, maternity leave.

A company's ability to provide a satisfactory quality of life to its employees is related to return on investment expected by shareholders. The pressure to improve wages and social and welfare conditions causes an increase in cost of production, unlikely to be paid for by the consumer. Therefore, do current circumstances place a disproportionate burden on producers, which may ultimately cause companies to go out of business and discourage new entrants? Should the cost of improving conditions be more equitably shared along the chain including higher consumer prices?

The following questions were addressed in the course of research:

- What are the social issues for each stakeholder in the chain?
- What issues of concern to stakeholder X may affect the well being of other stakeholders?
- What issues for stakeholder X are a consequence of other stakeholders actions?
- What mechanisms/systems exist or could feasibly be put in place for identifying and monitoring social issues?
- What can stakeholders do to positively influence the behaviour of others in the chain?

## 3.0 Methodology

### 3.1 General

Project activities included one visit to Indonesia and three visits to Kenya by NRI consultants between September 2000 and March 2001 for discussions with key stakeholders. Research methods included an extensive review of secondary literature and data, semi-structured interviews with key primary and secondary stakeholders as well as focus group discussions. The AA1000 Process Model was used in the analysis, particularly in relation to the Kenya tea industry. This is discussed in greater detail in the following section.

In addition, a presentation on the background to the project was given to the Tea Sourcing Partnership in London in September 2000 and workshops were held in Nairobi and London on the 11th April and the 9th May 2001 respectively. Details of format and contents and conclusions of the workshops are contained in Section 7 and Annexe 3.

Experts Ally Bedford, Duncan Burnett and Mick Blowfield undertook the Kenya tea analysis while Mick Blowfield and Peter Greenhalgh undertook the analysis of the Indonesian cocoa sector.

Ally Bedford is an experienced international consultant specialising in sustainable development in emerging markets. She has worked for both the private and public sector and is a member of the Institute of Social & Ethical AccountAbility. At the time of undertaking the study, Mick Blowfield was Manager of NRI's Natural Resources and Ethical Trade (NRET) Programme. He is a social anthropologist with considerable expertise in responsible business and ethical trade practices as well as sociological and anthropological aspects of natural resource and community management. Duncan Burnett is an agricultural economist at NRI. In addition, he has considerable commercial and legal expertise in the commodity sector, particularly tea, having previously worked in the private sector for over two decades. Peter Greenhalgh is currently an economist heading the NRET Programme. He has worked on aspects of commodities, including cocoa, for over 30 years in both the private and public sectors.

### 3.2 Ethical supply chains

The use of social standards in value chain management is the most common approach to socially responsible business in international trade between the South and the North. Some of these standards focus on core labour and human rights issues (e.g. ETI, SA8000); others are beginning to tackle wider issues such as terms of trading and criteria for smallholders.

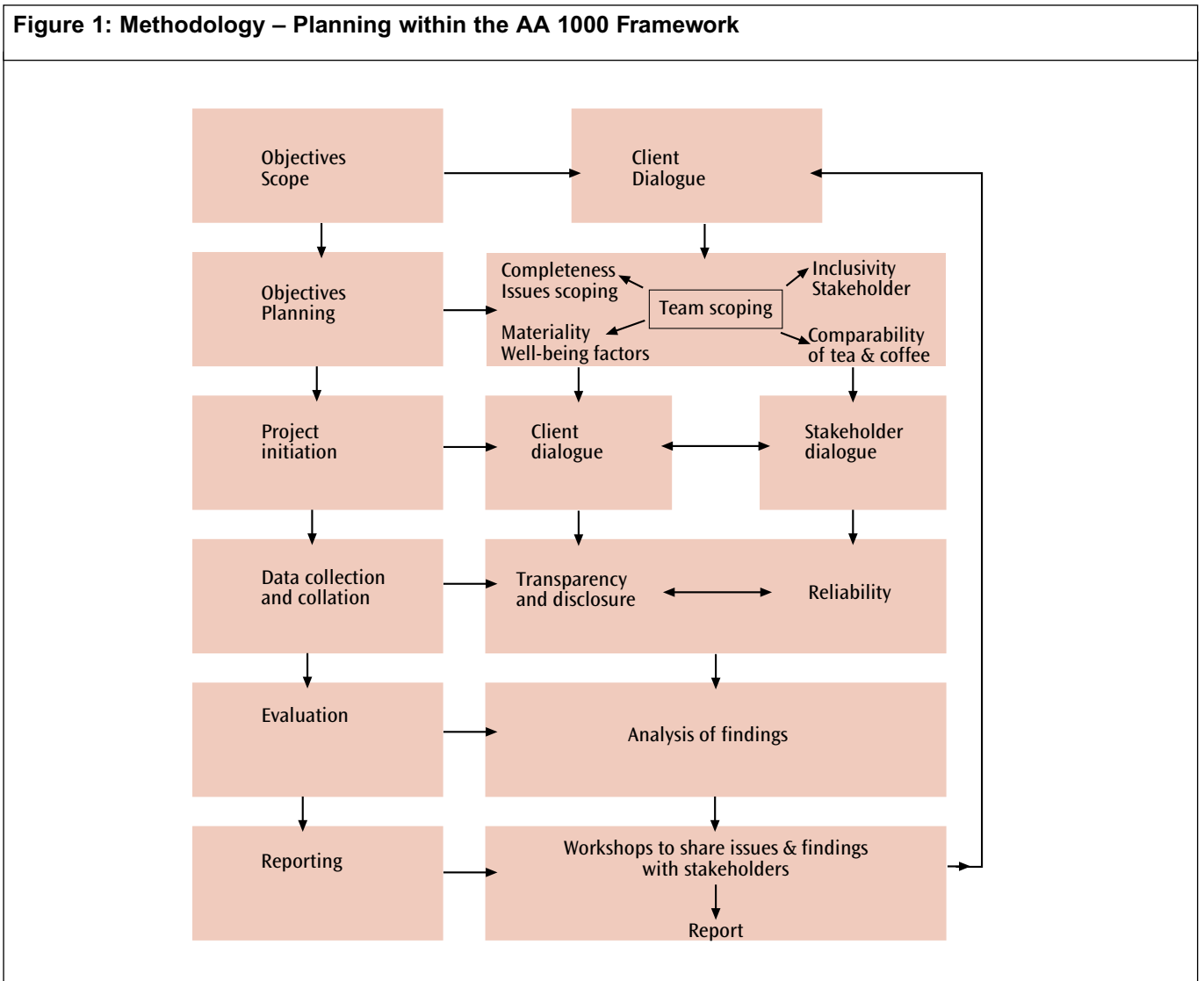
Experience in implementing these initiatives has highlighted the importance of multi-stakeholder engagement in both improving and verifying company performance. This is a key lesson from ETI, and is at the heart of AA1000, a standard for improving the quality of stakeholder engagement in social responsibility strategies.

### AA 1000 Process Model (AccountAbility Institute of Social and Ethical Accountability)

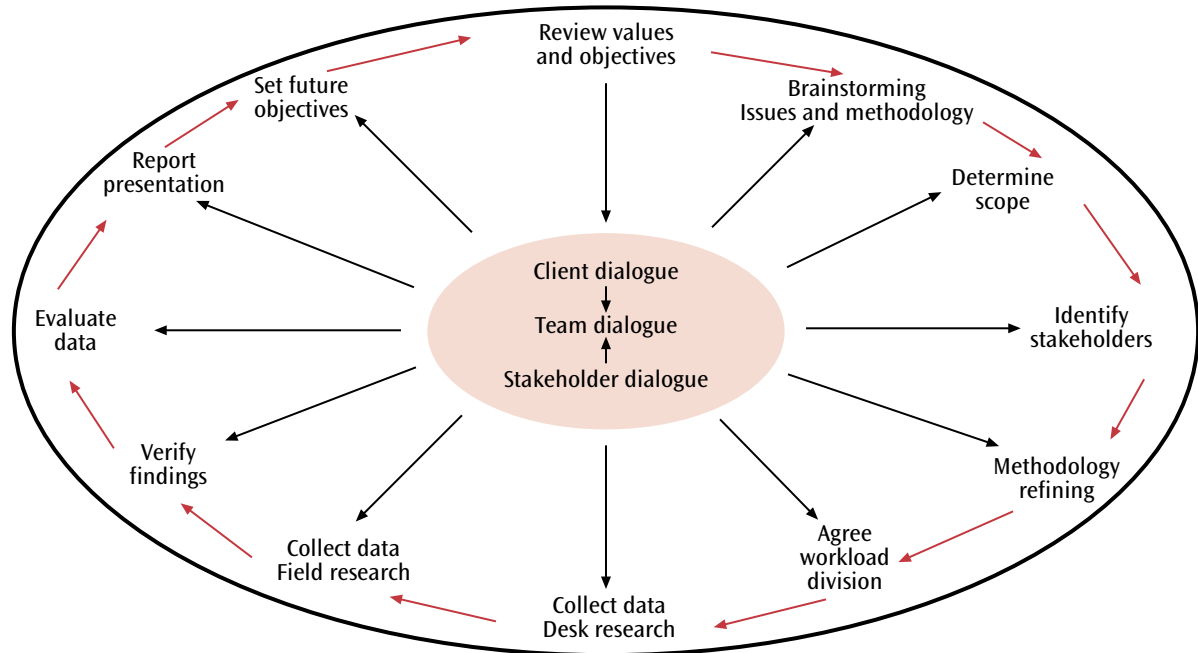
The AA1000 framework was developed to carry out social accounting, auditing and reporting of organisations and has been adapted for the Terms of Reference of this research as detailed below:

- Focus on purpose and potential outcomes of the study AA1000
- Identify industry (supply chain) processes AA1000
- Identify the stakeholders within each of those supply chain processes AA1000
- Identify & contact recognised representatives of stakeholders Not AA1000
- Hold a variety of consultations with stakeholder representatives AA1000
- Collect data AA1000
- Profile the stakeholders AA1000
- Review the findings AA1000
- Identify issues, the power, the influence, the leverage Not AA1000
- Define & review values – e.g. Ethical Trading Initiative (ETI)
- Identify possible benchmarks and indicators AA1000
- Suggest possible improvement mechanisms AA1000

**Figure 1: Methodology – Planning within the AA 1000 Framework**



**Figure 2: Methodology – Information flows**



**3.3 Case studies and stakeholder consultations**

Case studies were undertaken in tea and cocoa sectors, including major plantations and smallholders. These studies put issues into context, identify relationships and recognise the potential power, the influences, and the part of leverage, which can be used as catalysts of change. For those who wish to audit the industry, it scopes the well-being issues which can be considered to develop indicators and benchmarks in the future.

Stakeholder dialogue identifies historic and current issues and future expectations. In this research, the comments and thoughts about industry norms, government support, country compliance and global expectations were recorded. Some stakeholder profiles are contained in Annexe 4.

Profiling the also adds the human dimension, which is often oddly missed even in the exploration of value chains and ethical issues!

These consultations were held in a variety of formats languages and locations and included issues raised by both the Tea Sourcing Partnership (TSP) and Ethical Trading Initiative (ETI) as summarised in the following section.

**3.4 Tea sourcing partnership and ethical trading initiative**

The TSP looks at five main areas assessing whether estates and factories comply with local laws and

national agreements for each of the following areas:

- Employment (including minimum wage and wage levels)
- Education
- Maternity
- Health & Safety
- Housing

The TSP standards are only applicable to plantations and factories with employees.

Details of the TSP initiative are given in Section 4.2. All members of the TSP are also members of the ETI, whose base code requires that employers conform to the following:

- 1. Employment is freely chosen:** No forced, bonded or involuntary prison labour. Workers are not required to lodge “deposits” or their identity papers with their employer and are free to leave their employer after reasonable notice.
- 2. Freedom of association and the right to collective bargaining:** Workers have the right to join or form trade unions of their own choosing and to bargain collectively. Employers adopt an open attitude towards the activities of trade unions and their organisational activities. Where the right to freedom of association and collective bargaining is restricted under law, the employer facilitates, and does not hinder, the development of parallel means for independent and free association and bargaining.
- 3. Working conditions are safe and hygienic:** Workers shall receive regular and recorded health

and safety training. Access to clean toilet facilities and to potable water, and, if appropriate, sanitary facilities for food storage shall be provided.

Accommodation, where provided, shall be clean, safe, and meet the basic needs of the workers.

- 4. Child labour shall not be used:** No new recruitment of child labour. Companies shall support programmes which provide for the transition of any child found to be performing child labour to enable her or him to attend and remain in quality education until no longer a child. Children and young persons under 18 shall not be employed at night or in hazardous conditions.
- 5. Living wages are paid:** Wages meet national legal standards or industry benchmark standards, whichever is higher, and should always be enough to meet basic needs and to provide some discretionary income. All workers shall be provided with written and understandable information about their wages each time that they are paid. No deductions from wages as a disciplinary measure.
- 6. Working hours are not excessive:** Working hours comply with national laws and benchmark industry standards, whichever affords greater protection. Workers shall not on a regular basis be required to work more than 48 hours per week and shall be provided with at least one day off for every seven-day period on average. Overtime shall be voluntary, shall not exceed 12 hours per week, shall not be demanded on a regular basis and shall always be compensated at a premium rate.
- 7. No discrimination is practised:** There is no discrimination based on race, caste, national origin, religion, age, disability, gender, marital status, sexual orientation, union membership or political affiliation.
- 8. Regular employment is provided:** Work performed must be on the basis of a recognised employment relationship. Obligations to employees under labour or social security laws shall not be avoided through the use of labour-only contracting, sub-contracting, home-working arrangements, or through apprenticeship schemes where there is no real intent to impart skills or provide regular employment, nor shall any such obligations be avoided through the excessive use of fixed-term contracts of employment.
- 9. No harsh or inhumane treatment is allowed:** Physical abuse or discipline, the threat of physical abuse, sexual or other harassment and verbal abuse or other forms of intimidation shall be prohibited.

The above values are only pertinent for employees, predominantly found on the large plantations or the few private factories and service providers, and are not valid for many smallholders working in both the tea and cocoa industries. One challenge therefore, was to scope the issues and values of smallholders in relation to the rest of the supply chain groups, including their managing agents where applicable.

The consultations with stakeholders, should have followed the processes from “tea plucker to port” in

chronological order, however there were some unavoidable deviations due to accessibility of stakeholders, but for the most part this plan was followed. The smallholders and the KTDA were both re-visited on three separate occasions to clarify issues either not covered or that showed some discrepancy in understanding or expected process.

### 3.5 Other issues

One cannot scope the social issues in the tea and cocoa industries, without also considering impacts from other direct or indirect sources. Here are some factors from the Kenya tea sector.

**Government** Whether through mismanagement or corruption, the Kenyan government has failed to maintain basic infrastructure, which has increased the cost of tea production and processing. In turn this has reduced smallholder incomes and increased their costs to achieve well-being. For example:

**Utilities** Insufficient power has created shortages and rationing. It has increased the cost of processing and created the need to find alternative, often expensive and generally unsustainable power sources. Insufficient and intermittent water supplies have impacted on both processing and basic well-being in the tea farming communities

**Communications** Lack of effective telecommunications in Kenya is severely limiting effective business practices and reducing flow of information. (This is much less of a constraint in Indonesia).

**Roads** Poor feeder roads prevent the effective transportation of the green leaf from the farm, buying station and factory, creating a high percentage of green leaf wastage through non-delivery. Poor government roads have reduced the effective delivery of black tea from the factory to the port. (In comparison, Indonesia has a relatively better developed infrastructure).

**Produce transportation** The lack of vehicle maintenance and access to spare parts through lack of access to foreign exchange causes non-delivery and contamination of both green leaf and black tea.

**Drought** Deforestation has caused, soil erosion subsidence and aggravated drought – reducing the overall output. However, most large estates have sustainable fuel wood plantations.

**IMF** The IMF has demanded mass public sector retrenchment and many of the unemployed have returned to the rural areas causing increased pressure on land use and burden on smallholder incomes.

**CBA** The Collective Bargaining Agreement in Kenya, has also resulted in increased use of casual labour or redundancy, putting further strain on the rural areas.

**AIDS** Lack of information and social practices have increased the AIDS population in the rural areas, thereby reducing the numbers of adult working smallholders, diminishing technical skills and production capability and increasing reliance on younger members of the family to be active in production.

**Education** Schooling is not totally free, neither are schoolbooks, uniforms and shoes, creating an extra burden on large rural families. Also education has not fulfilled the promises of a 'better quality' of life.

**Ethnic discrimination** has created bitter resentment and is very visible in some areas of both Kenya and Indonesia.

**Tea (and cocoa) trends** Beyond the various cultural tastes and various health fads, which determine the qualities and blends of tea (and cocoa/chocolate) produced, many consumers are demanding that social and environmental issues are being addressed through 'ethical' production verification. The question is, who pays for the actual cost of improvement and verification processes?



## SECTION TWO: Case studies of the Kenya tea and Indonesia cocoa sectors

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### 4.0 The UK tea trade and its initiatives regarding social and welfare issues

#### 4.1 The UK tea trade

Tea consumption in the UK averages 2.46 kgs per capita per annum, equalling 150,000 tonnes of tea per annum (13% of international trade) with an approximate value of £180 million. The most popular UK tea brands, primarily in tea bag form, are usually complex blends of different origins and qualities and the identification of composition in terms of origin and estates is a closely guarded commercial secret amongst competitors.

There are well-established popular brands such as PG Tips, Tetley's, Twinning, Typhoo and Yorkshire Tea, but supermarkets own label teas, such as Tesco, Sainsburys, Marks and Spencer and Waitrose are capturing a growing share of the market. The supermarkets contract the buying, blending and packing of their teas often from companies that they also compete with in the branded goods sector.

Fair Trade brands and labelled teas represent a small segment of the market and include various brands marketed by Cafedirect (Teadirect), Clipper, Equal Exchange, and Traidcraft. The main organisations connected with the tea trade are; the UK Tea Trade Association (packers and blenders), the Tea Brokers Association (brokers, traders and "middlemen"), and the International Tea Council (promoting the world tea trade and tea as a generic product), and the Tea Sourcing Partnership.

#### 4.2 The Tea Sourcing Partnership (TSP)

Following informal discussions among the UK tea trade in 1996 the Tea Sourcing Partnership (TSP) was set up in April 1997 by a large group of tea packers and blenders representing 40 tea brands and 60% of the UK's packed tea. Its aim was to devise and implement a long-term initiative addressing issues of core labour and human rights standards of suppliers of tea worldwide. It had been acknowledged that consumer pressure regarding ethical sourcing is of increasing concern to UK customers for tea. The activities of

various lobby groups including the Fair Trade movement (e.g. publicity given to the consumption of fairly traded tea and coffee by the UK government) together with individual initiatives being undertaken by members of the UK tea trade demanded an industry wide response to the issue of ethical sourcing. It was considered that the formation of the TSP represented a natural development of business practice, with social responsibility being a long-term issue for the trade and an increasing factor in influencing consumer preference for tea as a beverage of choice. Additionally, some members such as Brooke Bond, Finlay Beverages and Williamson & Magor, are also involved in owning and operating tea plantations in developing countries and believe that their estates already maintain high standards. Therefore, it was felt that the TSP scheme would provide a means of demonstrating the standards being followed on tea estates. The TSP membership's philosophy is that the UK tea trade should assume joint responsibility for the social and ethical conditions involved in sourcing tea from developing countries and that activity in this area should be non competitive and apolitical respecting cultural and legislative differences in each country. The TSP also claims that their scheme is unique and involves no additional charges to producers and consumers with all costs being met by the membership. The scheme involves all tea products packed by UK members, and all brands must be included. Members of the Partnership represent some of the best known brands on offer to the UK consumer, including supermarkets' own label teas.

The specific objective of the TSP is to develop a clear and factual understanding of conditions on 1,500 tea estates in seven producing countries and to validate them by a continuous cycle of independent audits. More specifically, the TSP aims to demonstrate that producers comply with local legislation and union agreements relating to terms and conditions of employment (including minimum age and wage levels); health and safety; education; maternity provisions and housing.

The developing countries involved in the TSP scheme are:

- Kenya: (50% of UK tea imports) the first country to be audited by the TSP, commencing in 1998 with over two-thirds of Kenyan export market, about 250 tea estate units (a unit can be a factory, workshop, administration centre, tea field or health and welfare unit), having been audited by the beginning of 2001.
- Malawi: (7% of UK tea imports) questionnaires have been completed by tea producers and auditing began in February 2001.
- Sri Lanka: (5% of UK tea imports) pilot audits were carried out in 1999 and the questionnaire is currently being verified with local labour lawyers. Auditing will start in the second half of 2001.
- India: (15% of UK tea imports) a questionnaire for India (Assam) has been finalised and verified by local lawyers and audits are due to commence in the second half of 2001.
- Indonesia: (7% of UK tea imports) the TSP will commence work in Indonesia by the end of 2001.
- Tanzania: (2% of UK tea imports).
- Zimbabwe: (2% of UK tea imports) questionnaires have been issued to all Zimbabwe's tea producers and these are currently in the process of being completed and returned. Auditing should be completed by the end of 2001.

Whilst the UK imports tea from around 30 tea producing countries the above seven countries represent over 85% of the total. The scheme adopts three phases:

- Questionnaire.
- An independent audit.
- Compliance.

The first phase requires the estate to complete the questionnaire (see Annexe 3) devised by the TSP. Inputs to the questionnaire are then held on a database held by the TSP.

The second stage involves a visit by independent auditors to the estate every three years. The auditors, appointed in October 1997 by the TSP, are Bureau Veritas Quality Inspection (BVQI) who have been chosen for their expertise in independent auditing. BVQI claim extensive experience in auditing in around 70 countries on behalf of over 25,000 clients, including Sainsbury's, Marks and Spencer's, Tesco, Coca Cola, Heinz, Kraft, Nestlé and Pepsico. BVQI have 44 offices world-wide with 1200 fully trained professional auditors, and has accreditation from SAI (Social Accountability International), formerly the Council on Economic Priorities Accreditation Agency (CEPPAA), to audit against international standard SA 8000 and also against company codes of conduct. BVQI have been instructed by the TSP to respect and take consideration of local culture and traditions particularly in relation to child labour and gender issues.

The third stage requires the audited estates to comply with the ethical standards set in the questionnaire and

those meeting such standards receive a TSP certificate confirming compliance. Those failing to meet the standards set by the TSP are notified that TSP members will not buy from them until they have rectified the situation. Those producers meeting the standards set by the TSP are guaranteed a market within the TSP membership provided that they meet the normal criteria of price and quality. Accordingly, producers can plan their planting regimes to meet market demand with a higher level of certainty.

The drawback to this arrangement is that those businesses identified as not complying with the national legislation and collective bargaining agreements (CBAs), and who do not achieve the improvement demanded, have to cease exporting tea to the TSP members. Compliance also requires capital outlay to achieve the necessary health and safety standards. Compliance can also require employers to increase operating costs by improving terms and conditions of employment, health and safety, education, maternity provision and housing. Additional operating costs relate to management time used to implement and maintain compliance.

There are concerns among the tea producers and manufacturers that compliance will increase costs to the extent that employers will either not fully adopt such approaches, hence losing their markets, or be pushed out of business due to reduced profits, thereby leading to increased poverty. Small-scale producers and manufacturers are the most vulnerable because they lack access to the relatively cheap capital available to the large companies.

The TSP are members of the Ethical Trade Initiative (ETI) and are in informal discussion and consultation with major European tea packers and blenders, particularly in the Netherlands and Germany, regarding the extension of the scheme Europe wide.

#### **4.3 Premier Brands UK Limited (PB)**

PB is a major UK producer of branded tea products including Ridgeways and Typhoo. They also pack and blend "own label" teas for leading supermarket chains such as Tesco's.

They have a Quality and Assurance scheme, which involves regular inspections and audits of their suppliers operations. The scheme covers about 80% of the tea purchased by PB worldwide.

PB does not exclude any of their suppliers should they fail to conform to the standards being expected during the audit. Suppliers are advised of the audit findings with a request to rectify the situation prior to the next visit.

PB is a member of the ETI and was the first UK tea group to address issues of ethical trade in a formal manner.

PB offers the Ridgeway brand with a fair trade label registered with the Fair Trade Foundation. The Foundation publishes a list of approved tea suppliers from the developing world and PB cannot source from outside this list (reference to the FLO criteria at [www.fairtrade.net](http://www.fairtrade.net)). From each kilo sold, £0.30 of the purchase price is designated as the premium to be used to promote social projects in the country of origin (as decided by premium committees, made up of workers and management). In this situation the third party auditing is carried out by the Fairtrade Labelling Organizations International (FLO) which is the custodian of the fair trade labelling standard.

PB believe that the issue of ethical sourcing is linked to the total quality management (TQM) system as the concepts of ethical trading and quality are linked.

## 5.0 The Kenyan tea industry

### 5.1 Introduction

Kenya has a current population of around 30 million people, of whom 43% are under 14. The work force is about 9 million of which 75% are employed in the rural areas with the tea industry alone employing over 2 million people.

Tea is currently Kenya's leading foreign exchange earner. In 1999, it accounted for about 20% of the agricultural GDP compared with 8% from coffee and 6% from horticulture. In the world market, Kenya is the fourth largest producer of black tea after India, China and Sri Lanka. However, Kenya currently competes with Sri Lanka for the position of leading tea exporter in the world. By the year 2005, it is projected that Kenya will account for 20-23% of world exports if current growth rates are sustained.

Tea production has expanded tremendously from 18,000 tons at independence in 1963 to over 260,000 tons in 2000 and is projected to reach 310,000 tons by 2005. It currently earns the country Ksh. 34 billion. Small-scale production accounts for 65% of the area and about 62% of production. Notably, among all of Kenya's other export crops, only tea has maintained this upward trend in production and export earnings.

Against this performance in tea production, quality and income earnings, the tea sub-sector has to contend with several challenges threatening its survival. These include; heavily concentrated markets in which Egypt, the United Kingdom and Pakistan account for 83% of Kenya's exports. Demand in Egypt and Middle-Eastern countries has remained strong for many years. However the market potential of Kenyan tea remains under exploited. The United Kingdom remains the single most important destination for Kenya tea accounting for about 44% of the total exports.

The challenges facing the Kenyan tea industry include a stagnating or declining demand in most of the main traditional markets, and a general decline in tea prices in the world market. Increased production in Kenya

could have a negative effect on prices as the country's output influences world tea prices. Furthermore, the decline in tea quality likely to be caused by lack of investment in, and congestion at, KTDA managed tea factories could also adversely affect tea prices. High transaction costs and inefficiencies in tea factories together with the seasonally impassable roads, that affect green leaf collection, are important factors that influence tea earnings and thus determine the industry's future viability.

The Kenyan tea industry must also contend with other external challenges posed by overseas buyers. The tea sector is increasingly being forced to adopt ethical practices that embrace socially, environmentally and financially responsible business. Importers, particularly those from the UK, have increasingly been demanding that the tea supply chain complies with employee social and welfare standards (see 4.2 TSP and 4.3 PB above).

### 5.2 Structure of the Kenya tea trade

This section analyses the institutional set up in the tea industry and identifies some of the critical roles of various organisations involved in tea production, processing, marketing and exporting. The institutional structure of the Kenya tea trade is very important as it facilitates the producer and processor in complying with the TSP and other buyers' standards.

#### **Kenya Tea Development Agency Limited (KTDA):**

The KTDA was incorporated under the Companies Act as an independent and private enterprise, owned by all of Kenya's small-scale tea farmers through their respective factory companies. It manages the tea factories on behalf of farmers and charges a management fee, which is currently fixed at 2.5% of the total sale proceeds. The Agency took over in 2000 from its predecessor the Kenya Tea Development Authority. The authority had been instrumental in the introduction of tea production to small-scale producers and had managed tea factories on behalf of farmers since 1964. The newly formed agency assists the farmers by purchasing fertilisers in bulk mainly from international suppliers. The fertiliser is offered to tea producers on credit to be recovered after the tea is sold. The KTDA also offers extension services to smallholder tea producers and is involved in sourcing funds for factory construction and renovations. Notably, KTDA operates and manages factories, markets black tea internationally, buys green leaf from smallholders, paying them on a monthly basis and at the end of each financial year. The smallholders are paid total proceeds from the sale of black tea processed from their green leaf, less transportation, processing, handling and marketing costs. The KTDA does not employ agricultural workers. Whilst the KTDA has recently changed its status from a parastatal to a company with sustainable missions and visions, it has neither the capacity nor the training procedures to change attitudes and practices, demonstrate accountability and address problems.

**Tea Board of Kenya (TBK):** The TBK is a State Corporation under the Ministry of Agriculture, established in 1950, it has a mandate to regulate the tea industry. It licenses the tea growers and factories, and regulates and controls tea cultivation and processing. It also scrutinises all the research activities of the Tea Research Foundation, promotes Kenyan tea in and outside the country, and collects and disseminates tea statistics. The TBK advises the GOK on all policy matters regarding tea and Board representation is composed of GOK officials, KTDA, KTGA, NTZDC and EATTA.

**Kenya Tea Growers Association (KTGA):** Kenya Tea Growers Association, which is a private and voluntary grouping, promotes the interests of large and medium private tea growers in Kenya. The association accounts for over 40% of tea production with the other balance of 60% coming from small-scale farmers. The KTGA negotiates workers' social, welfare and employment conditions with the Kenya Plantation and Workers Union on behalf of the large-scale tea growers.

**Kenya Plantation & Agricultural Workers' Union (KPAWU):** KPAWU is the national trade union body-representing unionised workers in the coffee, tea, sisal and horticultural industries. It negotiates with the Kenya Tea Growers Association, which represents large tea growers, in order to develop the collective bargaining agreements (CBAs) for the tea industry. It also negotiates with KTDA on behalf of employees that are covered by the union.

**East African Tea Trade Association (EATTA):** The EATTA is a voluntary association bringing together tea producers, brokers and buyers of tea in East Africa. The Association's rules and regulations facilitate auction and direct tea sales and regulate the international trade in Kenya and other East African teas. The association comprises tea producers, buyers, brokers and other interested tea traders within the East African region.

**Tea Brokers:** The tea trade is conducted by brokers appointed by tea producers. The brokers guarantee the sale of tea by negotiating between the producer and the tea trade buyers. The brokers' functions include receiving tea from producers and selling it at the best possible price, negotiating sales by private contract on behalf of the producers, receiving tea samples from producers, tasting, valuing and distributing sample to potential buyers, preparing and printing catalogue and effecting payment to the producers and factories. Brokers taste tea for the purpose of ascertaining the grade of tea in the auction and visit the tea factories informing the factory management on the quality of their tea. The brokers are not quality controllers, since quality management is an in-built process in tea production and manufacturing. There are currently 11-tea brokerage firms operating at Mombassa auction. Currently, out of the eleven brokers, three control 45% of the business (mostly from tea estates) while the other eight serve KTDA.

**Tea Packers:** The tea packers in Kenya are not organised into any association. Currently the single largest packer in local market is the Kenya Tea Packers Limited (KETEPA). Prior to October 1992, KETEPA had the monopoly of tea packaging and distribution in domestic market. With the repeal of the Price Control Act and complete liberation of tea trading, there are over 60 registered tea packers who are free to blend and pack tea for local and export markets.

**Tea Research Foundation of Kenya (TRFK):** TRFK was established in 1980 as a company limited by guarantee to carry out the investigation and research into all matters relating to the tea industry. It was a successor to the Research Institute of East Africa. Its guarantors are the Ministry of Agriculture and Tea Board of Kenya. The Foundation has obtained funding for its research activities almost entirely from the tea industry through the Tea Board of Kenya, from which it receives Ksh 52 million annually for its research activities.

**Tea Auction and Direct Tea sales:** Most Kenyan tea is sold through the weekly Mombassa auction. Once the tea is ready for sale, the tea brokers are notified so that they can collect tea samples from the warehouse, some of which they send to buyers for liquoring and determining quality before the auction. It is the responsibility of the tea broker to follow up the payments from the tea buyers and remit the money to the selling companies. Tea sold through the auction attracts a brokerage fee of 1.5% of the sales of which producers pay 1% with 0.5% paid by the buyers.

Direct tea sales are normally an outlet for premium tea grades in the Mombassa auction. Offers of tea for direct sale are undertaken every Tuesday after the auction. On acceptance of the offer, a sale contract is made and samples sent for approval. The approval or otherwise must be given within 15 days. Payments are then effected upon shipment when documents (usually the bill of lading) are lodged with the buyers' bank. Only about 10% of the total is sold through direct sales.

### 5.3 The value chain

The tea value chain, or marketing chain, comprises those stakeholders involved in producing the green leaf and converting it into a bulk packaged product available for blending and sale to consumers. At each stage along the chain, value is added to green leaf through activities, each with associated costs. For example, the cost of conversion to black tea, factory packing, internal transport, warehousing, sales charges (auction and direct), freight, insurance, interest, blending and packaging and retailers sales costs. Additionally, stakeholders along the chain should have an economic role to play and must include an adequate profit margin to ensure an acceptable return on their business activities. We identified four categories of primary stakeholders in the tea industry involved in the following:

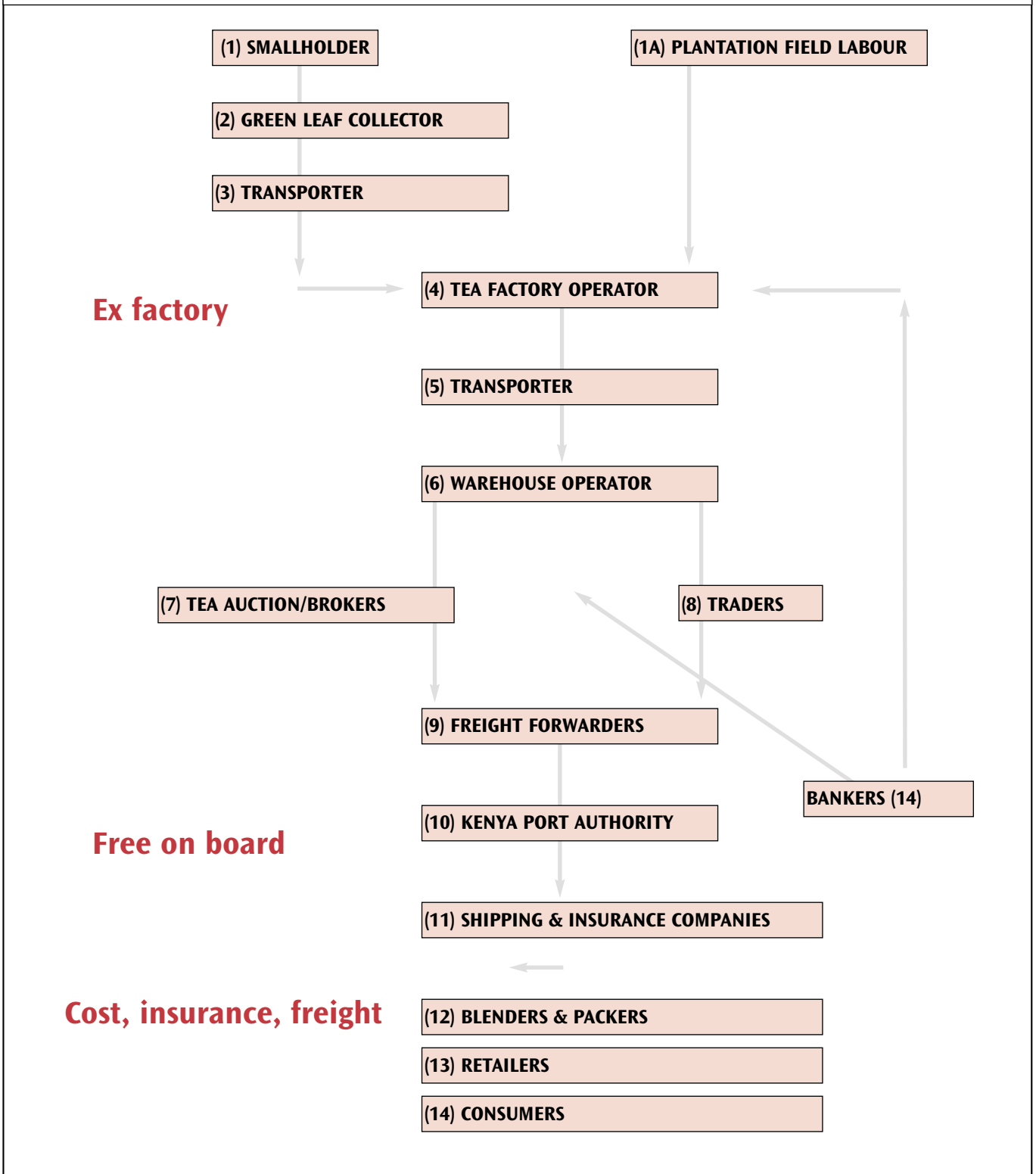
- Green leaf production

- Green leaf collection
- Blending and manufacturing
- Consumption

A generalised diagram of the tea value chain is shown below in Figure 3.

There are also secondary stakeholders, not directly involved in the above, e.g., brokers, traders, shipping companies, warehousemen, bankers, but nevertheless affected by, or having an affect on the activities of primary stakeholders.

**Figure 3: Value chain – The structure of the Kenya tea industry**



Processing includes the following steps:

- After production small-scale farmers carry the green leaf to a tea collection centre.
- Tea is weighed and recorded by a factory employed clerk.
- Tea is collected by factory owned KTDA managed lorries.
- Tea is delivered to the processing factory owned by farmers but managed by KTDA on their behalf
- Tea is processed, packaged and dispatched through privately owned transporters.
- Tea is warehoused in Mombassa from where most of it is sold through the Mombassa auction with a small amount through directly negotiated sales.
- Large-scale tea production and processing is integrated. Tea from plantations is plucked and processed in their own factories. It is then transported and warehoused for sale in the auction and under private arrangements.
- Most medium scale estates do not have factories of their own. Their tea is therefore processed by the large estate factories where they pay a management fee of between 2% and 4% of total sales, or more commonly sell their green leaf at a negotiated price per kg.

#### 5.4 Brooke Bond Kenya Ltd

BBK was selected as a case study as a large scale multinational company (MNC), with in-house links beyond production to the blending and packing sector.

BBK is a member of the Unilever Group, and its Nairobi Head Office manages large tea enterprises in both Kenya and Tanzania. The Kenya operation producing around 30 million kgs of black tea per year is the larger of the two operations. The Tanzania operation uses mechanised harvesting, and runs with few staff and low costs.

Brooke Bond Kenya has 18,000 employees of which 90% are tea pluckers.

The work force predominantly belongs to a Union and BBK complies with Kenyan collective bargaining agreements. The company operates an equal opportunity policy with basic pay at Ksh 135 per day, a good plucker earns an average of Ksh 327 per day.

BBK places high importance on health and safety at the workplace. For example, pluckers use protective boots and aprons and receive training in equipment use.

Individual tea pluckers carry on average up to 12 kgs maximum of green leaf and weighing stations are no more than a maximum of 200 metres distant from the tea fields. Seat belts in company vehicles are compulsory both on and off the company plantations.

BBK has a policy regarding children in the workplace allowing those over 12 years to work during non-school hours, subject to certain limits regarding height and

hours worked. Children must work in the company of their official employee parent who is credited with value of the green leaf plucked by the child.

Procedures are embedded in company policy to ensure compliance with social and welfare standards, for example, all accidents are reported and investigated, all statistics are compiled and analysed and improvement targets are set.

BBK provides 3,000 homes for 80,000 workers and their families providing free running water, electricity and allotments. Free primary health and hospital care, HIV/AIDS awareness training and primary and secondary education for dependents are also provided.

BBK has an environmental strategy, which includes research and development for sustainability, the extension of renewable energy sources, fostering good husbandry practices, and the growth of trees on an 8-year rotational basis for firewood.

#### 5.5 Smallholders

There are 312,000 licensed tea family smallholders collectively producing about 62% of Kenya's tea. They own their own land and have tea licences permitting them to grow and pluck the green leaf, deliver it to buying stations run by KTDA Ltd. who act as managing agents to the smallholder tea sector.

The smallholders' social and welfare conditions are largely dependent on the ability to produce sufficient green leaf and be paid a reasonable price in return. Their net income is used for accommodation, water and electricity, primary health care and hospitals and subsidising primary education. Plantation company workers have these services included as part of their contracts. Further to these expenses, many smallholders are facing an extra burden for the increasing unemployment of their extended family and the devastating effects of HIV/AIDS.

Theoretically, the smallholder's income is derived from the following:

- The average base purchase price for a smallholders' crop of (2 leaves & a bud) green leaf is Ksh 7.50/kg.
- Average pick is 12kg per day creating an average of Ksh 90 per day.
- During the high season, a 'good 2 leaf & a bud' picker can pluck 40 kgs per day which means Ksh 300 per day.
- Twice a year they receive a 'bonus' lump sum, which can bring the amount up to Ksh 23+/kg.

However, interviews with smallholders suggest that their income is substantially reduced by the following direct and indirect factors:

- The buying station manager weighs the green leaf and makes mandatory deductions of up to 5 kgs from the amount. This is to account for the weight of the weighing bag. In random tests however, the weighing bag rarely weighed up to one kilo. A

plucker who brings 12 kilos of green leaf to the buying station will only be logged in and paid for 7 kilos. For a '36kg a-day-plucker' these deductions over a month could amount to a loss of income of up to 1470 Ksh a month.

- Monthly payments from the factory also have mandatory deductions for:
  - (i) Local government road and tea road cess maintenance, regardless whether any maintenance takes place
  - (ii) Fertilizer (often at above market prices)
- Income for the factory depends on it producing tea of the right quality and in economically viable quantities. Reduced production from lack of produce or power failures reduces the income that they can pass on to smallholders as bonuses.
- Due to the frequent failure of utilities, alternative sources of power and water are required, which increases production costs and again reduced smallholder bonuses.
- The use of wood in the factories has caused massive deforestation and aggravated the dry conditions and soil erosion, again reducing production ability and reduces smallholder bonuses.
- Lack of equipment maintenance and spare parts limits black tea production and revenue, which further reduces smallholder bonuses.
- The poor condition of the tea roads and trucks means that the green leaf sometimes does not even make it to the factory or partial loads are lost. As the tea is re-weighed at the factory, further deductions may be made from the monthly payments. In extreme cases, a whole load is lost between the buying station and factory reduces bonuses.

Poor management therefore affects the basic well-being of smallholders:

- Cash strapped producers often sell their fertilizer at the market at reduced prices to pay for immediate needs – medicines, education etc. However, this reduces production capacity.
- The poor road and truck maintenance means trucks are delayed for hours. As pluckers have to wait at some buying stations to load their own green leaf, this extends their working day from 8 to 14 hours or more. This has a knock on effect on the family, especially the children who are left to fend for themselves.
- There is limited finance to purchase protective clothing on the farms. Some pluckers wear gumboots, some still go bare foot. Very few have aprons to protect them from scratches; wounds usually go untreated due to lack of funds for dressings etc.
- Medical care is limited due to the lack of health centres in the rural areas, lack of money to pay for medical treatment and lack of availability of drugs. Thus, many smallholders are not working at their full capacity due to ill-health.
- Some pluckers can carry 40 kgs to the buying station, which can be over a kilometre away. The long term negative effects of this can substantially

reduce their productive working lives.

- Children who work in the field are not considered 'child labour'. Smallholders perceive it is their duty to share 'life skills' with their children and without their assistance they would be unable to bring in the required income to support them. As a general rule, in the plantation sector, the minimum age at which children work is at least 10 years for fieldwork with a minimum height of 5ft to enable them to cope with plucking; in addition, children should work voluntary and out of school time.
- There is a shortage of potable water and many go all day without refreshment.

Some smallholders sometimes employ pluckers, often migrant workers. Men, women and children are currently paid a flat rate of Ksh 3.65 per kilo of green leaf with no bonus, accommodation, land, health benefits, potable water, safety equipment or training. Whether or not smallholders as employers should be subject to ILO standards is an unresolved point worthy of further research.

In the smallholder tea sector, the environment is characterised by deforestation, exacerbated by the continual cultivation of land, the use of wood for the factory, exhaust fumes from trucks and the increased use of generators and coal at factories polluting green leaf.

## 6.0 The Indonesian Cocoa Sector

### 6.1 Introduction

This section outlines a number of key features of the Indonesian cocoa sector including;

- its dramatic expansion during the 1980s and 1990s,
- the nature and importance of land and labour inputs (6.2),
- a brief discussion of some of the key stakeholders in the sector (6.3),
- the nature of the marketing system (6.4)
- cocoa value chain (6.5).

The overview is completed by discussing a number of issues that impact on the well being of the smallholders in the value chain, including land rights, producers' associations and smallholder remuneration (6.6) and a few concluding comments (6.7).

The sector has grown dramatically over the past 25 years from negligible in the early 1970s to over 300,000 tonnes per year in the late 1990s. Indonesia is now the world's third largest producer after Côte d'Ivoire and Ghana. Smallholders dominate production and account for a growing proportion of output. The area planted to cocoa is in excess of 400,000 hectares. There are 250-300,000 smallholders, mostly in Sulawesi. Though cocoa is also grown in Kalimantan, Java and Sumatra. The estate sector, both public and private, accounted for 80% of production in 1980, but its share has declined to 20% (and continues to decline) due to the expansion of the smallholder section. Both private and public estates have suffered since the economic and

political crises since 1997 and their output is unstable and declining.

During the past decade output has been adversely affected by weather conditions including heavy rains, drought and El Niño induced weather patterns. However, the major factor affecting the expansion of production has been pests and disease, particularly the Pod Borer Moth. This was responsible for the decline of output during the 1930s and has accounted for varying amounts of production loss in several key growing areas recently, including Sulawesi. In the absence of suitable control methods, the Pod Borer has the potential to destroy the cocoa sector in Indonesia, and efforts are now being made to limit the damage caused by this pest.

## 6.2 Land and labour

### Land

Expansion of global cocoa production throughout 20th century has taken place predominantly in virgin or secondary forest areas and Indonesia is no exception. Smallholder expansion has taken place in under-populated areas, predominantly in Sulawesi as well as Kalimantan. Production is mostly on farms of 2-4 hectares and based on extensive rather than intensive methods. Access to land has been vital to expansion and a complex system of land rights exist, which is discussed later in Section 6.6.

Cocoa expansion in Indonesia cannot be understood without an understanding of the Bugis/Buginese ethnic group. They are renowned for fishing, maritime and trading activities but in southern Sulawesi have a long tradition of farming. Bugis are famous for their migratory tendencies as well as their strong ethnic identity and support networks. There exists a strong cohesive clientele system among the Bugis, which facilitated the expansion of cocoa production into new areas often hundreds of miles away from the original family home. The means by which land rights were acquired played a key role in cocoa expansion involving the Bugis. In addition to the Bugis, transmigrants from Bali have also played an important role.

### Labour

Labour inputs vary according to age of farm; thus during the establishment phase labour is needed throughout the year; once established but non-bearing, then labour inputs fall to 80-90 days per hectare; and when bearing fall even further to approximately 30 days per ha. Thus, a family with 2-4 productive members can look after 2-4 ha farm – perhaps with additional inputs when harvesting. Typically families grow cocoa in addition to other crops. Labour inputs are higher in Indonesia than West Africa because although there are peak and medium harvests, the rainfall patterns allow for harvesting throughout the year. However, as in West Africa, migrants have played a major role in Indonesian cocoa expansion.

It is useful to distinguish between cocoa growers and cocoa labourers. In Indonesia there are three main types of cocoa growers:

- i) Owner farmer – s/he farms their own land but in addition may use family labour and occasionally hired labour. Use of hired labour will depend on a range of factors including age, wealth, gender and labour availability.
- ii) Sharecroppers – farm another person's land for a share of the crop – normally 25% compared with a higher percentage in West Africa. However, unlike West Africa sharecroppers may move frequently. Balinese transmigrants are important sharecroppers and there has been a tendency for sharecropping arrangements to replace monthly contract labour. Sharecroppers are more likely to use family labour – including child labour – than owner farmers.
- iii) Farm manager – cultivate another's land, and in return is paid a wage or fee, or with a future share of the holding. On non-bearing farms, sharecropping is not feasible and therefore farm managers are common if the landowner does not farm the land. Managers may come from the local population or from the Balinese transmigrant communities.

Cocoa labourers therefore include an individuals own labour, family labour, wage labour and sharecropping-type arrangements. With regard to family labour, nuclear family labour is most common and the role of the extended family labour appears to be reducing and is increasingly being paid in cash rather than non-monetary means. Generally family labour can be used for any task. Young farmers are more likely to use family labour than older farmers. With regard to wage labour, there are a range of contracts including daily or monthly paid, payment for specific tasks, payment after the harvest. The use of wage labour appears to be growing and it tends to be used for discrete tasks (e.g. harvesting, weeding). It is usually wealthier owner-farmers, absentee owners and female owners that tend to employ wage labour. Sharecropper-type arrangements are generally used for maintenance of bearing farms.

Thus, the typical cocoa grower combines several roles – entrepreneur, employer and labourer. S/he is an entrepreneur in that land and labour are brought together along with other inputs to produce cocoa beans, which are marketed. S/he is an employer in that a range of different types of labour inputs can be used. Finally, s/he is a worker labouring on his/her own farm.

From the above it is apparent that a complex range of economic, social and cultural factors affect production. Some of the influences include ethnic origins, age, wealth, gender and price of cocoa.

## 6.3 Other sector stakeholders

Besides cocoa growers there are a number of other stakeholders groups in the Indonesia cocoa sector. These include:

**Collectors** – the marketing structure is highly fragmented with minimal government involvement. Smallholders have a variety of options when selling their crop. The most popular option is to sell wet beans to village collectors for cash immediately after harvest whom in turn sell on to middlemen. Normally there are several collectors and middlemen in each area and consequently strong competition exists. In contrast to growers in West Africa who ferment and dry their own cocoa, in Indonesia these processors are often left to collectors and middlemen. This leads to partially dried and fermented cocoa beans with resultant lower qualities and price.

**Middlemen/traders/exporters** – middlemen acquire beans from collectors, arrange the transportation to the exporters or to local grinders. Many of the internal traders are of Indonesian Chinese origin. Prior to the economic collapse in 1997 there were approximately 100 exporters but since then the number has reduced considerably. Now all the major exporters are foreign owned, each of which annually exports tens of thousand of tonnes of cocoa beans. Exporters buy primarily on a “back to back” basis from small village traders i.e. the buying and selling price are fixed simultaneously. As in the case of producers, exporters are exposed to large price risks and invariably need to hold stocks to meet forward physical commitments.

**Processors (grinders)** – in the late 1990s there were approximately 15 domestic processors, but only one processing facility in Sulawesi – owned by Mars. While domestic processing capacity is substantial it is considerably under-utilised and most cocoa is exported in dried bean form. The main market is North America, but processing facilities in Malaysia, Singapore and Brazil are also significant buyers of Indonesian beans.

Some of these facilities are owned by large international processing companies (e.g. ADM, Cargill and the Hosta Group).

**Associations** – in the past a major role has been played by the industry association, ASKINDO (the Indonesian Cocoa Association) which covers most aspects of the industry from production through to chocolate manufacture. Nevertheless, its role has been restricted to providing technical and market information to its members, co-ordinating government and research institution efforts, as well as educating and informing the industry. In the past few years, as both the estate sector has faced increased problems so the role of ASKINDO has diminished and it is seen as increasingly weak and ineffective. There are no effective growers associations in Indonesia, reasons for which are discussed in Section 6.6.

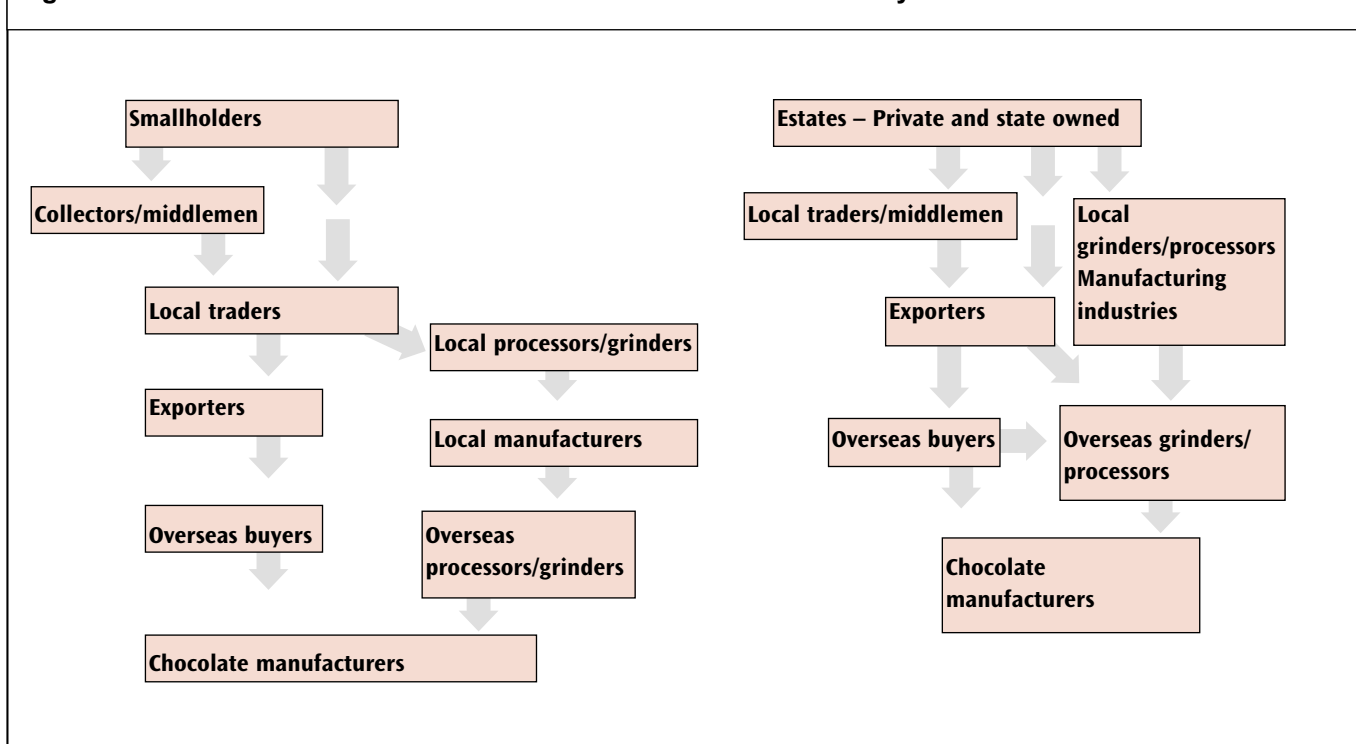
Unlike several other Indonesian commodity sectors, and in sharp contrast to Ghana and Côte d’Ivoire, the government’s involvement in the cocoa industry has been minimal.

#### 6.4 Marketing system

Minimal intervention combined with this country’s infrastructure, has created a highly efficient marketing system, making Indonesia the most competitive producing country in the world cocoa market.

The liberal export marketing policies of the Indonesian government have produced a very efficient marketing system, but there have been few incentives to improve the quality of cocoa exports in part because of the limited knowledge of many Indonesian middlemen with respect to cocoa handling, quality and storage. As a result, Indonesian beans invariably sell at a lower price

**Figure 4: Value Chain: The structure of the Indonesian cocoa industry**



to most beans from Ghana and Côte d'Ivoire. State run companies have proved to be less efficient than private companies, although they still appear to be commercially successful. Indonesian growers receive a high proportion of a free on board price, which is heavily discounted because of poor quality.

The marketing structure is highly fragmented with minimal government involvement. Smallholders face a variety of options when selling their crop. The most popular option is to sell wet beans to village collectors for cash immediately after harvest whom in turn sell on to middlemen. Normally there are several collectors and middlemen in each area and consequently strong competition exists. The middlemen, once they have acquired the beans, arrange the transportation to the exporters or to local grinders. In some areas, smallholders have the option of selling their beans to co-operatives or to estates, who in turn sell on to exporters or grinders, effectively missing out the intermediaries. In some instances they sell to domestic processors, although this is dependent on location. The village traders will sell "back to back" to exporters or domestic users. Most financing for growers comes from middlemen, who use credits from exporters to obtain cash to pay the farmers.

### 6.5 The cocoa value chain

Compared with other industries, such as horticulture, footwear, tea and many manufactured goods, there is a long and complex trading chain in the cocoa sector. The chain takes cocoa from predominantly smallholder producers in Third World countries to confectionery manufacturers in northern industrialised markets. Cocoa passes through a complex trading network involving a large number of intermediaries – collectors, traders, exporters, commodity exchanges, processors and manufacturers. In addition, others involved include freight companies, warehouse operations, banks and other financial intermediaries.

Cocoa beans are extracted from the pod on the farm, then processed into a number of products including cocoa liquor, butter, cake and powder. A growing proportion of this processing is taking place in cocoa bean producing countries by large international companies such as Cargill, ADM and Hosta. The various cocoa products are then used in the production of chocolate (by far the dominant use of cocoa beans), as well as drinks, biscuits, ice cream and other confectionery products, which invariably incorporate several other ingredients. Invariably the cost of the cocoa beans account for a small proportion of the final price. Manufacturing into final products frequently takes place in the country or region of consumption. There are a large number of companies involved – although a small number of well-known multinationals account for a large share of the market, particularly Nestlé, Mars, Hershey, Kraft Jacob Suchard and Cadbury Schweppes.

Thus, one of the key features of the chain is the growing dominance of international companies in international trading, processing and manufacturing activities. This can be particularly illustrated by cocoa trading in Indonesia, where until 1998 there were over 60 national traders with exporting operations in Makassar (Ujung Pandung), the largest exporting centre accounting for a large proportion of Indonesian cocoa bean exports. In 2000 only two Indonesian-owned companies remained in the export market, which is now dominated by eleven international trading companies. Nevertheless, even within the international trading arena there have been some spectacular collapses in recent years.

Another feature of the chain (unlike tea or horticulture products) are well-developed futures market institutions operating in several countries, but particularly in the USA and UK. These facilitate price discovery as well as enable market participants to manage price risks. Indonesian growers have almost immediate access to daily prices on the New York cocoa exchange which is the major futures market against which Indonesian cocoa prices are set and hedged. However, for a variety of reasons Indonesian growers and traders are unable to use futures and option markets to manage risk (e.g. difficulties in obtaining foreign credit lines to manage risk, restrictive local financial regulations, lack of understanding and experience of derivatives).

Another feature of the chain is that it is weakly integrated. Several factors can be cited for this, including:

- 1 A large number, of geographically spread smallholders dominate production, with no strong association to represent them.
- 2 There are many intermediaries involved in trading and processing; these are often fragmented with the result that few companies have regular contact with growers, other than pod counting. In Indonesia, as elsewhere, few national or international traders have long-term contracts with local traders (Mars are trying to develop these in Indonesia); few traders have supplying stations to buy directly from growers – although this may gradually change in order to improve quality.
- 3 Product provenance at the grower level is rarely an issue since Indonesia cocoa quality is relatively low and cocoa from different areas is often mixed together; this is in contrast to some other commodities (e.g. tea in Kenya) where provenance is more important.
- 4 There is a greater diversity of retailing outlets for the end product, and although multiple retailers are important they do not dominate confectionery in the same way that they dominate (say) fresh produce.
- 5 Processors can address many quality issues; food safety requirements are not a key issue at the grower level, although more stringent requirements regarding pesticide residues may change this.

### 6.6 Issues impacting on stakeholder well-being

To complete the overview, a number of issues are discussed which impact on the well being of the smallholders in the value chain. Following interviews with different types of farm-owner and worker, we have divided well being into the following broad categories (along with possible issues):

- **Governance**
  - Legal framework
  - Land tenure
  - Producers' associations
- **Good working practices**
  - Freedom from harassment– e.g. physical, ethnic and sexual
- **Health, safety, security**
  - Safe use of chemical inputs – pesticides
  - Access to health care
  - Security of tenure
- **Compensation**
  - Fair share of crop/export price
  - Timely payment
  - Competitive wage
  - Other inducements – ability to grow other crops
- **Investment in the future**
  - Access to loans to expand
  - Access to education

In the remainder of this section we discuss three of these issues, namely land rights, producers associations and smallholder remuneration

#### Land rights

Rights over land in Indonesia (as well as in West Africa) are invariably complex and created both opportunities and obstacles to migrants wishing to cultivate cocoa. Often

there are legal uncertainties over indigenous rights over the land. Migrants often used these uncertainties to establish individual rights over the land. This is achieved either by:

- i) Laying a claim to uncultivated land (normally forested land) – there may be traditional rights over the land but by clearing and planting the migrant is able to establish a claim with local authorities; or
- ii) Negotiating access with the traditional owner or custodian – once a migrant has been granted the right to use the land to grow crops, then this is often used as a basis for registering ownership with the local authorities.

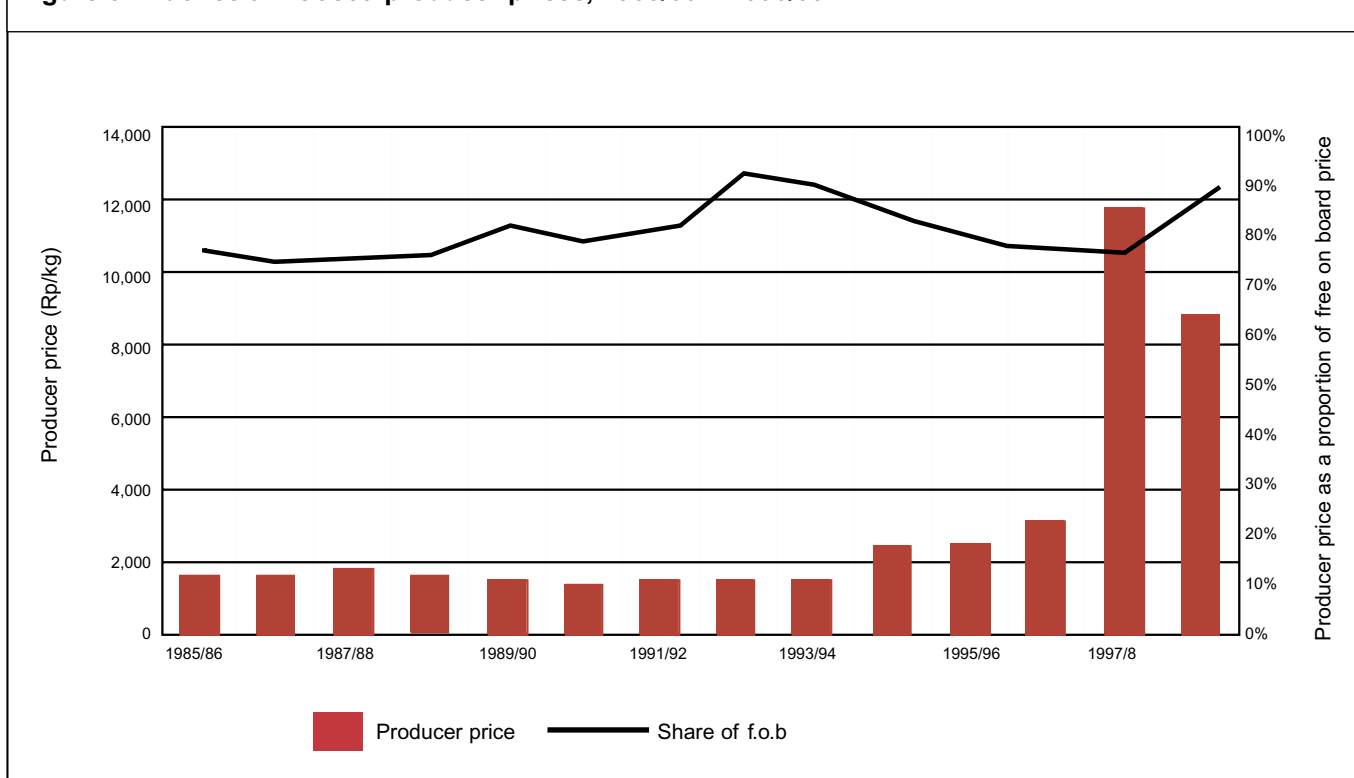
However, it should be noted that these rarely take the form of legal title; rather, the claim is recognised by payment of local taxes or some form of letter from the village or district head.

#### Producer associations

Producer groups are often seen as the means by which individual smallholders are able to increase their bargaining power and well-being e.g. input supply, co-ordinated marketing, facilitating access to credit etc. However, in Indonesia, in contrast to West Africa, there are very few co-operatives or farmers' groups. Reasons cited for this include:

- A distrust of co-operatives – partly because of their history of corruption and political control. Efforts are being made under the externally funded pod borer control programme to establish co-operatives, but there is some scepticism as to whether it will be successful.
- The Bugis prefer to mobilise the extended family network for trade rather than collaborating with neighbouring farmers.

Figure 5: Indonesia – Cocoa producer prices, 1985/86 – 1998/99



### Smallholder remuneration and risk

There is no doubt that the Indonesian smallholders receive a fair share of the export price (see Fig 5) – and this is obtained almost immediately after the harvest. This reflects the efficiency of the marketing chain and the availability of up-to-date market information. On occasions the smallholders share has been as high as at 80-85% of the free on board price. However, a more realistic figure is 65-75% of the New York auction price. This compares very favourably with the proportion received by West African cocoa producers. Moreover, the farm-gate price is significantly higher than the proportion of the free on board paid by cocoa buyers for “faired traded” cocoa in both Ecuador and West Africa (Collinson and Leon, 2000 and Oxford Policy Management 2000). In part, this is because of greater marketing efficiencies and lower taxation.

The Sulawesi cocoa chain is an example of successful free market capitalism. Growers capture a high share of the world price because of competition and access to market information. Moreover, despite the substantial decline in the number of traders they appear to have succeeded in maintaining a substantial share.

Prices to grower have shown considerable variation, in part reflecting trends in international prices. As Figure 5 illustrates the proportion of the export price received by growers has varied during the 1990s. Nevertheless, during the 1990s, with little government intervention in the marketing chain, grower prices have averaged over 70% of the export unit value. A 1996 World Bank study estimated that the growers share was close to 90% of the free on board price but this must have been fermented cocoa. (Akiyama et al 1996). LMC estimates the grower’s share is lower at around 78%. Marketing costs are relatively low, representing approximately 12% of the free on board price. Besides low marketing and distribution margins, other factors maintaining a high growers’ share are the good transport infrastructure and low taxes. The fall in the value of the rupiah since 1997 has raised grower prices in local currency terms and has increased demand from growers to be paid promptly in cash. Cocoa producers have benefited considerably from the steep domestic cocoa price hikes following the collapse of the currency.

The government share of the export value is very small since few taxes have been imposed on the cocoa sector. Since cocoa is considered a smallholder crop, there is no export tax, other than the small ASKINDO levy. Growers pay income tax and larger landowners pay a property tax. In 1995 the government did try to impose VAT and exporters were liable to pay the tax but cocoa was exempted within a few months.

### Economic risk

All cocoa producers, whether smallholders or plantations face considerable price risk throughout the growing and harvesting season. The vast majority of smallholders sell on a spot basis and are very exposed

to price fluctuations which can be considerable. For a variety of reasons, including scale of production, knowledge and financial constraints, they are not in a position to utilise risk management practices such as forward contracts, futures or PTBF contracts (Prices to Be Fixed). Trends in London and NY prices, as well as other price data, are generally available through the radio and ASKINDO, but are not always directly relevant since the differential between local prices and futures prices can vary.

The price risk faced by exporters is partly dependent on the relationship between the volume of their forward sales and their level of inventories. Exporters tend to hold stocks because of output fluctuations and the need to be able to meet potential or actual future sales. Exporters use both fixed priced and PTBF contracts for forward sales, which tend to be up to three months forward. Some of the larger exporters have built-up close relationships with large foreign trading houses – indeed some are subsidiaries. These larger and more sophisticated exporters use the London and NY futures markets to hedge their inventories. However, there can be considerable basis risk because local prices can move independently from prices in the NY and London market. While almost all exporters use either the NY or London markets for price reference – only a small proportion use the future markets for hedging purposes – and hence most exporters have to absorb any price risk. Among the factors leading to limited use are government restrictions of the use of external futures markets, foreign exchange risks and restrictions, language difficulties, problems of the time zone.

### Financial risk

Since late 1997 there has been considerable economic and financial uncertainty. The exchange rate has shown great volatility and the rupiah depreciated by 68% against the US dollar in the three months from November 1997. Since this time there has also been a severe recession with soaring inflation, rising unemployment and plummeting real incomes. Financial sector reform has been slow and many of the state owned banks are still technically insolvent.

The insolvency of the banks and high bank interest rates since the beginning of the financial crisis in late 1997 only indirectly affects cocoa farmers as the majority of smallholders do not use bank credit. For those who do, the interest rate for KUT (Farmers Effort Credit) has been lowered by the government below commercial rates. Farmers in some areas receive cash advances and other inputs from exporters and domestic processors in an effort to ensure a steady supply of consistent quality beans.

### 6.7 Some concluding comments

The nature of the cocoa value chain has a number of implications for the Indonesian cocoa sector. These include:

- The long and loosely integrated value chain means there is little traceability. At present, there is no

business incentive for knowing the district of origin of the cocoa bean. Compare this with (say) horticulture where traceability is required to meet European food safety laws. Similarly in tea, origin is important for blending and influences the price. However, this may change, as manufacturers/processors become more involved in the methods and working practices involved in cocoa production. In addition there is growing concern from consumers over the trading of these products.

- In cocoa, the relationship between the grower and trader is short-term and based on the spot price. There is little attempt to tie growers into longer-term relationships through credit and other inputs; growers often lack collateral in the form of clear legal title to land or other acceptable forms of guarantee. Certainly in Indonesia, there is distrust and short-term relationships exist throughout most of the value chain. Throughout the sector long-term relationships between players in the chain are often lacking and this in turn limits trust and stability – a feature which is certainly true in most producing countries.
- There is not the consistency of quality or reliability of volume to warrant building longer-term relationships. Moreover, in the Indonesian case, collectors' and traders' profit margins often depend on their ability to downgrade the quality of a sack of beans by introducing foreign matter and mixing beans of different quality.
- Quality is an important but complex issue. Many growers and intermediaries are lax about quality – and this is reflected in the discount that Indonesian cocoa receives on the world market. Some argue it would pay to try to improve quality at the smallholder level rather than at the processing stage. This is in stark contrast to the horticulture value chain where multiple retailers have actively sought to strengthen links with trading companies in order to enhance product quality, availability and innovation.

So, the existing cocoa value chain system does not provide a ready structure for managing social responsibility. No single powerful driver exists (compared to say retailers with regard to horticultural imports). Major confectionery companies come closest to it – so they are at risk from poor (or perceived) social performance (e.g. child slavery).

The challenge for the cocoa industry is two-fold:

- To identify what constitutes good social performance; one cannot just simply look at core labour values (although these are important). There is a need to widen the range of issues e.g. land, terms of trade.
- Can new ways of working within the chain be found in order to make responsibility a manageable dimension of business practice?

## 7 Workshops

### 7.1 Introduction

Following fieldwork in Kenya and Indonesia, workshops were held in Nairobi and London with a view to

presenting findings to date, exploring opportunities and creating awareness of the social dimensions affecting value chains.

Stakeholders' views as expressed in the workshops are summarised with recommendations for future action at the end of this section.

The workshops were primarily participatory and attended by a wide range of stakeholders in the tea and cocoa sectors.

A brief account of workshop proceedings is described below, followed by general conclusions.

### 7.2 Stakeholders workshop on socio-economic issues affecting the Kenya tea industry held in Nairobi on the 11th April 2001

#### Proceedings:

A full report on the proceedings of the workshop including presentations and a list of attendees is attached (see Annex 3).

The proceedings consisted of presentations, questions and discussions from the floor with individual presenters, and group discussions on specific themes.

The following presentations were given:

- “The theme of the workshop and its purpose and objective” – Duncan Burnett (NRI)
- “Good Safety is Good Business” – N.K.Kirui (Brooke Bond Kenya Limited)
- “A typical day in the life of a tea smallholder” – S. Kanyingi (tea farmer)

Three groups discussed the following topics:

- 1 The social dimension of the tea value chain:
  - Effect on cost of production/who pays for social and welfare improvements?/who influences behaviour along the value chain?/what is the effect of increasing social and welfare costs on the long-term sustainability of the Kenya tea industry?
- 2 International Codes of Conduct and their relevance to the tea industry:
  - Experience in other industries/what do such codes cover?/is an international code appropriate for the tea industry?/who would implement such a code?/who pays?
- 3 Tea smallholders:
  - Codes of conduct apply to employees not independent farmers/what criteria, if any, can be applied to ensure the social and welfare well being of smallholders?/should other stakeholders assume any responsibility for smallholders well being?

#### Nairobi conclusions:

There was a general consensus amongst participants on the following:

- The cost of complying with, and building on, legislation and union agreements regarding the improvement of social and welfare conditions in the Kenya tea industry falls largely on the producer.

- Those overseas tea buyers, such as the TSP, that have initiated social audit procedures also share some of the costs.
- All participants along the value chain including consumers should share the cost of improved social and environmental practices.
- Standards should be harmonised along the value chain.
- Ever increasing tea production costs without offsetting real price increases will endanger the long-term sustainability of the Kenya tea industry. Commercial companies may be forced to mechanise and possibly downsize their operations. Smallholders may be forced to investigate alternative sources of income generation.
- The introduction of an international code of conduct for the tea industry would have definite advantages as costs could be shared amongst all stakeholders to the benefit of the industry as a whole.
- Smallholders, account for over 60% of black tea produced in Kenya. Whilst legislation and union agreements are applicable to waged employees only the issue of improving tea smallholders social and welfare conditions are important to the long term sustainability of the Kenya tea industry. Criteria need to be established to monitor the well being of smallholders, however the fact that the potential for improving their social and welfare situations is largely dependent on the price that they receive for their green leaf was acknowledged.

- Do codes of conduct help smallholders and workers achieve their social and welfare wants?
- 3 Can national laws and/or international agreements on best practice be applied to smallholders as well as plantations?  
Smallholders own interests in complying/  
smallholders interests outside the current scope of law and standards/consequences of applying laws and standards to smallholders.
  - 4 Where do the business case and the development/humanitarian cases for social responsibility coincide?  
Examples of coincidence/priorities/whose priority should take precedence?
  - 5 Who can or should influence change?  
Key roles/industry wide issues versus unilateral issues/stumbling blocks along the value chain/the role of government/the impact of liberalisation.
  - 6 Can/should large companies help others?  
Can they act as a driver?  
What should be their role?/incentives and support to others/capacity building?

Conclusions reached at the London workshop are incorporated into the overall conclusions and recommendations in Section 8.0..

### **7.3 Stakeholders' workshop on the social dimensions of value chains in the cocoa and tea sectors held in London on 9th May 2001**

#### **Proceedings:**

The proceedings consisted of presentations, questions and discussion from the floor with individual presenters, and group discussion on specific themes. Emphasis was placed on smallholder issues in both sectors.

The following presentations were given:

- 1 "Value Chains" – Mick Blowfield (NRI)
- 2 "Social dimensions of production in the cocoa and tea sectors"  
"Cocoa" – Peter Greenhalgh (NRI)  
"Tea (general) and a report on the findings of the Nairobi tea workshop of 11/04/01" – Duncan Burnett (NRI)  
"Tea (smallholders)" – Ally Bedford

The proceedings of the workshop were primarily participatory and two groups were formed to discuss and report on the following issues:

- 1 What is the limit of responsibility?  
What are the priorities?  
At what stages along the chain do the industries have a responsibility?/priorities/wider stakeholders approaches rather than individual approaches.
- 2 Will social standards help, harm or be irrelevant to the poor?  
Examples/does mechanisation equal greater unemployment?



## SECTION THREE: Conclusions and recommendations

### 8.0 Conclusions and recommendations

#### 8.1 Introduction

In addition to conclusions drawn from field work in Indonesia and Kenya and the proceedings of the two workshops, this section also draws on the work of NRI's Natural Resources and Ethical Trade Programme (NRET) in various product sectors such as coffee, forest products, horticulture, wine and floriculture. The particular implications of managing responsibility in the cocoa and tea value chains are drawn out. This is followed by a discussion of how future action building on this increased understanding of the value chains might be evaluated. Finally recommendations are made with regard to future research and action.

#### 8.2 Managing responsibility in cocoa and tea value chains

##### The Challenge:

Managing social performance in value chains is an important part of corporate social responsibility. It allows companies to protect their reputations and ensure stable supply, while at the same time increasing benefits to producers in developing countries.

There is a growing body of knowledge on how to do this. However, most of the experience to date has been with relatively simple value chains in manufacturing and commercial agriculture. Is this experience transferable to other value chains such as cocoa or tea?

##### Where is the difference?

There are two key factors, which affect socially responsible value chains management in cocoa and tea: the important role of smallholders and the structure of the value chain.

Smallholder well being: Cocoa and tea are grown by both smallholders and plantations. Smallholders present particular problems for existing value chain management approaches. Their sheer number and geographical spread make existing social auditing techniques difficult and expensive. Also smallholders are simultaneously entrepreneurs, employers and labourers, which means current social benchmark standards are of limited relevance or even potentially damaging.

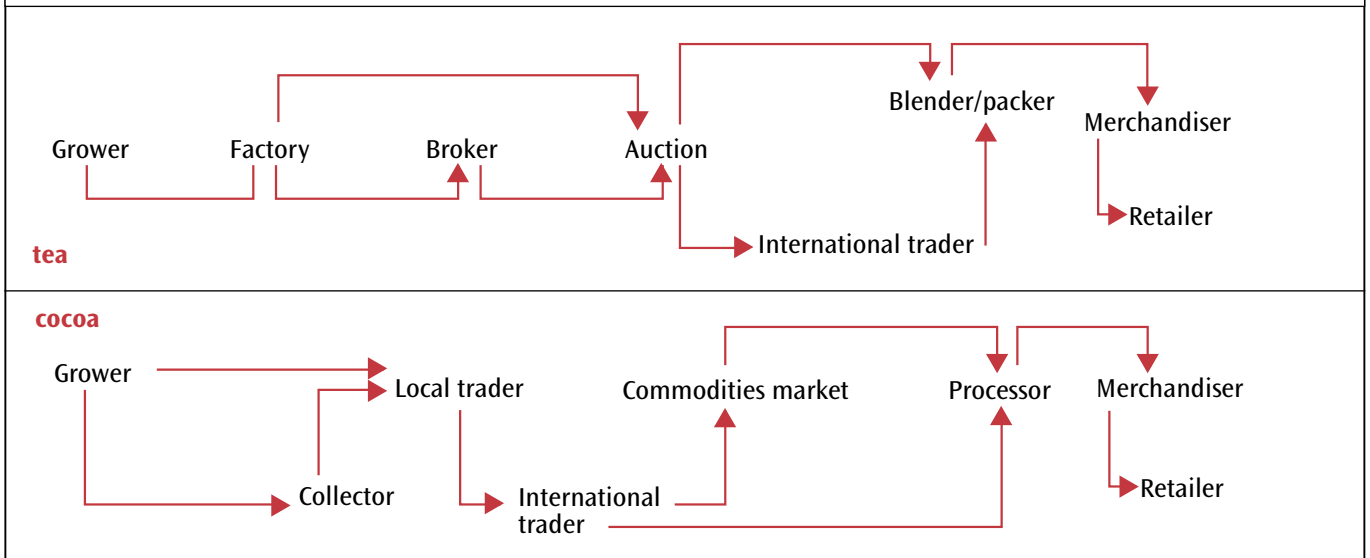
Take for instance a typical cocoa grower. As an entrepreneur, he or she is concerned about the cocoa price, access to markets and efficient support services. As an employer, he or she relies on adult and child family members and other labour, compensating them through wages, a share of farm revenue, the promise of land and numerous other means. And as a worker, the grower is employed on his/her farm and others' farms. Social responsibility means dealing with the grower's well being and expectations in all of these roles.

**Value chain structure:** Existing examples of socially responsible value chain management work where the following conditions are found:

<b>Short, integrated value chain</b>	<b>Narrow supply base</b>
<b>Small number of retailers account for large proportion of retail sales</b>	<b>Brand-owners have pre-existing business and legal reasons for working closely with traders and growers</b>
<b>Brand-owners / merchandisers have long-term agreements with traders</b>	<b>Traders have long-term relationships and possibly investments in growers</b>

Few of these conditions apply to cocoa and tea where the value chains are long and weakly integrated compared to many industries. The diagrams show that the trading system for both commodities is complex, with numerous intermediaries between the grower and the merchandiser or retailer. In tea, the importance of knowing product provenance plus a degree of common ownership of plantations, factories, blending and merchandising operations strengthens co-operation within the chain. In cocoa, product provenance at the grower level is rarely an issue, and trading and processing are fragmented with the result that few companies have regular contact with growers, and the existing trading system does not provide a ready structure for managing social responsibility.

**Figure 6: Tea and cocoa value chains**



**Implications for cocoa and tea industries**

There are two key elements to any effective social responsibility strategy: defining well-being, and managing the process of achieving and demonstrating that well-being.

Smallholder cocoa and tea requires rethinking accepted definitions of well-being. Core labour standards may be relevant to an extent, but they do not cover other major issues such as terms of trade, land and environmental management. Their criteria on issues such as child labour and freedom of association may also harm smallholders.

A social responsibility strategy for cocoa and tea would need to go beyond what is on offer today. It would need to recognise smallholders as entrepreneurs, employers and workers, and also recognise that different types of smallholder have different expectations or concerns (e.g. differences between male and female smallholders).

The strategy would also need to rethink the process of managing the chain. Examples from other industries assume there is a single powerful driver (e.g. retailers) that can influence others' behaviour, often building on the present structure of the chain. The powerful driver is largely missing in cocoa and tea despite the fact that high profile merchandisers are at risk from poor social performance. Equally, the long-term relationships between players in the chain are often lacking which in turn limits trust and stability.

For the cocoa and tea industries, the challenge is therefore not only to understand what constitutes good social performance, but also to find new ways of working within the chain in order to make responsibility a manageable dimension of business practice.

**8.3 Evaluating the performance of future action**

Therefore, the next steps in the process for ethical supply chain management for the tea and cocoa sectors largely revolve around developing a new action research agenda. Nevertheless, many businesses would find it very helpful to be presented with a set of indicators at this stage, against which to judge their performance. However, it is too early in the process to be specific about identifying indicators of performance.

First of all it is important to think through the responsibilities and objectives of the key players before thinking more about the criteria for progress and how to measure this progress (through indicators). It is useful to think of a plan for responsible supply chain management as a hierarchy of different elements, namely: objectives, principles, criteria, indicators and verifiers (see Figure 7). Indicators come further down a hierarchy and are best developed at a local level. There should be broad agreement amongst key players in the value chain at the level of principles or responsibilities and criteria before indicators are determined.

This model of internationally agreed Principles and Criteria followed by locally developed indicators and verifiers has been used by standards for responsible resource management such as the Forest Stewardship Council and is the basis for the COLEACP Harmonised Framework for codes of practice in export horticulture (Examples from these standards are given in Annex 5).

**Figure 7: Hierarchy of terms for measuring performance**

<b>OBJECTIVES</b>	Basic aims of the plan for responsible supply chain management e.g. to ensure the well-being of workers and smallholders
<b>PRINCIPLES</b>	Essential elements of the areas covered by the plan, which help to elaborate the meaning of Objectives. They can be expressed as aims or attitudes e.g. to protect workers' health and safety.
<b>CRITERIA</b>	Conditions that need to be met in order to adhere to a Principle, e.g. All staff have access to adequate health care.
<b>INDICATORS</b>	Measurable states which allow assessment of whether or not associated criteria are being met e.g. proportion of staff who can be attended to by trained medical staff within x hours of reporting sick.
<b>VERIFIERS</b>	Information or observation that will be used to demonstrate that the required state is being realised, e.g. records kept by the Health and Safety Officer, interviews with workers.

*Source: adapted from NRET 2001*

However, as an aid to further understanding of the challenges that lie ahead, some suggestions regarding criteria and indicators for the change in value chains for tea and cocoa are set out below.

This investigation has succeeded primarily in identifying the value chains in tea and cocoa and has elucidated the lack of 'ethical value' considerations along these chains. As the research included two separate commodities in two different countries within which several different systems operate, it is difficult at this stage to create one set of principles and criteria for responsible value chain management that encompasses them all. However, as a guideline, an attempt has been made to establish some basic principles and criteria, and indicative indicators that could be used in developing, future projects. They should of course be further defined once specific projects have been developed to address the failures and embed improved practices. The broad categories for the principles and criteria fall under are:

- Social
- Environmental
- Economic

In developing the framework, these broad areas need to be put into context of the stakeholders in the chain as well as the responsibilities and power they each have:

<b>Stakeholders</b> Smallholder & large scale producers Processors Traders Manufacturers Retailers Consumers	<b>Factors impacting well-being</b> Governance Good working practices Health, safety, security Compensation Environment Investment in the future
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Following on from these broad responsibilities and criteria, the indicators that are developed should:

- Be a direct and unambiguous measure of progress.
- Be relevant and reflect the value chain.
- Vary across stakeholders and groups over time and must be sensitive to changes in government policies and intuitions.
- Not be easily manipulated to show non-existing achievement.
- Be frequently available and not too costly to track.
- Have the flexibility to be segregated along gender and income levels.

Using the identified stakeholders, the drivers of change and the recognised factors of well-being, an initial framework with suggested indicators has been developed. Figure 8 makes some suggestions for the responsibilities of different stakeholders along the value chain. This corresponds to the 'principles' level in the hierarchy set out in Figure 7. Figure 9 focuses on one particular stakeholder group, smallholders in the tea sector, and identifies potential criteria and indicators following on from these responsibilities.

**Figure 8: Responsibilities**

Small holders Producers	Responsibilities	Criteria	Indicative indicators	Relevance of indicators
<b>Governance</b>	Best practice Rural participation & co-operation	Formation of farmer groups	Number of co-operatives Number of co-operative meetings Percentage of members attending meetings	Working together for the betterment of their industry Support for the co-operatives
<b>Sustainability</b>	Access to training & assistance to implement EMS	Rainfall indicates global warming Sustainable practices Soil degradation	Monthly Rainfall Deforestation/reforestation Fertilizer used	Smallholders maintaining eco-systems Smallholders maintaining eco-systems Smallholders maintaining eco-systems
<b>Health &amp; safety</b>	Access to training & assistance to implement H&S	Safety in the field	Numbers of accidents in the field Cause of accidents Work days lost through accidents	Well-being in the field
<b>Communication</b>	2-way information to enable self-determination	Security of produce marketing Capacity building towards best practice Access to information	Purchase contracts Extension workers communicates Extent of media coverage on produce prices	Ensuring income Undergo training Getting a fair price
<b>Compensation</b>	Fair & timely Remuneration & full transparency Development help	Compensation for effort	Monthly Poprt Price per kilo compared with amount received Cost of production inclusive of buyer deductions	Access to money to pay for family up-keep and well-being and childrens education
<b>Human resources</b>	Access to training & assistance to ensure fair conditions	Access to training for improved practices	Number of extension visits	Increased production and quality of produce

**Figure 9: Suggested criteria and indicators in respect of the responsibilities relating to smallholders**

Level	Governance	Sustainability	Health & Safety	Communication	Compensation	Human resources
<b>Smallholders Producers</b>	Best practice Rural participation & co-operation	Access to training & assistance to implement EMS	Access to training & assistance to implement H&S	2-way information to enable self-determination	Fair & timely remuneration & full transparency Development help	Access to training & assistance to ensure fair conditions
<b>Large scale producers</b>	Best practice Policy Full implementation	Develop EMS policy Train employees Full implementation	Develop HSS policy Train employees Full implementation	Develop communication and transparency Policy Full implementation	Fair & timely remuneration. Fair compensation to full implementation	Equal opps policy Training and development Full implementation
<b>Management eg KTDA</b>	Best practice Policy Full implementation	Develop EMS policy Train employees Full implementation	Develop HSS policy Train employees Full implementation	Develop communication and transparency Policy Full implementation	Fair & timely remuneration Policy Full implementation	Equal opps policy Training and development Full implementation
<b>Manufacturers &amp; processors</b>	Best practice Policy Full implementation	Develop EMS policy Train employees Full implementation	Develop HSS policy Train employees Full implementation	Develop communication and transparency Policy Full implementation	Fair & timely remuneration policy Full implementation	Equal opps policy Training and development Full implementation
<b>All employees of smallholders plantations, drivers, factories, shippers etc</b>	Unionable Diligent and compliant to contract & policies Ensure equal opps	Be aware of EMS policy Undergo training Be compliant to EMS policy	Be aware of HSS policy Undergo training Be compliant to HSS policy	Negotiation Report failures in policies Forums for improvements	Fair days work in return for fair days pay Respect, honesty & compliance to policies	Ensure equal opps policy Non discriminatory practices in work place Use training opportunities
<b>Traders inc petty traders &amp; auctioneers</b>	Fair trade policy Honour contracts Full implementation	Develop EMS policy Train employees Full implementation	Develop HSS policy Train employees Full implementation	Develop communication and transparency Policy Full implementation	Fair & timely remuneration policy Full implementation	Equal opps policy Training and development Full implementation
<b>Partners Transporters, blenders packers &amp; warehousing</b>	Give value, service & develop quality of service policy	Develop EMS policy Train employees Full implementation	Develop HSS policy Train employees Full implementation	Develop communication and transparency Policy Full implementation	Fair remuneration & fair tenders for contracts	Equal opps policy Training and development Full implementation
<b>Retailers</b>	Best practice Policy Full implementation	Develop EMS policy Train employees Full implementation	Develop HSS policy Train employees Full implementation	Develop communication and transparency Policy Full implementation	Fair & timely remuneration for goods & services Fair price to consumers	Equal opps policy Training and development Full implementation
<b>Governments National, state &amp; LGA's</b>	Ensure fair policies Provide infrastructure & safe & secure environment	Publicise gov. policy Encourage transparency Litigate non-compliance	Publicise gov. policy Encourage transparency Litigate non compliance	Publicise gov. policy Encourage transparency Litigate non compliance	Re-investment of Taxes & royalties to improve society	Publicise gov. policy Encourage transparency Litigate non compliance
<b>Consumers</b>	Ensure trade descriptions act Right to complain	Understand EMS policy Expose bad practice	Understand HSS Expose bad practice	Praise good practice Expose bad practice	Ensure value for money Expose poor quality	Praise good practice Expose bad practice
<b>Society</b>	Ensure good legislation Society participation and co-operation	Understand EMS policy Expose bad practice	Understand HSS Expose bad practice	Praise good practice Expose bad practice	Receive fair compensation for loss or damage Ensure access to new opps	Praise good practice Expose bad practice

### 8.4 Recommendations for future action

This initial research on value chains, while cataloguing various pertinent issues in value supply chains, has revealed some significant areas that need further in-depth study. It has opened the door to a host of new questions about the nature of governance along the cocoa and tea value chains; the need to identify drivers and the need to recognise the challenges presented by the role of smallholders in production and trade. Future research on cocoa and tea value chains is outlined above. This could be supported by DFID and the Resource Centre. These include:

- The importance of the smallholder producer to both the cocoa and tea industries requires that solutions and recommendations regarding the social and welfare conditions of the non-waged employee be further researched.
- Having highlighted some of the failures within the smallholder systems which perpetuate their poverty, it is pertinent that research is carried out to identify the ‘catalysts of change’, building indicators to be able to monitor future social, economic and environmental improvements. Moreover, a programme needs to be developed to address the catalysts of change that can make a positive impact on smallholders’ lives.

Ideas on a programme of action for the tea value chain are given in Figure 10. Similar exercises could be undertaken to identify both similarities and differences. The base frameworks of responsibility and indicators can be used to apply to other commodity areas and adapted to different approaches used in ethical supply chain management to international development goals. Obvious candidates include coffee and palm oil production, both of which are major commodities produced in developing countries involving large numbers of smallholder producers. Issues surrounding the monitoring and auditing of these sectors are of increasing interest to processors, manufacturers and consumers.

Whilst donors and NGOs can pursue these issues, future dialogue and research must involve retailers and consumer organisations to be meaningful. Hence any new research agenda should be preceded and complemented by dialogue on the outcomes from this research amongst the key players in the value chains. This dialogue should be carefully facilitated, to enable the identification of ‘catalysts of change’.

Change is unlikely to happen unless the drivers in the chain recognise and accept their responsibility. This could involve the Resource Centre and key players in the tea and cocoa value chains, particularly traders and exporters.

**Figure 10: Suggested project in the tea sectors**

Having defined the stakeholders within the chain and those that have the power and responsibility to make changes, it would be pertinent to develop means in which some of the anomalies can be addressed. From a *sustainable livelihoods* perspective, it is recommended that one starts with developing pilot projects that address the myriad of constraints within smallholder production as described in the stakeholder profiles (see Annex 4), namely:

- lack of infrastructure
- lack of access to credit for investment into improved practices
- lack of access to adequate transport
- lack of information on produce prices
- lack of timely payment for their produce
- lack of wherewithal to change unsustainable practices
- lack of capacity building to improve quality and quantity of produce
- lack of health and education facilities
- lack of security on land tenure
- lack of personal security
- lack of power to prevent unethical trading practices

This requires pin-pointing the structures which cause the failures at various levels and finding the catalyst which would drive change:

- government – national, regional and local
- private sector – processors, transporters, traders, shippers, manufacturers and retailers
- smallholders – across gender, age, ethnic groupings and their own labourers

#### Action plan

##### Develop Pilot Projects

###### Part 1

- Further research to identify the various stakeholder powers and the catalysts and drivers of change
- Establish relationships with those groups and other agencies that can be embraced in the process of change
- Choose pilot projects areas and ensure ownership of the change process,
- Create monitoring mechanisms to track impact and effect improvements in the change process.

###### Part 2

- Having established the above, define specific terms of reference for each pilot project and achievable objectives within the smallholder context. i.e. addressing the anomalies such as smallholders being employees of migrant labour, without the financial resources to comply with ILO standards and conditions of employment, the use of child family members in the production process etc.
- Develop a project team that has the capacity to work at government, private sector, agency and smallholder levels.

###### Implementation

##### Begin the pilot projects

- Monitor progress, obstacles and develop continuous improvement mechanisms.
- Review of project success and extend the projects to other areas, other commodities and other supply chains.



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## Acknowledgements

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Many individuals, companies and associations, too numerous to mention by name, assisted in the preparation of this study. The authors, while thanking them for their invaluable assistance, bear full responsibility for the contents of this study.

# Annex 1 Tea Sourcing Partnership questionnaire

*reproduced*

Please complete this questionnaire and return to: Julie Winters – Tea Sourcing Partnership 432 Godstone Road Whyteleafe Surrey CR3 0BB UK Tel: + 00 44 1883 627615 Fax: + 00 44 1293 648932

**DECLARATION:**

I declare that this form has been completed to the best of my knowledge and the information contained therein is accurate and that I am authorised to sign on their behalf.

Signature:

Name in CAPITALS:

Job Position:

Date:

Name and Address of Holding Company:

Telephone:

Facsimile No:

For each factory please show:

- selling marks produced by that factory
- estates providing green leaf to that factory

Factory	Selling marks produced at factory	Estate providing green leaf to this factory
<b>EXAMPLE:</b>		
Factory "A"	Mark X	Estate "1"
	Mark Y	Estate "2"
	Mark Z	
Factory "B"	Mark G	Estate "1"
	Mark H	Estate "3"

*Please use additional sheets if necessary*

**GENERAL – EMPLOYMENT**

How many workers do you employ?

	Permanent	Part-time	Temporary
Estate Name: (please list names with numbers alongside)			
Factory Name: (please list names with numbers alongside)			

**1. TERMS AND CONDITIONS OF EMPLOYMENT**

1.1 What is the minimum age of employees on your factory/estate? (Ref Page 24, Section 4 Legislation)

1.2 What are the minimum wages you pay employees? (Ref Page 25 , Section 4 Legislation – see also Appendixes on pages 48-50)

1.3 What is your Equal Opportunities policy? (Ref Page 26 , Section 4 Legislation)

1.4 What Pension/Provident fund facilities do you have? (Ref Page 26 , Section 4 Legislation)

1.5 What age do you allow your employees to retire? (Ref Page 26 , Section 4 Legislation)

1.6 What annual leave do your staff take? (Ref Page 27 , Section 4 Legislation)

1.7 What provisions do you have for Transport Annual Leave? (Ref Page 28, Section 4 legislation)

1.8 What other types of leave, ie special/compassionate leave do you have? (Ref Page 29, Section 4 Legislation)

1.9 What hours do your employees normally work? Please detail if there are any exceptions, ie those for graded and daily rated staff. (Ref Page 30, Section 4 Legislation)

1.10 What overtime arrangements do you have in place including those for Graded and Daily Rated Staff? (Ref Page 31, Section 4 Legislation)

1.11 What sickness benefit do you provide for ordinary sick leave? (Ref Page 32, Section 4 Legislation)

1.12 What sickness benefit do you provide for industrial sickness? (Ref Page 33, Section 4 Legislation)

1.13 What arrangements have you in place for transporting employees to hospital? (Ref Page 34, Section 4 Legislation)

1.14 What assistance/service do you provide for employees who die in service? (Ref Page 34, Section 4 Legislation)

---

1.15 What happens on termination of contract? (Ref Page 35, Section 4 Legislation)

---

1.16 What “summary dismissal” procedures do you have in place?(Ref Page 36, Section 4 Legislation)

---

1.17 What disciplinary procedures do you have in place? (Ref Page 37, Section 4 Legislation)

---

1.18 What redundancy procedures do you have? (Ref Page 38, Section 4 Legislation)

---

1.19 What probationary periods do you have? (Ref Page 39, Section 4 Legislation)

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1.20 What food provisions do you supply to staff? (Ref Page 39, Section 4 Legislation)

---

## **2) EDUCATION**

Children in Kenya are entitled to education by the State at Primary level – generally up to the age of 12. Secondary level is up to the individual and we understand that there are no laws/local legislation or Union agreements that specify the need for producers to provide educational facilities.

## **3) MATERNITY**

3.1 How long does a woman need to be in your employ to qualify for maternity leave? (Ref Page 41, Section 4 Legislation)

---

3.2 What is the duration of leave offered to expectant mothers? (Ref Page 41, Section 4 Legislation)

---

3.3 Please detail nursing breaks provided for new mothers? (Ref Page 41, Section 4 Legislation)

---

3.4 Please detail provisions offered to expectant/nursing mothers in relation to lighter duties (Ref Page 42, Section 4 Legislation)

---

3.5 What protection do you offer expectant mothers? (Ref Page 42, Section 4 Legislation)

---

3.6 Please detail overtime requirements for mothers of young children (Ref Page 42, Section 4 Legislation – see also 24)

---

3.7 Please detail termination of services as a result of pregnancy (Ref Page 42, Section 4 Legislation)

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## **4) HEALTH & SAFETY**

4.1 What facilities do you provide for drinking water both on factory/estate and housing areas? (Ref Page 43, Section 4 Legislation)

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4.2 Please detail your provisions of latrines for staff. (Ref Page 43, Section 4 Legislation)

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4.3 Please detail the provision of dustbins for staff use. (Ref Page 45, Section 4 Legislation)

---

4.4 Please detail procedures involved for disposal of refuse (Ref Page 45, Section 4 Legislation)

---

4.5 Please provide details of sweepers (Ref Page 45, Section 4 Legislation)

---

4.6 Please detail drainage facilities (Ref Page 45, Section 4 Legislation)

---

4.7 Please detail quantities of first-aid boxes/cupboards for employees (Ref Page 45, Section 4 Legislation)

---

4.8 Please detail the type of protective clothing issued to employees by category ie pluckers/fundimates etc (Ref Page 46, Section 4 Legislation)

---

**5. HOUSING**

5.1 Please detail housing accommodation for employees. If this is not offered, please detail housing allowances (Ref Page 47, Section 4 Legislation)

---

5.2 What options do you have in place to provide housing assistance? (Ref Page 47, Section 4 Legislation)

---

5.3 How is housing allocated? Please detail (Ref Page 47, Section 4 Legislation)

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5.4 Please detail “vacation of quarters” procedures in place and how they apply. (Ref Page 47, Section 4 Legislation)

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# **Annex 2** Collective Bargaining Agreement

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## **COLLECTIVE AGREEMENT BETWEEN THE KENYA TEA GROWERS' ASSOCIATION AND THE KENYA PLANTATION AND AGRICULTURAL WORKERS' UNION IN RESPECT OF UNIONSABLE TEA EMPLOYEES**

**JANUARY 1998 – DECEMBER 1999**

**DATED THIS 30TH DAY OF OCTOBER 1998**

### **INDEX TO UNIONSABLE TEA EMPLOYEES**

1. Rates of Pay
2. Method of Payment
3. Type of Contract
4. Hours of Work
5. Overtime
6. Agreed Gazetted Public Holidays
7. Annual Leave
8. Transport Annual Leave
9. Special or Compassionate Leave
10. Maternity Leave and Benefits
11. Medical Treatment and Sick Leave
12. Transport to Hospital
13. Subsistence Allowance
14. Acting Allowance
15. Housing
16. Vacation of Quarters
17. Probation
18. Transfers
19. Seasonal Employment
20. Protective Clothing
21. Employment Policy
22. Warning System
23. Termination of Contract
24. Summary Dismissal
25. Redundancy
26. Land for Cultivation
27. Task Marking
28. Inability to pay negotiated Wages
29. Retirement Age
30. Provident Fund
31. Gratuity
32. Effective Date
33. Duration of the Agreement

Appendix "A" Graded staff

Appendix "B" Ungraded staff

### **UNIONSABLE TEA EMPLOYEES, 1998-1999**

MEMORANDUM OF AGREEMENT REACHED BETWEEN THE KENYA TEA GROWERS' ASSOCIATION AND THE KEYA PLANTATION & AGRICULTURAL WORKERS' UNION IN RESPECT OF THE WAGES AND TERMS AND CONDITIONS IN REGARD RO UNIONSABLE EMPLOYEES

## 1. RATES OF PAY

- a) Graded Staff:  
It was agreed that all scales as shown in the Appendix "A" attached to this Agreement shall operate with effect from the date of  
On the effective date, 1st January, 1998, employees will be placed on the scales as agreed upon by the Union and the Association.
- b) Daily Rated Employees:  
The rates of pay shall be daily rates and shall be those shown in Appendix "B" attached to his agreement
- c) Plucking Rates:  
The rates per Kg. Of green leaf plucked accepted by Management to be paid to workers employed on plucking duties are as shown in the attached Appendix "B".  
Where there is insufficient leaf offering in the opinion of Management to enable a worker who is engaged on plucking duties to earn the minimum daily rates for a field worker, he shall be paid not less than the daily rate applicable to the tea industry, provided that all the leaf available shall be plucked and bushes maintained to the satisfaction of Management.

## 2. METHOD OF PAYMENT:

- a) Wages shall be payable at the end of each month. In case of daily rated employees this shall be assessed on appropriate rate multiplied by a number of days worked by the employee.  
Advance on pay shall be given once a month.
- b) Subject to the provisions of the Employment Act, the entire amount of the Wages earned by or payable to an employee in respect of work done by him in pursuance of a contract of service shall be paid to him directly in the currency of Kenya.  
  
Provided that if an employee so requests in writing, or if provisions of any agreement made between the Kenya Tea Growers' Association and the Kenya Plantation & Agricultural Workers' Union which relates to terms and conditions of employment applicable to him so provide, payment may be made:-  
(i) Into account at a bank, or building society, in his name whether alone or jointly with any other individual; or  
(ii) By cheque, postal order or money order; or  
(iii) In the absence of the employee, to a person other than the employee, if such a person is duly authorised by him in writing to receive such wages on his behalf.
- c) Payment of wages shall be made on a working day, and during working hours or near to the place of employment or at such other place as may be agreed to between the employer and the employee
- d) Payment of Wages shall not be made in any place whatsoever wherein intoxicating liquor is sold or readily available for supply, except in the case of employees employed to work therein.
- e) No person shall give or promise to any individual any advance of money or any valuable consideration upon a condition expressed or implied that such individual or any dependent of his shall enter upon employment.
- f) If in a contract of service of Collective Agreement, provision is made for the payment of any such allowance in kind to an employee with his consent, such payment may, with such consent be made if, the allowance:-  
(i) is for personal use and benefit of the employee himself; and  
(ii) does not consist of or include any intoxicating spirit or noxious drug.
- g) Notwithstanding the provisions of any Law for the time being in force, whenever any attachment has been issued against the property of an employer in execution of any decree against him, the proceeds realised in pursuance of such execution shall not be paid by the Court to any decree-holder until any decree obtained against such employer in respect of the wages of his employees has been satisfied to the extent of a sum not exceeding four months' wages of such employees:-

Provided that nothing in this sub-section shall prevent employee from recovering any balance due on such last mentioned decree

after such satisfaction as aforesaid, by ordinary process of Law.

- h) If any employer advances to any employee a sum in excess of the amount of one month's wages of such employee or, in the case of an employee employed under a written contract of service, a sum in excess of the amount of two months' wages of such employee such excess shall not be recoverable in any Court of Law.
- i) No wages shall be payable to any employee in respect of any period during which he is absent from work without permission or serving a sentence of imprisonment imposed under any law.
- j) Where an employee is summarily dismissed for lawful cause, he shall be paid on dismissal all moneys, allowances and benefits due to him up to the date of his dismissal.
- k) An employer may deduct from the wages of his employees:-  
(i) any amount due from the employee as a contribution to any provident or superannuation scheme or any other scheme approved by the Labour Commissioner to which the employee has agreed to contribute;  
(ii) a reasonable amount for any damage done to, or loss of any property lawfully in the possession or custody of the employer occasioned by the willful default of the employee;  
(iii) an amount not exceeding one day's wages in respect of each working day for the whole of which the employee, without leave or other lawful cause, absent himself from the premises of the employer or other place proper and appointed for the performance of his work;  
(iv) an amount equal to the amount of any shortage of money arising through the negligence or dishonesty of the employee whose contract of service provides specifically for his being entrusted with the receipt, custody and payment of money;  
(v) any amount paid to the employee in error as wages in excess of the amount of wages due to him;  
(vi) any amount the deduction of which is authorised by written law for the time being in force;  
(vii) any amount in which the employer has no beneficial interest whether direct or indirect, and which the employee has requested the employer in writing to deduct from his wages;  
(viii) an amount due and payable by the employee under and in accordance with the terms of an agreement in writing, by way of repayment or part repayment of a loan of money made to him by the employer, not exceeding 50% of the wages of such employee after the deduction of all such other amounts as may be due from him under this section;  
(ix) Such other amounts as the Minister may prescribe.

## 3. TYPE OF CONTRACT

- a) The contract shall be construed to be a monthly contract except as qualified in clause 2(a).
- b) Every employer in the tea industry shall keep a written record of all employees employed by him with whom he has entered into contracts under the Employment Act, which shall contain such particulars as may be prescribed, and such employer shall permit such a record to be examined by any authorised officer who may require an employer to produce for inspection such record for any period relating to the preceding twelve months.
- c) Every employee shall be given a certificate of service by his employer upon the termination of his employment, unless such employment has continued for a period of less than four consecutive weeks, and every such certificate shall contain:-  
i) the name of the employer and his postal address  
ii) the name of the employee  
iii) the date when the employment commenced  
iv) the nature and usual place of employment  
v) the date when employment ceased and  
vi) such other particulars as may be prescribed.
- d) Subject to subsection (c) of this section no employer is bound to give any employee any testimonial, reference or certificate relating to the character or performance of any employee.
- e) After completion of the probation period, every employee shall be issued with a letter of appointment.

#### 4. HOURS OF WORK

- i) Graded Staff : The normal hours of work for both Factory and Field Workers shall be:-  
8 hours per day for five days, and 5? hours on the sixth day each week. It is further agreed no employee shall be penalised for not working full daily hours due to completion of his allotted task earlier than the daily hours required.
- ii) a) Daily Rated Employees:  
The normal working week for field workers in Keicho, Nandi Hills and Sotik Branches, excluding those employed on plucking duties, shall be 39 hours to be performed on 6 days of 6? hours.
- Provided where field worker has completed his allocated task he shall be permitted to leave his place o duty after the task has been inspected and passed tot he satisfaction of management.
- b) Hours of work for pluckers in all Branches shall be guided by the amount of crop offering. They will normally be 8 hours a day except in peak periods of crop when they may be required to work up to 4.00pm and thereafter at their own free will. It is agreed by both parties that no employee will be forced to work after 4.00pm.
- c) For all other workers, the full normal working week shall be 46 hours on five days of 8 hours per day and 6 hours on the sixth day.
- d) Hours of work for Watchmen guarding the essential installations such as Offices, Factories, and Stores shall be 46 hours per week to be performed on five days of 8 hours per day and 6 hours on the sixth day. Hours for Watchmen on non-essential installations such as bungalows and Nurseries will be 54 hours per week to be performed on 6 days of 9 hours per day.
- e) In the case of the Limuru Branch, the normal working week for Field Workers, excluding those employed on plucking duties shall be 46 hours per week.
- f) Notwithstanding the previous provisions of this paragraph every employee shall be entitled to not less than one rest day in each period of seven days.
- g) An employee who is stopped from working by his employer for any reason other than the termination of his employment or dismissal shall be deemed to have worked as if the stoppage had not occurred and be paid for it in full notwithstanding the fact that the stoppage was occasioned by a breakdown of the plant or inclement weather conditions

#### 5. OVERTIME

- a) Overtime shall be at the discretion of Management and every employee shall be expected to work overtime when called upon to do so by the Management.
- b) Overtime rates shall be calculated upon the basic hourly rate of the employee so entitled.
- c) Any Overtime shall be paid for as under:-  
At 1? times the basic hourly rate for any ordinary overtime and two times the basic hourly rate for work carried out on agreed Gazetted Public Holidays and all rest days.
- d) Ordinary Overtime Graded Staff: Ordinary overtime shall mean work done in excess of 8 hours in any 5 days of the week and in excess of 5? hours on the sixth day by the graded staff.
- e) Ordinary Overtime Daily Rated: Ordinary Overtime shall mean work done in excess of 5 ? hours on the sixth day by the graded staff.
- f) Ordinary Overtime Daily Rated: Ordinary Overtime shall mean work done in excess of 8 hours in any 5 days of the week and in excess of 6 hours on the sixth day.

#### 6. AGREED GAZETTED PUBLIC HOLIDAYS

- a) Leave with full pay shall be granted to all employees on the following Public Holidays:-
- |                |               |
|----------------|---------------|
| New Year's Day | Moi Day       |
| Good Friday    | Kenyatta Day  |
| Easter Monday  | Lamburi Day   |
| Labour Day     | Christmas Day |
| Madaraka Day   | Boxing Day    |
| Idd-UI-Fitr    |               |

- b) Any employee required to work on any of the above days shall be paid in accordance with clause 5 (c ) above.
- c) Provided that Stockmen, Herdsmen and Watchmen shall be paid in respect of any time so worked at two times the basic hourly rate.
- d) It is agreed that any other day declared by the Government as a Public Holiday shall be observed as a Public Holiday and any employee who is required to work on such a day will be paid overtime in accordance with clause 5(c ) above.

#### 7. ANNUAL LEAVE

- a) (i) Employees with one to three years' continuous service shall be entitled to 24 working days leave with full pay after twelve months' continuous service. Employees with over three years continuous service shall be entitled to 25 working days' leave.
- ii) Where employment is terminated by either Party after completion of two or more consecutive months of service during any twelve months' leave-earning period, an employee shall be entitled to not less than one and Three quarters days leave with full pay, in respect of each completed month of service in such period to be taken consecutively.
- iii) The Leave referred to in subsection (a) (i) of this section shall be additional to all Public Holidays, weekly rest days and sick leave, whether fixed by the Law or Agreement, in respect of which an employee is not required to work.
- iv) For the purpose of this section "Full Pay" includes Wages and salary at the basic rate excluding any legal deductions from Wages.
- b) Employees who are prevented from acquiring permanent employment status solely by reasons f physical disability as decided by a Medical Practitioner shall be entitled to leave as in sub-section 1 (a) of this section.
- c) Annual leave shall not be cumulative.
- d) An employee and his employers may consort to alter on which leave due may be taken depending upon circumstances pertaining at the time.
- e) If, at the request of the employer an employee is required to work an entire calendar year without leave, the employee shall be paid the normal leave due in addition to his wages but shall forfeit such leave.
- f) Where an employee's present entitlement is in excess of that agreed he shall retain his existing entitlement.
- g) The absence of an employee from duty on certified sick leave as provided under Clause 10 of this agreement shall not disqualify him for annual leave entitlement.

#### 8. TRANSPORT ANNUAL LEAVE:

- a) An employee proceeding on authorised annual leave shall be entitled to the return bus/train/matatu fare according to the distance covered as shown under (b) for himself/herself, one spouse if residing with him/her on the Estate to his/her registered home address within the territorial boundaries of Kenya.
- b) It is agreed that one way fee shall be paid to the employee proceeding on leave on pay day together with wages before he/she commences his/her leave and return fare to be paid on his/her return.
- b) Employees who have completed more than three years' service will be entitled to half fare or two children up to the age of 16 years of residing with him/her on the Estate.

Single Rates:

0	-	30 Kms	-	Kshs.	67/-
31	-	60 Kms	-	Kshs.	100/-
61	-	90 Kms	-	Kshs.	142/-
91	-	120Kms	-	Kshs.	165/-
121	-	150Kms	-	Kshs.	209/-
151	-	180Kms	-	Kshs.	225/-
181	-	210Kms	-	Kshs.	261/-
211	-	260Kms	-	Kshs.	308/-
261	-	316Kms	-	Kshs.	339/-
311	-	360Kms	-	Kshs.	389/-
361	-	410Kms	-	Kshs.	434/-
411	-	460Kms	-	Kshs.	489/-
461	-	510Kms	-	Kshs.	569/-
511	-	560Kms	-	Kshs.	634/-
561	-	610Kms	-	Kshs.	843/-
611	-	and over	-	Kshs.	1053/-

**9. SPECIAL OR COMPASSIONATE LEAVE**

- a) An employee could be granted special or compassionate leave and may be granted an advance of pay equivalent to the number of days worked and not paid during his contract.
- b) Compassionate leave shall not be unreasonably refused and may by prior arrangement by the employee with the employer be treated as paid leave and subsequently set off against the employee's annual leave.
- c) The employer may grant shopstewards and Union Members paid leave while they are attending or handling disputes affecting the employer and the employees provided that prior permission is obtained from the management.
- d) The employer shall grant shopstewards and Union Members paid leave while they are attending or handling disputes affecting the employer and the employees provided that prior permission is obtained from the management.

**10. MATERNITY LEAVE AND BENEFITS**

- a) Subject to Clause 17 of this Agreement, women employees shall be entitled to two months' Maternity leave with full pay. Provided that a woman who has taken two months' maternity leave shall forfeit her annual leave in that year. Such leave to be taken immediately before and immediately after childbirth at the request of the female employee. Taking of such leave shall in no way interfere with the qualifying period for long service privileges.
- b) Nursing Breaks: Where women wished to have nursing breaks she would be allowed up to and including two per day, provided that the task set her was completed to the satisfaction of Management.
- c) Light work for expectant and nursing mothers and lay off: Expectant and nursing mothers shall not be employed on work which, in the opinion of a Medical Practitioner, or the practitioner employed at the Pre-natal advice centre, could endanger the life or health of the mother and/or child. If an expectant or nursing mother, could not, on medical advice be employed at her normal work, an endeavor would be made to give her lighter and more suitable work. If, however, no alternative work offering, and in consequence the employee was laid off, such employee would not be dismissed for that reason. Any alternative work to be reimbursed at the agreed rates, and the employee would not lose any privileges by virtue of her transfer to such alternative work.
- d) Protection of Expectant mothers: The protection of expectant mothers, shall be maintained for the entire period of pregnancy and such expectant mother shall not be required to work overtime, or during the hours of darkness except on a voluntary basis.
- e) Care of Infants: Women who have children under four years of age in their household or who have to care for an infant in their household needing special attention, and who do not have sufficient help shall not be required to work overtime at night.

- f) Termination of Services because of Pregnancy: The Employer shall not give notice of termination of service to an expectant or nursing mother, for reasons of pregnancy.
- g) Women employees who have children under the age of four shall be granted leave with pay in the case of the child falling sick and being referred to or admitted in a hospital subject to the approval of a Company Medical Officer or other authorised Medical Practitioner.
- h) Annual Leave: A woman who has taken two months' maternity leave shall forfeit her annual leave in that year. However, such an employee shall be entitled to leave traveling allowance at the appropriate rate as specified under Clause 8 of this Agreement.

**11. MEDICAL TREATMENT AND SICK LEAVE:**

- a) Ordinary Sickness:  
On completion of the probationary period an employee shall be eligible for sick leave up to a maximum of 48 days on full pa, and 60 days on half pay in each period of 12 months' continuous service, subject to the production of a Medical Certificate from a competent authority as under:-
  - i) Where a Medical Officer is employed he shall be made authority to authorise sick pay.
  - ii) Where a Medical Officer is employed then the above authority shall be delegated to the Estate Dresser without fear of victimization.
  - iii) Where there is no Estate dresser then the Local Government Hospital or Dispensary shall be the authority.
- b) An employee, who in the opinion of the Medical Practitioner, is considered to be unproductive through reasons of ill health may be retired by the employer and the Union agrees that such retirement shall act as subject of a dispute.
- c) Industrial Sickness:  
It is agreed that the conditions of Workmen's Compensation Act shall apply.
- d) Every employer shall ensure that provision for his employees of proper medicines, and (if possible), medical attendance during serious illness, and shall take all reasonable steps to ensure that such illness was so brought to his notice so that it would have been unreasonable in all the circumstances of the case, to have required him to know that such employee was ill.
- e) It shall be a decision to the prosecution for an offence under (d) above that if the employer shows that he did not know that the employee was ill and that he took all reasonable steps to ensure that such illness was so brought to his notice or that it would have been unreasonable in all the circumstances of the case, to have required him to know that such employee was ill.
- f) When the death of an employee from any cause whatsoever is brought to the notice or comes to the knowledge of his employer, the employer shall, as soon as practicable thereafter, give notice thereof in the prescribed form to the Labour Officer, if there is no Labour Officer, to the District Commissioner of the District in which the employee was employed.
- g) In case of death of an employee who has completed probationary period on a Member Estate, the employer will provide a coffin and pay towards transport in respect of the said employee or spouse a sum of Kshs. 12,500/-.
- h) The employer shall pay to the Labour Officer or District Commissioner, as the case may be, all wages due to the employee at the date of his death, and shall deliver to him all property belonging to the deceased employee for transmission to the person legally entitled thereto.
- i) Should any employee, during the course of his employment be killed or incapacitated by injury for a period exceeding three days, his employer shall, be as soon a practicable, send to the Labour Officer or if there is no Labour Officer, to a District Commissioner a report in prescribed form.

## 12. TRANSPORT TO HOSPITAL:

Where an employee to a Member of his Family residing with him on the estate requires assistance to hospital as an inpatient or out-patient and is unable, through the cause of his illness, to travel to or from Hospital by himself, the employer shall provide transport on the advice of the of the resident medical staff.

## 13. SUBSISTENCE ALLOWANCE

Where an employee is required to be absent on duty from his normal place of employment, he shall be eligible to receive the following:-

- i) Graded Staff:
  - a) In respect of each day in which he is away on duty for a continuous period of 8 hours or more, he shall be paid an allowance of KShs. 100/-.
  - b) In respect of a complete night's absence on duty he shall be paid an allowance of Kshs. 320/- unless and except that if his duty entails spending a complete night in Nairobi or Mombassa he shall receive Kshs. 610/-
- ii) Daily Rated Employees:
  - a) In respect of each day in which he is away on duty for a continuous period of 8 hours or more, he shall be paid an allowance of Kshs. 100/-.
  - b) In respect of a complete night's absence on duty he shall be paid an allowance of Kshs. 320/- unless and except that if his duty entails spending a complete night in Nairobi or Mombassa he shall receive 485/-

## 14. ACTING ALLOWANCE:

When an employee is required to act in a classification or grade higher than that in which he is normally employed he shall, in the first instance, be required to work for 10 days at his normal rate of pay. Thereafter, and on any subsequent occasion, if required to act in a higher category the employee shall receive the minimum rate applicable to the grade and classification in which he is required to act. He shall receive any benefits and privileges of that grade whilst performing such duties in that grade.

Where an employee acts for more than three months in a vacant position the vacant post should be filled and first priority to be given to the acting employee taking into account professional qualifications, general ability experience and a good conduct.

## 15. HOUSING:

Every employer shall not at all times at his own expenses, provide reasonable housing accommodation for his employees at or near to the place of employment, or shall pay to the employees who are not housed a house allowance of 15% of the basic wage applicable to his grade.

Provided that, subject to any order which may be made under the regulation of Wages and Conditions of Employment Act, the obligation of the Employer as regards housing, shall not, by reason of this section, extend to any case in which an employee is able to return at the conclusion of his daily work, to a place of residence for which he pays no rent and which is not disapproved of by an authorized officer. Further, that where an employee subsequently requests housing accommodation, the Employer shall be required to construct reasonable accommodation and shall be given a period of grace amounting to six months in which to construct such accommodation. The employee shall not, under these circumstances, be eligible for any housing allowance.

Housing will be allocated impartially dependent upon the category of employee and regardless of colour, race, creed or sex.

## 16. VACATION OF QUARTERS:

- a) Where an employee is discharged, other than for gross misconduct he shall be entitled to a maximum of fifteen days in which to vacate the quarters allotted to him by his employer and to leave the Estate. Where an employee of more than five consecutive years' service is discharged other than for gross misconduct, he shall be entitled to a maximum of 30 days, in addition to his period of notice in which to vacate any quarters allotted to him by his employer and to leave the Estate.
- b) Where an employee is dismissed other than for gross misconduct and his dismissal becomes a subject of a dispute, such an

employee will not be required to leave the home allotted to him until the dispute is finalized.

## 17. PROBATION:

Where an employee enters or is engaged on probation, the following probationary periods shall pertain:-

Skilled/Graded Staff	Three months
Daily rated/unskilled employees	Two months

There shall be no extension of the probationary periods.

Promotion from grade to grade will be at the discretion of the Management and the possession of any trade test certificate or licence shall not automatically entitle the holder to promotion or engagement in any specific grade.

When a vacancy occurs, the employer shall give full consideration to professional qualifications, experiences, general ability and conduct.

## 18. TRANSFERS:

- a) All employees undertake as a condition of their employment to work anywhere in Kenya for the employing company of its associates. Management will take individual circumstances into account both before and after any transfer as far as is consistent with the interests of their business.
- b) On transfer of any employee, Management shall meet the reasonable expenses of the employee whilst in transit in addition to any other allowances to which he might be entitled under clause 13.
- c) Where a Union representative is to be transferred, the Union Branch shall be informed of the transfer.
- d) In case of transfer of a Union Member from one Estate to another of the same Company, the employer shall continue to operate check-off for the employee.

## 19. SEASONAL EMPLOYMENT

The Association and the Union recognise that the economic well being of the Association Members and their employees are dependant upon the maintenance of harmonious relations, understanding of farming problems which may occur from time to time and industrial peace. They therefore agree voluntarily that:-

- a) For continuity, seasonal employees may be employed by the Association Members from time to time to cover seasonal operations.
- b) Those employed by the Association Members as seasonal workers may be employed for a maximum period of six consecutive months.
- c) Seasonal employees are entitled to special terms of contract as follows:-
  - i) Seasonal workers shall be paid at the end of each month and advance pay shall be given once a month.
  - ii) Seasonal workers shall be entitled to 2 weeks' notice or pay in lieu on termination, after three consecutive months.
  - iii) Seasonal workers shall be paid pro rata leave after working for three months.
- d) Any seasonal worker, who is required by Management to continue with employment after six consecutive months' service, shall be deemed to be engaged as a permanent employee and his service as a seasonal worker shall be taken into consideration for the purposes of calculating any long term benefits.
- e) A Seasonal worker is eligible to become a Member of the Union and the Association Members undertake to deduct Union dues of Members through payroll at the end of each month.
- f) The Association Members will give first consideration to those seasonal workers who in their opinion have done well and have had good record throughout the period in the case of subsequent engagement.

## 20. PROTECTIVE CLOTHING

- a) Workers employed on duties within Factories shall be provided with protective clothing in accordance with section 53 of the Act Cap. 154.

- b) Protective clothing of a type to be decided by the Employer shall also be issued to persons engaged on plucking duties, sweepers, postmen, fundi mates, turnboys, prunners and sprayers whilst performing such duties.
- c) It is agreed that serviceable protective clothing shall be issued to employees so entitled and any unserviceable protective clothing shall be returned before a new issue is made.
- d) The Union will actively assist Management in ensuring that plucking capes are not removed from Estates.
- e) Pluckers shall be allowed to use finger stalls when plucking provided that the leaf standard and bush Management are maintained.
- f) The Company shall provide laundry services or one bar of washing soap per month to each employee whose nature if his/her work requires him/her to have uniform.
- g) Protective clothing of a type to be decided by the Employer shall also be issued to Drivers, Supervisors, Dressers and Artizans whilst performing such duties.

## 21. EMPLOYMENT POLICY

- a) It shall be the aim and policy to abolish all discrimination amongst workers on grounds of race, colour, sex, beliefs, tribal or trade union affiliation, and that no filling of vacancies, promotions, appointments for vocational training, admission to senior positions or private employment shall be conditional on the above.
- b) It is agreed by both Parties that in the case of filling of suitable positions, the present employees in the Tea Industry will be given priority provided that the employee has the qualifications for the Job.
- c) The Parties agree that employees be encouraged to take approved examinations to better their standards.

## 22. WARNING SYSTEM

An employee whose work or conduct is not satisfactory or who otherwise commits a misconduct which, in the opinion of the employer, does not constitute gross misconduct shall be warned in writing and the following procedure shall apply:-

- a) The first, second and third warnings shall be entered in the employees' record and the Shopstewards shall be informed accordingly.
- b) The second and third warnings shall be copied to the Branch Secretary of the Union. IN every case the employee concerned shall have the right to appeal to the employer through the Shopstewards.
- c) If any employee who has already received a third warning commits a fourth offence which is not gross misconduct he shall be liable to termination of service.
- d) If an employee completes one full year from the date of the first warning without any other default, any warning entered in his record shall be cancelled.

## 23. TERMINATION OF CONTRACT

After completion of a probationary period, employees shall on resignation or termination of service, be entitled to notice or payment in lieu of notice as follows:-

- a) After probationary period up to and including 3 years an employee except in the case of gross misconduct shall be entitled to one month's notice of termination of service or pay in lieu and similarly shall give one month's notice to his employer, or payment in lieu should he wish to leave the employment.
- b) After 3 to 5 years' continuous service, the employee, except in the case if gross misconduct, shall be entitled to not less than forty five days' notice of termination of service or pay in lieu and similarly shall give forty five days' notice to his employer, or payment in lieu should he wish to leave employment.
- c) For employees of over 5 years' continuous service, the employee, except in the case if gross misconduct, shall be entitled to not

less than 2 months' notice of termination of service or pay in lieu and similarly shall give two months' notice to his employer, or payment in lieu should he wish to leave employment.

- d) All permanent employees shall except in the case of gross misconduct receive three warnings in cases of misdemeanor in the presence of a Union representative of is unavailable, the representative to be notified within 24 hours. The employee shall be liable to dismissal on the fourth occasion, but the Union representative will be allowed to consult with Management prior to dismissal.
- e) Nothing in (a), (b), (c) and (d) above shall prejudice the right of either party to terminate a contract summarily for lawful cause.

## 24. SUMMARY DISMISSAL

Any of the following matters may amount to gross misconduct so as to justify the summary dismissal of an employee for lawful cause, but the enumeration of such matters shall not preclude an employer or an employee from respectively alleging or disputing whether the facts giving rise to the same, or whether any other matters not mentioned in this section, constitute justifiable or lawful grounds for such dismissal:-

- a) If, without leave or other lawful cause, an employee absents himself from the place proper and appointed for the performance of his work;
- b) If, during working hours, by becoming or being intoxicated, an employee renders himself unwilling or incapable properly to perform his work;
- c) If an employee willfully neglects to perform any work which it was his duty to have performed, or if he carelessly and improperly performs any work which from its nature it was his duty, under his contract, to have performed carefully and properly;
- d) If an employee uses abusive or insulting language, or behaves in a manner insulting, to his employer or to any persons placed in authority over him by his employer;
- e) If an employee knowingly fails, or refuses, to obey any lawful and proper command which it was within the scope of his duty to obey, issued by his employer or any person placed in authority over him by his employer;
- f) If, in the lawful exercise of any power of arrest given by or under any written law, an employee is arrested for a cognizable offence punishable by imprisonment and is not within 10 days either released on bail or on bond or otherwise lawfully set at liberty;
- g) If an employee commits, or on reasonable and sufficient grounds is suspected of having committed, any criminal offence against or to the substantial detriment of his employer or his employer's property.

## 25. REDUNDANCY

- a) It is jointly agreed as follows:-  
The principle of Last – In First – Out will apply as general guidance when selection of redundant employee is made.
- b) To avoid redundancy employees will be transferred where possible to alternative employment provided that they possess the necessary ability to carry out such alternative employment.
- c) The Union and the Ministry of Labour will be informed of the reason for and the extent of the intended redundancy, and the exercise to declare employees redundant shall not be carried out until such time as approval by the Minister.
- d) Management will ensure that all possible measures are taken to avoid redundancy but where it arises the Union will be notified within thirty days before the redundancy is declared and the employees served with notice(s). Notice of redundancy shall not be less than two months or pay in lieu.
- e) In the case of subsequent engagement priority will be given to employees previously declared redundant.
- f) Where a redundant employee having been recalled in writing by his employer fails to report for work within thirty days he will be deemed to have forfeited any claim to the employment for which

he was recalled unless it can be proved that the delay was due to circumstances beyond the control of the employee.

- g) An employee declared redundant shall be entitled to 15 days' pay for each completed year of service.
- h) An employee declared redundant shall be allowed to stay on the farm up to a maximum period of three months from the date of notice.

**26. LAND FOR CULTIVATION**

Where there is undeveloped land the employer may provide the employee with land to cultivate in accordance with the Land Utilization Rules.

**27. TASK MARKING**

It is agreed that where an employee fails to complete his allotted task within the hours set for work, he shall not be marked "Absent" but shall be marked "uncompleted task" and paid pro-rata or shall be paid for one day's work only in accordance with section 5 (1) of the Employment Act, 1976 as amended.

**28. INABILITY TO PAY NEGOTIATED WAGES**

Where an employer is in a position to prove to the satisfaction of the Union that he is economically unable to pay the wages herein agreed, the employer and the Union may negotiate a separate wage structure and such agreement shall be in respect of such employer only shall not affect terms and conditions of this memorandum.

**29. RETIREMENT AGE**

Retirement age will be 55 years, however, as employee may opt to retire at the age of 50 and likewise the Employer may retire an employee who has attained the age of 50 years in line with NSSF withdrawal benefits.

**30. PROVIDENT FUNDS**

To be operated according to the Agreement between employer and individual employees.

**31. GRATUITY**

- a) An employee who resigns or his/her services are terminated on completion of 10 years continuous and noritorious service with the Company shall be entitled by the way of gratuity, based on the Employees wages of his/her services
- b) An employee who is dismissed or terminated for gross misconduct shall not be entitled to gratuity.

**32. EFFECTIVE DATE**

The date of implementation will be 1st January 1998.

**33. DURATION OF AGREEMENT**

This Agreement shall continue in force for two years from last January 1998. During currency thereof no action shall be taken by either Party to vary this Agreement unless such action has been mutually agreed by both Parties.

Dated this 30th day of October 1998

Signed by J.G.K. CHERUTYOT

For and on behalf of the Kenya Tea  
Plantation & Agricultural Worker's Union

Witness (signed by) T.G. KIPYAS

Signed by FRANCIS ATWOLI

For and on behalf of the Kenya  
Growers Association

Witness (signed by) FRANCIS WAWERU

**CBA BETWEEN THE KPAWU & THE KTGA****APPENDIX "A"****GRADED STAFF WAGE RATE – ALL DISTRICTS – WITH EFFECT FROM 1ST JAN 1998 IN KENYA SHILLINGS**

<b>CATEGORY</b>	<b>MINIMUM 1-1-1998</b>	<b>MINIMUM 1-1-1999</b>	<b>MAXIMUM</b>
<b>Supervisors, Field/Factory:</b>			
Grade I	4760	5807	8764
Grade II	3515	4288	6684
Grade III	3158	3853	5143
<b>Welfare Assistant:</b>			
Senior	4760	5807	8764
Junior	3515	4288	6684
<b>Clerical Staff:</b>			
Grade I	5741	7004	10553
Grade II	4550	5551	8306
Grade III	3414	4165	6271
<b>Drivers:</b>			
Grade I	5386	6571	9981
Grade II	3515	4288	6684
Grade III	3158	3853	5143
<b>Artizans:</b>			
Grade I	6554	7995	12685
Grade II	4788	5841	9143
Grade III	3463	4225	6935
<b>Instant Tea Machine Operators:</b>			
Grade 1	5152	6285	9295
Grade II	3805	4642	8688
Grade III	3420	4172	6684
Non Trade Tested Grade IV Artisans	3158	3853	5143
<b>Graded Nurses:</b>			
Grade I	6554	7996	12685
Grade II	5318	6488	9295
Grade III	3769	4598	8688
Grade IV (ungraded Nurses)	3463	4225	4687
<b>Hospital Cooks:</b>			
Compounders & Lab. Assistants	3090	3770	4533
	4417	5389	7239
<b>Research Institutions:</b>			
SRA I	6445	7863	12576
SRA II	5230	6381	9373
SRA III	4450	5429	7279

# Annex 3 Proceedings of stakeholders workshop

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## PROCEEDINGS OF STAKEHOLDERS WORKSHOP ON SOCIO ECONOMIC ISSUES AFFECTING THE VALUE CHAIN HELD ON 11TH APRIL 2001 AT THE LANDMARK HOTEL, NAIROBI, KENYA

Natural Resources Institute, University of Greenwich of United Kingdom

Report prepared by James Nyoro assisted by Raphael Gitau and Elizabeth Mutua Tegemeo Institute, Egerton University Email Tegemeo@kenyaweb.com

### Introduction

A stakeholders meeting workshop was held at the Landmark Hotel in Westlands Nairobi on the 11th of April 2001. The key objective of the one-day workshop was to raise and develop awareness amongst stakeholders on socio-economic issues pertaining to the Kenya tea industry and work towards improving and building responsible business practices. The main objective of the meeting was to explore and share experiences of ethical compliance of welfare and socio standards with the various stakeholders in the tea industry. It also served as a forum where issues and possible solutions would be developed for long term sustainability of the tea industry.

Duncan Burnett of Natural Resource Institute (NRI) London began the proceedings by introducing NRI and outlined the theme of the workshop to the participants. The second presentation was by Mr. N.K. Kirui of the Brooke Bond of Kenya Limited on health, safety and environment, titled "Good Safety Is Good Business". This was then followed by a graphic description of "A day in the life of a smallholder", by one of their representatives.

The afternoon session was divided into workshops, covering various themes, with the widest selection of stakeholders in each. Final presentations were made by the various representatives of each workshop, outlining the topics discussed, the issues raised and their conclusions.

### Presentation by Duncan Burnett

#### Slide 1

##### THE Natural Resources Institute (NRI)

- UK based – part of the University of Greenwich
- An internationally recognised centre of expertise for: research – consultancy – training
- In the natural resources sector and the environment
- The NRI manages the natural resources and ethical trade programme (NRET)

#### Slide 2

##### The Natural Resources and Ethical Trade Programme (NRET)

(further information/publications can be ordered or downloaded from <http://www.nri.org/nret/publish.htm>)

The NRET specialises in improving the social and environmental benefits of business in developing and emerging economies

##### Services are offered to:

Business  
NGO's  
Fair trade organisations  
Governments  
Trade unions

##### Five major types of services are offered:

Building better standards and strategies  
Integrated supply chain management  
Policy information  
Producer – market linkages  
Learning and training

#### Slide 3

- How do we define responsible business?
- The social responsibility of the private sector goes beyond its day to day operation of producing products & services in the most efficient manner.
- The social responsibility of the private sector concerns the relationships of a company ... with the needs values and goals of the society in which it operates. \*(UN Secretary General)
- The sustainability agenda for business ... greater responsibility, transparency and accountability. \*(the Environment Council)

The triple bottom – line  
Social Added Value

Environmental Added Value  
Financial Added Value

#### Slide 4

##### Introduction to the Workshop – Why Do It?

- New DFID research projects applicable to the tea trade in Kenya (and Sri Lanka)
- The cost of complying with social and welfare standards
- The implementation of social and welfare standards in value chain management
- Above projects also involve cocoa (Indonesia), cut flowers (Kenya), and wine (South Africa)
- In order to fund the projects DFID required industry support and confirmation that the research is valuable and worthwhile In the case of tea – support from TSP
- Workshops – to TSP / Nairobi / London

## Slide 5

### Why tea?

- An important, high profile, consumer product
- UK a major buyer and consumer
- Easily identifiable
- Consumer & retail pressure re social & welfare standards of tea workers
- Developing country sourcing
- Generic and brand image
- The tea trade is already active in the area of: "ethical sourcing / responsible business practice, social & welfare issues & environmental sustainability

## Slide 6

### Workshop objective

- To bring together stakeholders in the Kenya, the tea industry and value chains to raise and develop awareness of socio-economic issues including
- Long term sustainability & work towards building responsible business practices
- To provide a forum where the views of the Kenya tea trade on social and welfare issues
- And the pressure from consumers to implement codes of conduct and standards
- May be recorded and communicated to the UK tea trade at a workshop to be held in London in May 2000

## Slide 7

### The value chain

- 1) smallholder (also could be plantation field labour)
  - 2) green leaf collector
  - 3) transporter
  - 4) tea factory operator
  - 5) transporter
  - 6) warehouse operator
  - 7) tea auction/brokers
  - 8) traders
  - 9) freight forwarders (14) bankers
  - 10) kenya port authority
  - 11) shipping & insurance companies
  - 12) blenders & packers
  - 13) retailers
  - 14) consumer
- ex factory** (points to 4)
- free on board** (points to 10)
- cost, insurance, freight** (points to 11)
- retail price** (points to 14)

## Brooke Bond Kenya limited

### Presentation by Nicholas Kirui

National health, safety and environment manager

### Good safety is good business

10th April 2001

### Why safety?

- Legal consideration
- Compliance with the factories and other places of work act.
- Economic considerations
  - Accidents are expensive- (insurance, litigation)
  - Cost of 1 LTA is about Ksh.3000
- Moral considerations
  - Profits not at the expense of safety
  - Consumers increasingly opting for ethical sourcing

### Safe systems

- Risk management
  - identification of high risk tasks and risk assessments
  - Safe operating procedures
  - Permit to work system and training "authorised persons"
  - Elimination of risks where practical
- Lightning (evacuation policy, building protection)
  - Pruning (training)
  - Machinery guarding
  - Vehicle safety checks
  - Incident management
  - Emergency procedure-documented ,trained and tested
  - Fire fighting-prevention and detection
  - Purchasing and engineering change control procedures
  - Contractors
  - List of approved contractors
  - Safety induction
  - Safe systems
  - Audit and Inspection
  - Local management teams for their unit
  - Every two or three years by external auditors

### Safe technology

- Field Operations
  - Safe plucking methods – (hand and shear)
  - Tractors fitted with roll-over-protection and seat belts
  - General trailers fitted with hand rails
  - Safe equipment for all operations
- Factory Operations
  - machinery and equipment specifications
  - machinery guarding
- Machinery maintenance
- General
  - safety input in all equipment procurement
  - seat belts for all vehicles

### Safe behaviour

- Safety promotion and awareness
  - team briefings
  - use of personal protective equipment
  - Safe Acts Visits
  - Non-compliance reporting
  - Safety competitions – (safety awards, housekeeping)
- Training
  - Defensive driving (drivers & motor cyclists)
  - Pesticide handling
  - Manual handling
  - Pruning
  - Managing safely for managers and team leaders

## The environment

- Tea growing/manufacture is very environmentally friendly
  - Sustainable crop
  - Renewable fuel
  - Low environmental risks
  - Sustainable agriculture
  - Responsible farming now and in the future
  - Remain economically viable
  - Minimize impact on the environment
  - Positive social impact
  - BBK has developed indicators currently being vetted by experts
  - Blue print on best practice to rolled out
- Opportunities are
  - To better control risks
  - To build on the sustainability platform for the industry in general

## The environment – better control of risks now

- Awareness and promotion
  - Policy
  - Line management responsibility + course for all management staff
  - Measures of performance (energy, water, Sox, waste and publication
  - Trees 2000
- Risk management
  - Write and test environmental emergency management procedures
  - Test and audit environmental incident reporting procedures
  - Ensure the integrity of storage facilities for environmentally sensitive materials
  - Evaluate possibility of eliminating/reducing use of chemicals in factory leaning
  - Confirming compliance with PCB/CFC regulations
  - Waste management
- Inspection and audit
  - Internal Audit of all units done annually
  - External Audit every two years

## The way forward

- Focus on long term goal of being world class and not benchmark self against contemporaries who may not be doing as well
- Visible commitment of management at all levels
- Discard philosophy of accidents being inevitable
- Identification of causes of accidents
- Focus on accident prevention rather than accident investigation
- Training of personnel on safety systems
- Complete cultural re-engineering to eliminate the blame culture
- Safety should be seen as a continuous program rather a finite project
- Development of appropriate systems, technology and behavior
- Risk assessment of all operations and safe operating procedures

## Steps to successs

- Set your policy
- Organize your staff
  - Competence
  - Control
  - Co-operation
  - Communication
- Plan and set standards
- Measure your performance
- Learn from experience; audit and review

## Discussions

After the presentations of the two papers the participants were invited to ask questions. During this session it emerged that Brooke Bond Kenya has been complying with the ethical standards for a long period of time and it has incorporated these ethical standards in their daily operations. As for the Health and safety measures the company started complying in 1997. Brooke Bond is a subsidiary of Unilever (UK) and at the end of every year all Unilever companies when declaring their profit are expected to also show how the company has invested in the welfare, health and safety of their workers. Thus Brooke Bond Kenya embarked on investing toward improving their

workers welfare and ensuring that their employees were working in a safe environment in 1997. They therefore said that they consider safe business to be good business.

As the company has been complying with the set ethical standards for a very long period of time the company representative said it was difficult to quantify how much the company had invested in monetary terms as this has been integrated in the daily operation of the company. What they could try and point out, as costs implication was the health and safety measure, which the company started investing on in 1997.

The company has invested in putting into place safe systems in all its departments and its operations. In any operation that is to be carried out safety of the person performing the task is guaranteed. If for example one is operating machinery the worker will have all the necessary protective equipment to guarantee his/her safety and the worker will be trained to operate the machine. In order for all the employees to be able to work within the safe systems that have been put in place the company has incurred huge expenditure on training the staff.

The training is very important as it equips the workers with skill of working in the safe environment. The training is on a continuous basis since the workers need to be instilled with more skills. To go together with the safe systems the company has invested on the right machinery whose performance is efficient and friendly to the environment. The machinery that has been purchased by the company has been fitted with safety guard to ensure that they are safe. The workers who operate this machinery need protective clothing thus the company have invested heavily on personal protective clothing to avoid injury of the workers. Brooke Bond has adopted a policy where it's the duty of the managers from the Managing Director to the field manager to ensure that all laid down rules and regulation on the safety and health measure are strictly followed. The managers are trained on a regular basis so that they can be able to enforce and facilitate health and safety measures.

The motto of the company in justifying huge expenditure invested was "If you think it's expensive try ignorance." A case scenario was given of the opportunity cost that a company may face due to lack of safety measures, putting guards on the machine will cost a company only Ksh 1000. In case the machine doesn't have the guards and an injury was to occur the Company would loose Ksh 3000 (LTA) in terms of the days the worker would have worked excluding litigation. When litigation is added, the costs will be in the range of about Ksh 200,000 for a worker who may have lost a finger. The other spiral cost effect will be in terms of insurance premium going up. Looking at these costs then it will be prudent for a Company to adopt the safety measure as it is beneficial for both the Company and the employees.

With all of the investments that Brooke Bond as a company has invested in order to comply with the set ethical standards it was very difficult for the company to quantify in monetary terms the gains it has achieved. Several things came out clearly although the company cannot quantify their gains in monetary terms there has been a notable increase in productivity and improved quality of the tea. The workers motivations and performance has improved due to training.

The company has also saved money as workers are trained on better management of resources thus wastage is reduced. Since Brooke Bond has adhered to complying with a set of standards it has taken upon itself to instill the same qualities on all organisations or individuals that deal with them. For outgrowers who sell tea to their factory a field day of 2 days is organised every year. The outgrowers are trained on health and safety measures and other measures that they need to adopt to produce tea in a safe and healthy environment they are encouraged to reinvest back the proceeds from the tea and not misuse the money. As for the 300 companies that have been contracted by Brooke Bond to handle the tea after it has left the factory Brooke Bond has also taken the initiative to train them on the health and safety measures.

Brooke Bond has invested a lot of money on its daily operations and in complying with the set ethical standards. It is also the company's policy to plough back some of its money to the community within which it works. The company has embarked on Tree 2000 campaign, i.e. planting of trees where there is no tea. The objective of the

exercise is for both aesthetic and commercial purposes. This has resulted in the company establishing an arboretum where the local community can go for picnics and at the same time the planting of trees exercise is replenishing fuel for the factory. The company runs several primary and secondary schools and a bursary fund for the poor families in the community.

Gabriel Mburu and Joseph Murithi Wainaina did a joint presentation on behalf of smallholders working in the tea industry. They painted a very grim picture of their plight, listing the various hardships they experienced and rising costs they had to bear to support their families on an ever reducing income from tea. They criticised the KTDA for numerous problems which have been compounded by the secrecy behind the re-structuring of the Management company, failure to improve the roads required to get their produce to the buying stations and on to the factory. They complained about the inflated cost of fertiliser and weighing bags, which are taken from their income directly. They also complained about the kilo deductions made from their green leaf produce at the buying stations which were purportedly to account for the weight of the weighing bag. They described the unnecessary wait at the buying stations for the factory trucks, and explained that if they did not wait to load the trucks themselves, there was no guarantee that they would be credited for their days work. Mention was also made of the lack of facilities at the buying stations, where there was no potable water or refreshments to access for their children who waited for them. Some of the attendants asked why, if the problems were so bad, did they remain in the tea industry? Some were horrified at the conditions and others saw no relevance to them.

### Work Groups

After the presentations, the participants were divided into 3 groups to discuss various issues and develop a way forward in the areas and issues identified in the presentations:

The 3 groups were

Group 1: Addressed issues to do with Value chain

Group 2: Addressed issues to do with the International Codes of Conduct

Group 3: Addressed issues to do with how smallholders could be facilitated to comply

### Workshop Group 1

#### Value Chains

Retailers of tea are increasingly demanding evidence that the products that they buy, be produced under socially and environmentally sustainable conditions:

- Improving social and welfare conditions raises the cost of production,
- The cost of implementing social and welfare improvements at field & factory level currently falls on the producer ,
- Given the length of the value / marketing chain from field to consumer, should the cost of improved social and environmental practices be shared amongst all stakeholders? If so how?
- It is often difficult to tell who along the long value chain is responsible for the different aspects of sustainability.
- How can the business case be made to ensure sustainability is embedded throughout the value chain?
- Who has the power of influence to ensure implementation of sustainable practices?
- If tea prices do not show long term improvement in real terms, what are the long-term consequences to the Kenya tea industry of ever increasing labour, social and environmental costs?
- Could implementation of sustainable practices ensure a more efficient tea industry and therefore, ensure it's survival?

### Workshop Group 2

#### International Codes of Conduct

Various International Codes of Conduct / Practice have been set up with the intention of improving the living and working conditions of employees. Other guidelines have been introduced (or are under discussion) within various industry sectors:

- Clothing / footwear manufacture
- Fishing (Marine stewardship Council
- Cut Flowers
- Export horticulture
- Many Codes are based on ILO standards and cover issues such as
- Non discrimination in employment
- Freedom of association
- Right to collective bargaining
- Payment of living wages
- Prohibition of child labour
- Reasonable hours of work
- Decent working conditions
- Security of employment
- No forced labour
- Protection of the environment
- Key aspects are that: All stakeholders should observe the standards; Independent verification of compliance should be carried out; Codes displayed in workplace.
- Complaint procedures should be set up. Should an international code of conduct be introduced for tea?
- What measures need to be adopted by the GOK and stakeholders in the tea Industry to ensure sustainability?

### Workshop Group 3

#### Smallholders

- Small scale self employed farmers produce over 60% of Kenya's tea crop (The same is true in Sri Lanka, another major tea exporting country).
- Are any of the International codes of conduct applied to employees (the waged) relevant to smallholders?
- If not, can other criteria be developed that is relevant to the smallholder and, what should they include?
- Who is responsible for what in the value chain of small-scale tea production?
- Who has what expectations in the value chain?
- Should other stakeholders assume any responsibility for small holders' social conditions and the effect on the environment of farming practices? If so how?
- What is the effect of the liberalisation on the smallholders?
- Is there a business case to support that embedding sustainability is beneficial to tea industry?
- What measures need to be adopted by the Government of Kenya and stakeholders in the tea industry to ensure sustainability especially with regard to the small holder?

### Groups Discussions

#### Group 1 Report

The first work group agreed that the cost of improved social and environmental practices should be shared amongst all stakeholders i.e. both the public and private sectors. The public sector contributions will be through partnerships, tax incentives to the tea industry, formation of lobby group to push issues that will help the industry comply with the set ethical standard and ensure the cost is distributed down the value chain. The private sector contribution from the consumer end will be the paying of extra price for the tea and the premium channelled back to the farmers. Levies raised could be channelled to the tea industry. This will reduce the pressure on the producer and therefore the producers will be able to implement the social and welfare conditions without reducing their profit margins.

The group agreed that to have sustainable business there is need to setup uniform and recognised standards across the value chain. These standards when harmonised across the value chain will reduce costs, that producers incur in order to conform to different auditors e.g. What BVQI looks for is not what Premier Group does. Having harmonised standards across the value chain e.g. ISO9000 then it will be easier for the producers as once they comply then they don't need to invest extra as all the verifiers will be auditing uniform standards. This will result in the performance of an audit trail across the value chain, which will form the foundation basis of the audits

that ensure the set standards are adhered to. So everyone on the value chain would ensure sustainability of their business by adhering to the set standards, which are uniform.

On who has the ultimate power of ensuring the implementation of sustainable practices it was agreed that the consumers have the ultimate power of ensuring implementation of sustainable practices through pressuring producers. But other stakeholders should play a vital role in ensuring the sustainable practices are implemented. By being proactive the stakeholders will ensure that Kenyan tea is sold in the market since it has complied with the set standards and even done much more. Trade Unions should ensure employees' welfare is taken care by negotiating better CBA with the employer. The government should make sure all the employers adhere to all the labour laws set out and punish those who do not follow the law. The government should provide social amenities and infrastructure to avoid producers providing these facilities.

Employers should honor the CBA and law regarding workers and strive to improve the social welfare of their employees. All these stakeholders will contribute towards implementing of sustainable practices.

It was noted that the consequences of the ever-increasing labour, social and environmental cost would result in the small-scale farmers being pushed out the market since they may not be able to break even and thus will look for an alternative sector. As for the well-established companies they would downsize leading to retrenchment and diversification since their profit margins will reduce if tea prices do not show a long-term improvement in real terms. Therefore sustainable practices would ensure a more efficient tea industry in the short run. There is need for the government to play a vital role in providing incentives to the industry through proper government expenditure, for example building better infrastructure and servicing the existing one, provide medical facilities where hospitals ran by the government are well equipped. This will reduce cost as currently producers are offering these facilities. If the government was to provide these facilities this will guarantee the survival of the industry in the long run.

In conclusion, sustainable practices are necessary in the tea industry but the process of achieving these practices is difficult and therefore require an inter-play of all partners involved in the value chain including governments of the consumers and producers.

### **Group 2 Report**

Working Group 2 agreed that an international code of conduct should be introduced in the tea industry and three key issues were tackled. This included who complies? Who bears the cost? And how will the process be monitored? It was agreed that everybody in the tea industry should comply with the international code of conduct. These should include those sub-contracted by the producers. The company that are sub-contracted by the producers could be trained in order to be able to comply with the international code of conduct. As for who bears the cost, this should be the entire participants in the value chain including the governments of both the producers and consumers.

The tea cess that is collected by the local authority should be ploughed back into the industry and help in repairing or construction of roads in the tea zone. The group agreed that if the consumer, supermarkets, packers and blenders were to contribute to the cost of compliance through the paying of extra premium then modalities should be put in place to ensure that the benefit trickles down the value chain. This will reduce the costs that are incurred in complying with the set standards. On the international front the costs could be shared by agreement on the reduction of import duty on tea between the producer and consumer countries.

The group agreed that there was need to have a sole verification agency acceptable to all the stakeholders. This will ease the verification process. In order to impose or enhance working of industry on minimum and broad terms structure it was noted that it was easier to install in large organised plantations as compared to small holder groups. The suggestion was that to be able to implement it successfully on the small holders group then the big proportion of income from the tea should go to them and this will enable smallholder groups impose and enhance workings of the industry.

For the international code of conduct to successfully work it was agreed that several key issues had to be incorporated into the code of conduct. This included: ensuring the safety and health of the workers: environmental friendly practices: gender equity in the place of work: stop the use of child labour and instances where young people are working education should be provided. Also, human rights should be guarded and no forced labour, migrant labour treated fairly, during peak harvest period pickers should not be overwork and finally the quality and production standards should be maintained.

### **Group 3 Report**

This group tackled the issue of how relevant the international code of conduct is to the smallholder. The issue of child labour dominated the discussion. The group agreed that it is not relevant to the smallholder, as this is a family unit that depends almost entirely on family labour. Also it depended on what one defines child labour. A consensus was reached that children should work a maximum of 4 hours a day with appropriate breaks in between. This should only be on non-schooling days and under the supervision of an adult the age limit was a minimum of 10 years.

Although the international code of conduct might not be relevant to the smallholder the group appreciated that some aspects of the international code of conduct were very important to the smallholder especially on health and safety. It was agreed that this was non-negotiable and the smallholder had to ensure the use of safety equipment in the whole process involving growing of tea e.g. provide pickers with gumboots, protective clothing on application of pesticide, use of gloves.

It was also noted that the pickers carrying the big basket when plucking was detrimental to their health. Therefore there is a need to establish a limit to the amount that an adult could carry. A limit of 20 Kgs of green leaf per person was recommended, as the smallholders have to carry the green leaf to the collection centre. The group did not exhaust all their questions due to time limit.

### **Conclusion**

The participants were thanked for their participation and contribution at the workshop and requested that if they had more contributions to forward them before Tuesday 17th April 2001. The participants were informed that there will be another follow up meeting in London for the consumers, packers blenders, the Tea Sourcing Partners and other stakeholders in the month of May 2001. The issues that were discussed during the stakeholders meetings will be raised in London in order to chart the way forward for the tea industry and it would be appropriate if one person from Kenya could attend this meeting.

# Annexe 4: Stakeholder profiles

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## The Smallholder (1)

The smallholder is 78 years old, the eldest of two wives and mother of 6 children, all of who have now married and moved away from the shamba with their own children. Her eldest daughter obtained the most education, finishing primary school. The rest had sporadic education. She lives next door to her co-wife and some of her children with the same father.

She still picks tea on her own one-acre farm, but she sometimes also uses casual labour from the Luhya and Bukusu region, to help her if the tea crop is abundant. She also has basic cash crops, three sheep, some chickens and a cow.

She became one of the first KTDA smallholder tea farmers in 1964, when it became possible for black Kenyans to get a tea license. Licenses under the colonial rule had been restricted to whites only. Being a black tea farmer, had therefore been a sign of Uhuru. Each of her 5000 tea plants used to give her approximately 2-3 kgs of green leaf per annum, picking the KTDA '2 leaves and a bud', but with the worsening drought, this figure is now substantially reduced.

She is finding it hard to scrape a living from her farm, when her health is also failing. Her fingers are painful. There is a local dispensary near by, built by Harambe next to the church. The cost of medicines is generally beyond her reach. Her monthly income is rarely up to 3000 Kenyan shillings (Ksh) which is less than £30. Last month, she sold her KTDA tea fertiliser, which she paid Ksh 1100 for Ksh 500 to pay for medicines. Selling KTDA fertiliser is common practice for the farmers who experience constant cash flow problems.

In the coming elections for the Theta Tea Factory directors, she is not sure what to do. She is frightened to vote because she has been intimidated by the No Vote campaigners, but at the same time, the Vote campaigners have told her that the buying centre will not take her tea, if she does not vote. She is also not sure who is standing for what. She recently backed the petition heard in court, which had two-thirds support, to ensure voting does take place. She wished that the police would protect them and their goods. Her neighbour has already been killed along with one policeman and another neighbour had his leg slashed so badly with a panga that it was amputated. She thanks God for her own survival, and she prays that everything will be back to normal again soon. She wishes that the short rains would come.

## The Second Smallholder (2)

The second smallholder was brought up in a coffee growing area, the eldest of three children. Her father was a Mau Mau fighter and eventually died in prison. She helped bring up her younger brothers and did not complete her own primary education, which was free. Her mother did not have the money for books and uniforms and needed her daughter to help pick the cash crops in the shamba and take them to market. At 16, she left to work in a bank in Nairobi and was able to send money down to help her younger brothers through secondary school. She married and when she was pregnant for her third child, her husband walked out on her. She borrowed some money and started going to Tanzania to buy up curios and wrappers and bring them back to sell to her colleagues at work.

Friends working for the KTDA encouraged her to buy a farm to plant tea and other cash crops. With a loan from the bank and license from the Kenyan Tea Board (KTB), she bought 4.5 acres in 1987. The forested hill had to be cleared properly to plant the young saplings and the wood was sold as charcoal to pay for them. These saplings have to be cloned from KTDA approved plants and kept in the nursery for two years. It takes a further four years and a constant

supply of fertilizer for a tea sapling to grow to maturity, but one can start picking leaves after 18 months. Each KTDA farmer is issued an identity number and registered at a local buying centre, which is usually built by the KTDA. The picked green leaves are taken to KTDA buying station, weighed and recorded. At the end of each month, the farmers are paid a base rate for the tea, which is twice yearly boosted by bonuses. Currently, the base rate is Ksh 7.5 per kilo out of which, they pay their pickers Ksh 3.65.

Her husband and new wife died of Aids seven years ago, but she is alright. After leaving the bank, she increased her trading activities and started exporting Kenyan-made curios to South Africa in 1995. This year she bought a small residential complex, consisting of two 2-bed flats, and two 1-bed flats in Nairobi. She lives in one and rents the others out. She bought a Peugeot to use as a taxi, and sells second hand clothes. The monthly tea income remains to support the farm, but the bonuses contribute to her living expenditure. The cash crops help support herself, her two sons at College in England and daughter studying Tourism in American College, Nairobi, as well as the extended family including: her mother, her unemployed younger brother, his wife and 3 children and her older brother, his own wife and their 6 children (under 11), all of whom live in the same compound in her home village. She has a manager on the farm, who in return for housing and growing his own cash crops, oversees the casual pickers who bring in the crop.

## The Picker

The Picker works on several small farms picking tea on a rotational basis. He gets paid Ksh 3.65 per kilo by the smallholder neighbours. His father has his own 2-acre farm, but this is insufficient to support his many younger brothers and sisters.

He is married now and he rents a small dwelling on the side of a farm in return for picking tea part time. He is also allowed to grow a few cash crops there and he has some chickens as well. The compound has a tap for water which comes on and off throughout the day, but there is no electricity. He has two small children and his wife is pregnant with a third. When there is plenty of crop to pick, his wife and children join him and even some of his younger brothers and sisters.

He cannot remember when he first went to pick tea, but he believes he is one of the fastest pickers in the district and on a good day he is able to pick over 40 kgs of two leaves and a bud. He also knows how to prepare the ground, plant saplings, apply fertilizer and prune the tea.

To pick the tea, he walks down the line of tightly planted tea bushes and picks the new-formed leaves from the top of the bush. He wears a pair of trousers, a T-shirt and is barefoot. He carries a large wicker tea basket on his back and throws the 2 leaves and a bud into it periodically, as his hands become full. When he has picked the tea on a farm he takes it to the buying station, where it is weighed and the amount recorded against the license number of each farmer. He does not read or write himself, but trusts the Manager at the buying centre to keep the record straight. The Manager also helps him keep a record of the number of kilos he has picked for the various farmers so he can be paid at the end of the month. He is paid the statutory minimum wage by the farmer, but he does not receive bonuses if the price of tea rises or when the tea bonuses come in.

The pickers are angry that regardless of the actual weight of the weighing bag, they have 2kgs deducted from their crop on dry days and 6kgs on wet days, thus reducing the weight and earnings. Secondly, they cannot leave the buying station until the truck collects

it, because the green leaf is not considered 'sold' until it is loaded on the truck. Due to the bad roads this can mean waiting until late at night and sometimes it does not come. This means they are not paid for their labours at all. In fact even if the truck breaks down on route to the factory and the green leaf is not delivered to the factory, or is spoilt on the way – the picker / farmers will not be paid at all.

### **The Farm Manager**

The farm manager is the 9th of 28 children born in the local Gatundu area. He and many of his brothers were educated to secondary school and beyond. He himself went to a TTC (Teachers Training College) and is currently teaching in a secondary school earning Ksh 7000 per month. Every weekend he attends college in Nairobi for a degree in music and geography. Once he has obtained this degree, he will be earning Ksh 12000 as a teacher. He is married and has a new baby.

His illiterate father some years back, bought an extra piece of land from a literate farmer and let his son build a house on it. When the literate father died, his sons went to court and claimed the land back from him. As the paperwork was not correct for the original land sale, he was evicted. He arranged with the second smallholder, that he stay on her shamba. He oversees the tea, pickers, administration and accounts of the farm. He also cares for her livestock, including chickens and goats and the cash crops including pineapples, which are exported. The compound has running tap water sometimes, but no electricity. He runs a black and white television off a car battery!

He has his own sheep, two cows, chickens and cash crops. He has also bought a small plot of land where he has just planted 500 tea plants (each capable of giving 2-3kgs p/a) when matured. He is deeply concerned about the political situation in the area at the moment. He wishes that he could participate more actively in the tea industry and the administration of the factory, but he is considered only a poor teacher, with no land. The farmers deem the advantages of his education irrelevant. He feels powerless to intervene in the on-going struggles with the KTDA and other politically backed groups. He wants to know why the KTDA cannot support their struggles to carry out elections and why the police cannot protect them from intimidation.

He will be voting because he believes that whatever previous mismanagement of the KTDA and ineffectiveness of previous directors, it would still be preferable than being controlled by one or two private owners. He is deeply concerned about youth unemployment, destruction of the forests, corruption and mismanagement at both parastatal and government level. He believes that farmers and representatives need capacity building sessions to understand about administration of the tea business to become more effective in making decisions that effect all their livelihoods and become more productive. He also believes that the KTDA should be more transparent especially with regards to deductions made from their earnings.

### **Buying Centre Officer Cununiki TH18**

The Buying Centre Officer is a secondary school leaver who runs the buying centre and has his own 1.5 acre tea farm. The buying centre takes up to 30000 kgs green leaf per month during the rainy season from the 72 registered farms. The current drought has reduced this amount to only 10,500 kgs.

The picker/farmers will carry the tea in their wicker baskets from the farm to the Centre, a rudimentary building with openings for doors and windows and a corrugated roof. Upon arrival, the tea will be weighed. The tea is emptied out of the basket and into a sisal bag. Some factories use recycled polybags that do not become permeated with water so much. He has been instructed by the factory to deduct 2kgs off the weight of the tea to counter-balance the weight of the bag when is dry and up to 6kgs when it is sodden wet. Thus a picker/farmer whose green leaf weighs 15 kgs during the dry season will be registered as 13 kgs and in the wet season, as little as 9 kgs. At Ksh 3.65 / kg this would give the picker Ksh 32.85 or less than £0.35 for a full days work.

Working to capacity at 40 kgs of 'two leaves and a bud' less 6kgs for the bag – a daily wage would be 34 kgs at Ksh 3.65 totaling Ksh 124 (approx £1.30 p/d). The KTDA however has said that the dry sisal bag weight to be deducted is only 1.5 kgs. Since the average quantity

during the dry spell is 15 kgs per basket and since the monthly intake at the buying centre is 10,500 kgs, 350 kgs is not being paid for (Ksh 1277.5). In reality, the dry bag weighs less than a kilo. It should also be noted that the deductions include the cost of the sisal bag at Ksh 600 and yet the farmers know that the actual cost is only Ksh 100. The farmers believe they are being cheated.

The buying centre theoretically serves as the communication centre for the tea farmers and their pickers. Every month the farmers are given their pay slips, Ksh per kilo, less the various deductions including, government tax, CC Cess, KTDA Cess, fertiliser and other periodic expenditures, as above. Mark is the communications link between the KTDA & the picker/farmers. He understands why they are angry with the KTDA and their frustrations especially with regard to the collection of their green leaf and the argument regarding the 'point of sale'. They are forced to wait for the truck collection to ensure their leaf is continually tossed and aerated and ultimately collected to take to the factory. This extends an already long day for picker/farmers and their accompanying children. The only refreshment provision at the buying station is a water tap.

### **The Driver**

There are 17 drivers employed by the factory to collect the leaf from the 72 buying stations in the area. The ability to collect the green leaf and it's timely delivery to the factory affects everyone. If the loaded truck does not reach the factory due to impassable roads or mechanical failure and the green leaf spoils, the picker/ farmers are not paid at all for their labours.

The drivers, including this one, although knowing the importance of their job, face their own problems. They are firstly hindered by the deteriorating roads which take a heavy toll on all the vehicles, both old and new. The factory employs several mechanics and engineers, but there is little they can do without available spare parts. These are difficult to get, because they need foreign exchange which is controlled by the KTDA. Each of the drivers must have some rudimentary mechanical skills to keep the vehicle going whilst on the roads, but even then, other trucks have to delay their collections to tow factory vehicle from the side of the roads.

The vehicles constant belch out black smoke which pollutes the whole environment, whether the pedestrians or the crops along the roadside. Women with their babies, children to and from school are all being choked daily by this diesel vehicle pollution. The roads become impassable after heavy rains, ironically when the crop is most abundant.

Whereas it is deemed the point of sale should be at the time of weighing the leaf and registering in the book, (at the 'buying station'), the reality is that, unless the leaf is picked up and reaches the factory whilst it is still in good condition, the farmers / pickers, will not be paid for their labours. Sometimes, the pickers can go days without the truck coming and in some cases they have to walk miles with their heavy crop to bring it to the factory themselves. There is no compensation for this.

It should be noted that 1% of gross earnings, known as the CC Cess is deducted from the monthly pay packet of every farmer to contribute to the local councils up keep of the main roads and the KTDA Cess of Ksh 0.10 per kilo, is meant to contribute to the maintenance of the tea roads. Neither is being done. Yet the cost to the environment, quality and quantity of tea production and ability to give farmers and their pickers an income is being daily undermined by lack of investment in the roads.

### **The Buying Centre Officer, Kiambu**

Not all KTDA tea factories and buying centers are run in the same manner. He has been a buying center manager for the last twelve years in Kiambu. There, the tea is deemed to have been bought once the tea has been weighed. The pickers are free to leave the station at this point, because the factory employs an assistant to help load the tea onto the trucks.

At the end of the month, the farmers are paid for the number of kilos that have been recorded at the buying center. The gross monthly sum that they are paid per kilo varies according to the amount determined by the tea factory and is generally in line with a proportionate amount paid for by the KTDA. The deductions will also vary from factory to

factory, and in Kiambu, the net payment per kilo of green leaf will include a deduction for the monthly salary of the buying centre assistant.

His own take home gross salary is Ksh 5400 per month, but after various deductions, his take home pay does not exceed Ksh 3800 (£38). Richard is a college graduate. After finishing his equivalent to GCSE's, he continued his education to study computer programming, but was unable to find a job in this field in the city. He returned with his wife and young son back to his home village to stay with his mother and managed to get a job in the local tea factory.

Although they were aware of his literary and computer skills, the factory manager did not make use of them. He believes it was because he was jealous of him. However, with a second child on the way, he believed it was more important to keep his job than push for promotion. After several years at the factory, a new manager appointed him buying centre manager, close to his own village. This was quite convenient for him because although it offered him little in the way of extra remuneration, it did give him the opportunity to be close to his wife after the arrival of his fourth child. He still lives in his mother's compound, and now with six children, realizes that he will have a serious problem to send them through secondary school.

Seeking computer work in the city is not an option for Richard because, he realizes that he would have to update his computer skills and there would be no guarantee that he would get a higher paid job that would cover his costs of commuting back to the family. His wife occasionally goes and picks cash crops for farmers in the area. They have no cash crops of their own because they have never had the capital to buy any land. His elder sister supplements their income where she can.

### **The KTDA Tea Factory Manager**

Theoretically, the farmers collectively own and control the factory, which works on their behalf to produce the highest quality black tea for sale at the Mombassa auction. After recent violent clashes and several deaths over the KTDA alleged mismanagement of their affairs, the factory manager was very wary of accepting visitors to the factory. He was aware that his own personal security was in jeopardy both if he did and, if he did not open the gates. He was finally persuaded by Stephen Chairman of the buying centres that he should do so.

There are 72 buying stations who bring in daily green leaf to the Theta factory. During the drought this can be as little as 600,000 kgs but when the rains have been good, the factory can process up to 12 million kgs. The factory employs 89 permanent workers who are entitled to a monthly salary, housing and an additional allowance. During peak crops however, the factory is open 24 hours a day and casual labour who are paid a flat daily rate increase the numbers to 210.

The leaf is bought into the factory by truck and weighed. The sisal bags are individually hooked onto a conveyor track and is swung to the upper factory where the drying troughs are lined up ready for withering for the next 7-8 hours. Each bag is unhooked and emptied into the trough manually. Each trough is then marked with the pertinent information including date, time, load, weight, buying centre, vehicle and heat. The leaf is then sent to the CTC (Cut, Tear & Curl) section which is repeated 3 times followed by fermentation which is when the green leaf changes to a brownish colour. This takes 45 minutes at 85-95° followed by a further 45 minutes at 72°. A conveyor belt takes the tea for drying and then it is pressed and sorted through size denominated filters into different grades. It takes four kilos of green leaf to produce 1 kilo of black tea. The quality of the tea is largely determined by the quality of green leaf and KTDA insist that this is effected by two leaves and a bud. The grades packed BP1, FP1, Pd, Dust 1, F1, Dust 2, BMF, are then mechanically packed ready for transport to the Mombassa Auction. Each bag is marked with net weight, gross weight, grade and factory of origin.

The second smallholder mentioned and the farm manager, although all KTDA farmers and therefore collective owners, had never been through the gates of the factory before. The workings of the factory, the processes and costs were shrouded in mystery.

### **The Aspirant Factory Director**

The aspirant factory director is a man in his fifties from the local Buying Centre who has retired/been retrenched from his job with Kenya Airways in Nairobi and returned to live on his farm which he has had for 25 years. His family, help him pick tea on his 7 acres of farm and when the crop is good he will take on casuals to assist. He is one of 9 farmers out of 72 that are standing for elections. The KTDA structure is based on sound and fair principles allowing for representation from the grass roots through to Director of the Kenyan Tea Board.

- Registered farmers in each buying station will elect a representative who will become directors of the local tea factory, which serve it.
- The farmers will elect 7 directors from the different Buying Centres, but there will also be two other directors, appointed by the KTDA, one of which will be the Factory Manager.
- The nine directors will then elect one of the farmers on the zone level. (There are 45 factories administrated by the KTDA and they are divided into four geographic zones.)
- Each Zone will then select their own representative to sit on the KTDA board.
- One of these four zonal representatives will be voted to sit on the Kenyan Tea Board.

Theoretically, each farmer from each district buying centre can ask his representative to bring an issue up at the Factory and this will be passed eventually through the zones and up to the KTDA or even where relevant, the Kenyan Tea Board. Similarly, if changes are made at board level, the information should be filtered back through to the Buying Stations, which is used as a communication centre, transcending language and literacy.

There has however, been serious breakdown in communications that has caused much of the unrest in the District. The director would like to address specific concerns relating to the continued delays for pickers at the buying stations, compulsory kilo deductions of the sisal bag used to weigh the green leaf and compulsory purchase of these bags at inflated prices from the KTDA. He is worried about the cost of oil-fired boilers at the factory and would like to purchase a forest to use the wood for fuel. Having visited the factory for the first time, he realised that a priority was to 'build a directors office' away from the site because he needed somewhere to think! Ultimately he believes that the future for their district is to break away from the KTDA and market their own tea through the Internet. He would like to access more information about the KTDA especially Sessional Paper No 2, but the government printers has said it is not available.

### **The Public Relations Manager of the Kenyan Tea Development Agency Ltd (KTDA)**

Another day of bad press had led the PR Manager of KTDA to be very cautious of new visitors, even though the introduction had been made by a close acquaintance of his. He was particularly worried because for the last three months, his own tea farm had been abandoned by the tea pickers in protest and continued belief that the KTDA was guilty of mismanagement and misappropriation of funds. WAFE (War against Farmers Exploitation) had successfully got the press attention and although not actually representing real farmers and real issues, had curiously pro-government political backing and they had stirred an uncomfortable hornets nest.

The recent change of name from the Kenyan Tea Development 'Authority' to 'Agency Ltd' and from parastatal to private company had been handled with secrecy. Farmers were allocated shares on an ad hoc basis and then had the share value deducted from their money income without notice. The full implications of the change from public to private sector had not been made public prior to the change and subsequently although several documents had been prepared including Sessional Paper No 2, the KTDA Ltd Strategic Business Plan developed by the assistance of Ernst & Young, it was obvious that there had been little or no consultation with the farmers or their representatives when determining the best courses of action to 'Enhancing Performance'.

These documents reveal amongst other things, that the KTDA Ltd as a private company, will be subject to corporation tax and stamp duty together amounting to 35%. Reduced investment, redundancy and other measures therefore are to be implemented to counter-act this loss. According to the business plan, fertiliser is being distributed at cost<sup>1</sup> and this too will have to change to reflect the privatised nature.

This has been public relations disaster and PR manager, refused to answer any questions. He argued that Westerners were wanting to impose their ethics and management systems on African business mores, which he felt inappropriate and there is validity in questioning the end purpose of the research, it was a missed opportunity to promote the new values of the Agency. A submission to request a formal meeting was submitted and although all the conditions as discussed were met, it was ultimately denied.

### KTDA from Parastatal to Limited Company

Originally established in 1964, the Authority's mission was to 'foster and promote the country's tea growing'.

Owned by the government but *de facto* by tea farmers, today there are over 312,792 small holders who produce 62% of Kenyan tea production. In a way, it has been a great success story.

**The KTDA Ltd mission** is to:

'provide effective management services to the tea sector for efficient production, processing and marketing of high quality tea for the benefit of farmers and other stakeholders'<sup>2</sup>.

**The KTDA Ltd vision aims** to be:

'the best tea management agent in the production, processing and marketing of high quality tea'.

**The KTDA Ltd core values** are to:

- Operate with the highest degree of accountability, transparency and honesty.
- Attract motivate and retain competent staff.
- Develop and utilise modern technology in all operations.
- Ensure effective communication with tea farmers and other stakeholders.
- Accept to reward and be rewarded on the basis of performance.
- Perform to the highest measure of competence at all times so as to provide quality product and customer service.
- Be socially responsible and to do business in prudent ethical and in an environmentally friendly manner.
- Do business so as to make reasonable returns for the benefit of all stakeholders.
- Operate within the established legal framework.

### KTDA Ltd Core Business

- provision of management to tea factory companies in agricultural extension services
- speedy and efficient green leaf collection, inspection and delivery to the factory
- green leaf processing high quality made teas
- marketing of made teas including value adding projects

### KTDA Ltd Support Services

- accounting and financial services
- secretarial services
- bulk procurement of major items
- factory capacity enhancement
- human resource management

### KTDA Non-Core Business

- insurance services
- warehousing
- shipping of made tea
- property management
- related services

## The Marketing Manager KTDA

The Marketing Manager has more confidence in the future of the KTDA. Having worked there for the last 17 years he acknowledged the problems experienced in the past and believes that KTDA Ltd has a better future. He is seemingly committed to the new core values of the new strategic plan but he admitted that corporate values do not also materialise through business practice.

In the Strategic Business Plan 2000-2005, it appears that those who wrote the missions & visions did not communicate with those that produced the financial analysis and statements. Core aims and vital improvements, which justify long term projected increase in revenue, have lost funding and support. Solutions to acknowledged weaknesses within the inherited and current system have not been entertained. e.g.:

**KTDA Ltd mission** to provide high quality tea requires:

- The provision of high quality seedlings – the nursery lost it's funding in 1998 as part of the privatisation process and no sales of high quality cloned tea plants are listed from 2000.
- The continual use of fertilizers and capacity building farmers in efficient and productive husbandry including plucking techniques, falls under agricultural extension services and crop development, which loses it's funding in 2001.
- Ongoing inspections of leaf qualities (two leaves and a bud) loses it's funding in 2001.
- Prompt leaf collection for processing, which is acknowledged to severely affected by poor tea roads and vehicle maintenance loses it's funding in 2001.
- Theoretically the responsibility of these passes back to the factories, but it is not evident that they have accounted for this transfer of responsibility into the sales income.

**KTDA Ltd core values include:**

- *operate with the highest degree of accountability, transparency and yet one of the most pertinent financial impacts in the change from a parastatal to private company includes the requirement to pay 35% corporation tax. The plans to counter act this includes making 770 people redundant, increasing the cost of the provision of fertilizer and cutting service provisions. The small holders have not been informed of this.*
- *be socially responsible and to do business in an environmentally friendly manner and yet there is no integral plan for the promotion of sustainable agricultural or factory processes especially with regards the continued use of wood burners and resulting deforestation.*

## The Private Tea Factory Manager

Not all tea farmers are linked within the major plantations or with the KTDA. A few larger tea farmers have invested in the building of factories themselves, so as to process their own tea and control their own income. The Kenyan Tea Board which regulates the industry as a whole, have issued independent licenses. Whereas this is a very small percentage of the Kenyan tea industry, increased liberalisation may mean that it becomes more popular.

The private tea factory manager was originally trained by the **KTDA** and worked with them in a variety of different capacities before he took up the post in the private tea factory. He says that his intention is to use those skills combined with the additional opportunities that the private sector offers, such as the ability to invest in new equipment and offer added value products for specific markets. His employees respect his knowledge within the tea processing industry, and his suggestions for business development have been largely taken up. Recent acquisitions include automated black tea packing machines. Other than casual workers, the factory employees are offered the usual housing and medical benefits, defined working hours and paid holidays. Recent power shortages have meant alternative sources of energy have had to be found, significantly raising the cost of production.

<sup>1</sup> KTDA Ltd Strategic Business Plan p14 2000

<sup>2</sup> *ibid* p18

The joint owner-farmers of the factory provide the bulk of the green leaf but they also process tea for local small holders. These farmers are responsible for their own green leaf transportation to the factory, whether this be by foot, carried by the pickers, or by tractor. The green leaf is weighed in poly bags, which retain less water and subsequently the polybag is re-weighed separately. This means that the farmer / picker gets paid 18 Ksh per kilo in full and final payment of the weighed green leaf for the full amount of green leaf picked, but there are no additional bonuses.

The quality is also not as high as the KTDA because the factory does accept 3 leaves and a bud, but an out reach worker has recently been employed by the factory to ensure that the farmers make the best use of their land, fertilize adequately and retain the acceptable quality. Unlike the KTDA, the farmers have full and open access to the factory at anytime, and can discuss any problems with the factory manager openly. Improvements can be made and suggestions taken up with in a matter of days and weeks rather than months or years. This open approach has encouraged more local farmers to produce green leaf directly for the factory.

### **MD Brooke Bond Kenya (BBK)**

The Managing Director is a Unilever company man, heading up the Brooke Bond operations in Kenya and Tanzania. The majority of the tea in East Africa emanates from Kericho West of the Rift Valley. The Tanzanian operations are far smaller and very mechanized, and option which could be taken up by BBK. He is in the process of removing the HQ from Nairobi to Kericho, so his managers can be more involved with the day to day operations. Unilever operations are now committed to sustainability and this is largely driven by the trials currently being carried out in BBK, Kericho.

90% of the 18,000 BBK employees are pickers and live within the plantation estates in the 13,000 houses provided by the BBK. Each of the housing compounds are supplied with electricity and running water. There are communal kitchens, toilets and designated green areas for allotments for use of the employees. Some 80,000 people live on the BBK plantations and have access to education and healthcare. The workers predominantly belong to a Union and BBK complies with Kenyan collective bargaining agreements. The low turnover of workers is probably due to the access to these facilities by the workers and their families.

BBK expects that each worker will pick a minimum of 33 kgs of green leaf per day; better pickers can pick as much as 100 kgs during the rainy season. Children are allowed to help their parents pick during the school holidays or at weekends and their own green leaf totals are added to the registered picker. There is a base rate of pay for pickers, and a bonus is paid for every kilo over the 33 kg mark. As the BBK pickers are allowed to pick three leaves and a bud, it enables them to pick more per day than the average smallholder picker. Thus in real terms, the BBK pickers are better off financially than both the smallholders pickers and the smallholders themselves. The only significant difference therefore lies in land tenure. The small holders can leave their land to their families. BBK has yet to consider share options schemes as part of their drive for sustainability.

### **Chief Personnel Manager BBK, heads up the employment policies and operations.**

The Chief Personnel Manager is an HR professional and joined the company recently from another organization based in Nairobi. The move to Kericho has meant his wife and two children have also had to move with him and start afresh. Currently there are no senior housing quarters available on the plantation and therefore they have had to move into the town. This means they are also subject to the power rationing. His wife, a business woman, has moved with him to Kericho and hopes to open some new enterprise. Senior management have access to the club house with bar, restaurant and various recreational facilities such as swimming pool and organised activities and games.

The feeling of isolation and absence from the extended family and cultural festivals links Mark with 70% of the unionable employees, who also come from outside the ethnic group in the surrounding areas. BBK has several capacity building programmes and Kericho plantation houses the International Tea Training Centre. Employees come from all over the world to attend this training school. Training is

given at every level of employee and this helps to both maintain standards of tea, good employee relations and a more productive workforce. Most of these training courses have included an HIV/AIDS awareness course. Training is also given for health and safety.

### **Responsibility for Health and Safety BBK**

The health and safety office is a testament to the enthusiasm the staff member has for his work. The walls are filled with graphs ranging from safety procedures during a thunderstorm, to graphs illustrating the historical review of accidents, their causes and performance targets. His personal research on thunderstorms, deaths by lightning and safety procedures have now been implemented across the Unilever corporation.

The reduction in injuries, has not only radically improved health and safety at work, prevented days off sick but also re-inforced the strong business case for implementing and monitoring safety procedures. Every work day lost through sickness or injury costs the company and every accident has the potential to result in litigation, which is very costly. The focus on improving safety, has increased productivity and reduced legal fees.

### **Examples of Safety Procedures Introduced at BBK**

- All employees have to sign up to safe working practices and undergo training in the area in which they are assigned, before starting work.
- All accidents, however minor, have to be registered and the circumstances in which they took place.
- No vehicle can be driven into the plantation unless the passengers and driver are wearing seat belts.
- In each designated area, there are clear signs of dangers and reminders of safety procedures in both English and Swahili.
- This is also emphasized in the factory, where there are also witty sayings to re-enforce the importance of safety.
- Safety equipment and clothing are also compulsory in different areas.
- The stunning green and yellow waterproof protective attire for the pickers have reduced both incidence of chest infections, and ulcerated legs, caused by scratches in the bush and therefore have reduced lost work days.
- The white overalls, and head gear worn in the factory ensures that the workers are protected and the tea is uncontaminated.
- Fire drills are carried out at a regular basis.
- There are lightning procedures which have reduced the incidence of pickers being struck by lightning.

### **Group Research & Development Manager**

The Group Research & Development Manager heads up R&D including an internal assessment of the sustainability performance, which is high on the Unilever agenda. Sustainability is often reduced to encompass anything relating to the environment – recycling and bio-degradable often come to mind. However, this context uses the Bruntland definition. 'Sustainable development is that which meets the needs of today without compromising the ability to meet those needs in the future.' This then includes, social issues, economic viability as well as the monitoring the development impact on water, air and soil qualities.

One of the major issues surrounding black tea production is the copious amount of wood burnt to run the furnaces. Most of the KTDA factories have not taken the ecological impact of using this fuel, but as part of the sustainability programme, BBK Kericho has started to grow trees specifically for this purpose, thereby not diminishing the tree population in the area at all. Another programme has developed several hydro-electric power stations, which serves the needs of the plantation, community facilities and residences within it.

### **Kericho Hospital Brooke Bond**

The hospital within the BBK Kericho plantation is capable of carrying out major operations, and maintaining the lives of tiny premature babies. The hospital it seems is better equipped than the hospital in the town. Care has also been taken in providing a serene

environment and the central court yards have been planted by a wide range of rose bushes.

Some of the patients have HIV/AIDS related conditions. HIV/AIDS within the BBK Kericho is currently estimated at running at 12% of the population, whereas in Kenya as a whole, it is thought to have infected 15% of the population. HIV/AIDS is seen as having serious economic effects, and the BBK awareness programmes have now extended beyond staff employees, to the contractors and the surrounding communities.

The main hospital is served by several health centres that are in proximity to the local housing communities in the plantation. These health centres cope with the minor ailments or injuries, post hospitalisation care as well as immunisation programmes for the workers children.

### **Emergency Services**

The BBK plantation has also developed a rapid response team to deal with emergencies. It includes ambulances, fire engines and technical equipment to deal with most disasters. This was used earlier this year when a traffic accident a few miles from the plantation, caused a petrol tanker to explode and creating a fire ball. The BBK rapid response team came to assist and was able to save some lives and deal with urgent burns immediately.

### **The Purchasing & Logistics Manager BBK**

There has been an attempt to extend sustainable practices, including Health & Safety to the various service providers. Courses run by BBK now include various outside contractors and there has been a recent move towards spreading HIV/AIDS awareness beyond the working environment of BBK and into the community in which they operate.

The purchasing and contracts manager acknowledges there is more to be done in the field of extending good practices to their contractors. Site visits are sometimes made, but to date none of the contractors contracts include the necessity to adopt best practice policies. Certainly, there is no clause with regards to the haulage contracts to insist that their vehicles are road worthy and their drivers have the appropriate licenses.

This is in the interest of both parties; for safety of their drivers – efficiency of deliveries and health of the passing communities and for the clients, – so the tea arrives at the Mombassa Auctions, unpolluted. Exhaust fumes can corrupt the taste and smell of tea and reduce the quality and price.

# Annex 5: Hierarchy of principles, criteria, indicators

Example from the COLEACP harmonised framework

## Chapter 4: Social Responsibilities

OVERALL OBJECTIVE: To protect the rights and welfare of employees			
SPECIFIC OBJECTIVE 1: To ensure fair terms and conditions for employees			
HEADINGS	PRINCIPLES	SPECIFIC REQUIREMENTS	EXAMPLES OF PERFORMANCE INDICATORS
Communication of terms and conditions	4.1 Employers must ensure that all employees understand the terms and conditions of their employment	4.1.1 Employers must explain the terms and conditions to all new employees before they start work. Explanations should be in appropriate languages	Terms and conditions are explained clearly to all workers
		4.1.2 Mechanisms must be in place to ensure that all employees can ask for and receive clarification of terms and conditions at all times	Workers know how to find out more information about their terms and conditions Notices explaining terms and conditions in local languages in simple, easily understandable terms are posted in public locations in the work place
		4.1.3 Employers must ensure that any changes in terms and conditions are negotiated and communicated to relevant employees	Employees confirm that explanations are given in appropriate languages
Source: COLEACP (2001) Harmonised Framework for ACP Codes of Practice for the Horticultural Sector			

### Example from the Forest Stewardship Council

The FSC sets out the Principles and Criteria. Indicators and verifiers are determined at the national level and by auditors.

#### PRINCIPLE #4: COMMUNITY RELATIONS AND WORKER'S RIGHTS

Forest management operations shall maintain or enhance the long-term social and economic well-being of forest workers and local communities.

4.1 The communities within, or adjacent to, the forest management area should be given opportunities for employment, training, and other services.

4.2 Forest management should meet or exceed all applicable laws and/or regulations covering health and safety of employees and their families.

4.3 The rights of workers to organize and voluntarily negotiate with their employers shall be guaranteed as outlined in Conventions 87 and 98 of the International Labour Organisation (ILO).

4.4 Management planning and operations shall incorporate the results of evaluations of social impact. Consultations shall be maintained with people and groups directly affected by management operations.

4.5 Appropriate mechanisms shall be employed for resolving grievances and for providing fair compensation in the case of loss or damage affecting the legal or customary rights, property, resources, or livelihoods of local peoples. Measures shall be taken to avoid such loss or damage.

Source: Forest Stewardship Council 1999.

The Resource Centre's *In focus* series, highlights key lessons from partnership action research projects aimed at business, civil society, governments and international agencies engaged in responsible business practices.

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**The Natural Resources Institute of the University of Greenwich** is an internationally recognised centre of expertise in research and consultancy in the environment and natural resources sector. The Institute carries out research and development, consultancy and training to promote efficient management and use of renewable natural resources in support of sustainable livelihoods.

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- auditing of production operations for assessment of environmental and development impact
- development of methods for monitoring and verification of systems
- objective stakeholder analysis in the natural resources sector
- knowledge of legislative requirements for trade into the EU and ethical trading systems in place in the fair trade, environmental and organic sectors

<http://www.nri.org/NRET/nret.htm>

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- building a knowledge base of business practices and initiatives
- generating evidence through research and projects
- developing specialist expertise, products and services

Established in 1999, nine UK-based organisations formed a Consortium that has a wide range of leading edge experience in the social dimensions of business practice as well as operational activities and networks through the world. The Resource Centre is based in the London office of and managed by The Prince of Wales International Business Leaders Forum which has been active for the past eleven years in promoting socially responsible business practice world-wide with a focus on transition and emerging economies.

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