Assessing the business case for the domestic voluntary standard Lestari in Indonesia

An IDH learning study executed by Aidenvironment in close consultation with IDH – The Sustainable Trade Initiative, Solidaridad and Business Watch Indonesia
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In contrast to the coffee and cocoa sectors, there have been no global governance initiatives such as multi-stakeholder round tables to improve the social, environmental and economic conditions of tea producers worldwide. Historically, the tea market has shown a persistent state of oversupply, which has kept a downward pressure on prices. Resulting low margins and under-investment have tended to jeopardize productivity and quality, and have acted as a barrier to the improvement of the working conditions and livelihoods of growers, creating a downward spiral that makes it hard for the sector to act in a more sustainable manner. An estimated eight million small-scale tea producers in Africa and Asia are working with outdated production methods, often in poor working conditions. Not only do these methods harm the environment, also they result in low yields and poor quality product. However, in western and Asian markets, there is a growing consumer demand for sustainable tea.

To address the most prominent sustainability issues in the tea sector IDH – The Sustainable Trade Initiative brought together a Public Private Partnership and, together with its partners, it started the Tea Improvement Program (TIP) in 2009. The program’s main target was to roll-out sustainability certification schemes from estates to smallholders, building on ambitious commitments made by companies such as Unilever, DE Master Blenders 1753 and Twinings. TIP will end in 2013. IDH is developing a new Tea Program, which will run until 2015 with a focus upon the aim of achieving a tipping point to market transformation through up-scaling and embedding sustainable tea production.

One of the major challenges of the IDH tea program is the inclusion of smallholders in sustainable tea production and trade. In Kenya, a train-the-trainer program (the KTDA Sustainable Agriculture Program) made it possible to reach out to an unprecedented number of 560,000 smallholders. The tea sector in countries like Indonesia, India and China seem to offer similar opportunities in reaching out to smallholder households, although the context differs. Often the major tea producing countries are not the major exporting countries. China, India and Indonesia are leaders in both production and consumption of tea. To mainstream sustainable tea, it is therefore important that these markets, which represent 70% of global consumption, are targeted in TIP. For this reason, IDH supported Solidaridad in lobbying and performing awareness raising activities in domestic markets, leading to interesting results. In Indonesia a national standard for tea was introduced, called Teh Lestari. The national standard does not only create a stepping stone towards international standards such as those of UTZ, Fair Trade and Rainforest Alliance, but also takes the whole sector to a next sustainability level.

Therefore this study looks into the Indonesian case of the Lestari Code of Practice to better understand the drivers for successful sustainable market development in major tea consuming countries. It also looks into related intervention strategies for local standard development.

This represents the second in a series of IDH publications on the costs and benefits and business case analysis of sustainable tea production. Similar analyses are conducted in Kenya and will be conducted in India. This study was only made possible through the help and support of a large group of people within each participating organization. Specific reference to each one is made in the acknowledgements at the end of this document.
IDH pursues the goal of mainstreaming sustainable tea production. In the period of 2009-2012 IDH established four public-private partnerships within the Tea Improvement Program (TIP) framework. One of these partnerships was DE Master Blenders 1753 (formerly Sara Lee) – UTZ Certified – Solidaridad. There have been two main objectives that this consortium has been addressing:

1. The inclusion of smallholders in international certification systems: one of the preconditions to effectively tackle major sustainability issues
2. Increasing the market of sustainable tea in the main tea producing countries, i.e. China, India and Indonesia, which make up a large share of the global tea market.

The Indonesian Tea Standard Lestari has the same issues at its core. IDH has commissioned this study to analyze Lestari as a business case for smallholders and to explore its scalability for the Indonesian and other tea markets.

Indonesia is a tea producer of global importance, both in terms of production and export. Productivity however is low and the cultivated area is dwindling. Especially smallholders are affected by decreasing productivity, resulting from unsustainable growing and harvesting techniques, and they are largely excluded from the export-oriented tea value chain.

To meet the rising demand for sustainably produced, certified tea, international sustainability certification is on the rise and standards like UTZ Certified and Rainforest Alliance have been introduced into the Indonesian tea market. However, these global standards do not seem to address the very specific challenges of Indonesia, especially those of smallholders. Focusing on export tea, they leave out large smallholder segments. This demonstrates the need to develop a national sustainability standard.

Since 2008, a multi-stakeholder initiative was taken to develop and implement the Indonesian Lestari Tea Standard. Focusing on smallholder inclusion and increased national market uptake of sustainable tea, Lestari clearly presents added value to global standards, while meeting a comparable sustainability level.

To date 6,575 ha of tea plantations are Lestari certified, producing approximately 12,665 tons of made tea, 90% of which is produced by smallholders. In total 11,653 farmers in four smallholder cooperatives have received certification.

The study shows that the introduction of the Lestari Tea Standard has had a significant positive impact on the business case of tea smallholders. It has positively affected farmers’ livelihoods and strengthened relationships within the supply chain. Nevertheless, revenues for tea smallholders remain insufficient for financing adequate investments on farm level.

To further up-scale the Lestari Tea Standard, three main challenges have been identified:

1. Create demand
2. Build technical and organizational capacity
3. Finance the necessary investments at farm level

Based on the study, the research team believes in Lestari’s up-scaling, if the smallholder’s business case and the certification system are further strengthened. The increased availability of independent, good quality data to assess and monitor the farmer’s business case will be crucial to make an informed judgment of the positive impacts of the Lestari Tea Standard.

Executive Summary
Through its Tea Program, IDH - The Sustainable Trade Initiative works towards more sustainable tea production and consumption. In addition, IDH seeks to transform the supply chains of its program member companies from the tea industry. With the goal of mainstreaming sustainable tea production, IDH identified two major challenges and addressed these as main objectives in the IDH Tea Improvement Program (TIP):

1. The inclusion of smallholders in international certification systems, as one of the preconditions to effectively tackle major sustainability issues
2. Increasing the market of sustainable tea in the main tea producing countries, i.e. China, India and Indonesia, which make up for a large share of the overall global tea consumption.

Solidaridad became involved in the Indonesian tea sector in 2008, addressing both above-mentioned challenges. Based on the UTZ Certified standard and with financial support from IDH, Solidaridad and its local partner Business Watch Indonesia instigated a multi-stakeholder initiative, aimed at introducing sustainability certification into the Indonesian tea sector.

During various multi-stakeholder discussions, the idea of developing a national standard for sustainable tea in Indonesia gained more and more support. A national standard was considered to be an efficient tool for reaching domestic markets and for including smallholders into certification schemes. In 2008, discussions resulted in the establishment of the Indonesian National Reference Group on tea (NRG) and the development of the Teh Lestari standard and certification system. The NRG is an informal assembly of key Indonesian tea industry stakeholders committed to working together to enhance the accountability and credibility of different national and international CSR standards applicable in the tea sector. Until now, more than 10,000 smallholder farmers in Indonesia have taken up the standard.

The promising results of the NRG’s work in Indonesia attracted IDH’s interest and led to the decision to analyze the Indonesian approach on sustainable tea production. Here, Lestari is examined as a case that could provide valuable insight on how to develop sustainable markets in producing countries.

The objective of the study is to describe and analyze the Lestari Tea Standard. To do so, the Standard’s formation process, its functioning and the business case it presents to smallholders (once applied), is considered. Results serve as a basis for assessing the potential of up-scaling the standard in Indonesia.

Much of this study builds on qualitative and quantitative sources. The work comprises secondary literature research as well as the use of primary data gathered during field research. For a list of expert interviewees, please refer to Appendix 1.
2 The Indonesian Tea Sector

The following section starts with an overview of the Indonesian tea sector and its position in the global market. Later, Indonesia’s tea production system and its structure are scrutinized, in order to crystallize sustainability bottlenecks within the tea supply chain. Focusing on the three dimensions of economic, social and environmental sustainability will help to analyze and evaluate certification schemes as possible solutions for the exposed shortcomings in Indonesia’s current tea production and distribution system.

2.1 Indonesian tea market

2.1.1 Indonesia’s position on the world tea market

The global tea market has an average annual growth rate of 1.7% (since 2005) and is expected to grow steadily in the coming years.1 Estimated annual growth rates include those of black tea (1.8%) and green tea (5.5%).2

On this dynamically expanding international market, Indonesia holds a significant position, as tea producer and major exporter. In 2001, Indonesia was fifth in world tea production, following India, China, Sri Lanka and Kenya, with a production of 166,867 MT. However, during the last 10 years

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Indonesia has lost this position to Turkey, Vietnam and Iran. Currently, Indonesia ranks eighth in the top ten biggest tea producers worldwide, producing 142,400 metric tons (MT) of tea in 2011, as is illustrated in figure 1.⁵

Although Indonesia is one of the leading global tea producers, the Indonesian tea sector’s position is unstable, also domestically, facing a number of sustainability challenges. As the tea industry in Indonesia directly contributes to the livelihoods of approximately 1.3 million people, challenges and drawbacks within the sector imminently affect the lives of these people, their families and co-workers.⁴

In terms of productivity, Indonesia ranges in the lower field of all main tea producing countries. This is shown by the illustration in Figure 2. On average, Indonesia produces 1 MT of tea per hectare (ha), with productivity levels being lower only in Iran and China.

Regarding exports, Indonesia is a major global actor, ranking seventh in terms of export volumes and export value. Over the last two decades, approximately 60% of Indonesia’s tea produce was exported. Over the last 10 years however, Indonesia’s exports have been declining with on average 3% per year. Compared to 2001, 30% less tea was exported in 2011.⁵ In the same period and despite declining export volumes, the value of tea that was exported by Indonesia increased significantly. This is due to rising global tea prices in USD. The major buyers of Indonesian tea are Russia and

Figure 2. Production of made tea per ha in major tea producing countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Production per ha (tons/ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>0.5</td>
</tr>
<tr>
<td>Argentina</td>
<td>1.5</td>
</tr>
<tr>
<td>Kenya</td>
<td>2.0</td>
</tr>
<tr>
<td>Vietnam</td>
<td>2.5</td>
</tr>
<tr>
<td>Turkey</td>
<td>2.0</td>
</tr>
<tr>
<td>Japan</td>
<td>1.5</td>
</tr>
<tr>
<td>Iran (Islamic Republic of)</td>
<td>2.0</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>2.5</td>
</tr>
<tr>
<td>China</td>
<td>3.0</td>
</tr>
<tr>
<td>India</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: Calculation based on ICT 2012: 48, 53.

⁵ FAO STAT
⁴ Business Watch Indonesia 2010: 3
the United Kingdom, to which 30% is exported. While exports have been declining significantly over the last 10 years, imports increased drastically,\(^6\). Growing to 27,318 tons in 2011 imports increased more than six fold, accounting for 20% of total tea consumption in Indonesia. First importer is Vietnam, covering 59% of imported tea, followed by Kenya and Iran.\(^7\)

2.1.2 Indonesian Tea production

According to official Indonesian figures, an estimated 153,175 tons\(^8\) of tea were produced in Indonesia in 2011. 123,554 ha were planted with tea.\(^9\) Of the overall area planted with tea, smallholders manage 46%, the government 32% and private company estates 23%.\(^10\) Tea smallholders in Indonesia are defined as farmers producing fresh tealeaves, managing a land area of less than 20 ha.\(^11\) For their work, smallholders are supposed to rely mainly on family labor.\(^12\) The average farm size is reported to be 0.64 ha per farm. However, farm sizes vary significantly between different provinces, from 0.31 ha in Central Java to 1.5 ha in West Sumatra.\(^13\)

The area planted with tea in Indonesia has been declining at an average rate of 2% per year since 2001. This decrease is driven by the conversion of land use from tea to other crops. Figure 3 depicts the decline in total area planted with tea, as well as a decrease of government, private and smallholder plantations. Figures 3 and 4 show the drastic decline in tea cultivating areas (3) and tea production (4) by all of the three grower groups.

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\(^7\) Calculations based on UN Comtrade and Direktorat Jenderal Perkebunan

\(^8\) Figures differ from figures reported by FAO

\(^9\) Direktorat Jenderal Perkebunan

\(^10\) Calculations based on Direktorat Jenderal Perkebunan

\(^11\) BWI subdivides this group in the categories: small-scale farmers (< 2ha), medium-scale farmers (2-10ha) and large scale farmers (> 10 ha). This report will use the term smallholders for small-scale farmers as defined by BWI.

\(^12\) C.f. BWI 2010: 5, 7

\(^13\) C.f. BWI 2010: 5
Between 2000 and 2009, the area owned by private plantations decreased most rapidly with an average annual decline rate of 3.9%, followed by government estates with 2.2% and smallholders with 1.3%.\(^{14}\) From Figure 4, it also becomes clear that smallholders achieve significantly lower yields compared to private and government estates.

Table I. Production of made tea in kg per ha by producer categories and the yields/ha changes from the previous year in %

<table>
<thead>
<tr>
<th>Year</th>
<th>Smallholders Kg/ha</th>
<th>%</th>
<th>Government Estates Kg/ha</th>
<th>%</th>
<th>Private Estates Kg/ha</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>639</td>
<td>4.31</td>
<td>1885</td>
<td>7.48</td>
<td>1040</td>
<td>5.05</td>
</tr>
<tr>
<td>2008</td>
<td>637</td>
<td>-0.21</td>
<td>2012</td>
<td>6.71</td>
<td>1312</td>
<td>26.13</td>
</tr>
<tr>
<td>2009</td>
<td>792</td>
<td>24.22</td>
<td>1957</td>
<td>-2.75</td>
<td>1302</td>
<td>-0.75</td>
</tr>
<tr>
<td>2010</td>
<td>618</td>
<td>-21.92</td>
<td>1968</td>
<td>0.60</td>
<td>1297</td>
<td>-0.36</td>
</tr>
<tr>
<td>2011</td>
<td>710</td>
<td>14.82</td>
<td>2014</td>
<td>2.31</td>
<td>1234</td>
<td>-4.89</td>
</tr>
</tbody>
</table>

Source: Calculation based on Direktorat Jenderal Perkebunan 2010.
Table II. Tea growing provinces in Indonesia and their share in production (2008)

<table>
<thead>
<tr>
<th>Province</th>
<th>Area (Ha)</th>
<th>Area (%)</th>
<th>Production (made tea)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Ton)</td>
</tr>
<tr>
<td>North Sumatera</td>
<td>5,100</td>
<td>3.9</td>
<td>1,944</td>
</tr>
<tr>
<td>West Sumatera</td>
<td>4,892</td>
<td>3.8</td>
<td>4,317</td>
</tr>
<tr>
<td>Jambi</td>
<td>2,625</td>
<td>2.0</td>
<td>5,858</td>
</tr>
<tr>
<td>South Sumatera</td>
<td>1,470</td>
<td>1.1</td>
<td>2,375</td>
</tr>
<tr>
<td>Bengkulu</td>
<td>1,098</td>
<td>0.8</td>
<td>1,502</td>
</tr>
<tr>
<td>Sumatera</td>
<td>15,185</td>
<td>11.7</td>
<td>24,996</td>
</tr>
<tr>
<td>West Java</td>
<td>100,540</td>
<td>77.6</td>
<td>110,651</td>
</tr>
<tr>
<td>Central Java</td>
<td>9,372</td>
<td>7.2</td>
<td>9,406</td>
</tr>
<tr>
<td>D.I. Yogyakarta</td>
<td>136</td>
<td>0.1</td>
<td>117</td>
</tr>
<tr>
<td>East Java</td>
<td>2,465</td>
<td>1.9</td>
<td>4,256</td>
</tr>
<tr>
<td>Java</td>
<td>112,513</td>
<td>86.8</td>
<td>124,430</td>
</tr>
<tr>
<td>East Borneo</td>
<td>2</td>
<td>0.0</td>
<td>4,226</td>
</tr>
<tr>
<td>Central Sulawesi</td>
<td>1,760</td>
<td>1.4</td>
<td>1,226</td>
</tr>
<tr>
<td>South Sulawesi</td>
<td>129</td>
<td>0.1</td>
<td>199</td>
</tr>
<tr>
<td>Sulawesi</td>
<td>1,889</td>
<td>1.5</td>
<td>1,425</td>
</tr>
<tr>
<td>Total</td>
<td>129,589</td>
<td>100.0</td>
<td>150,851</td>
</tr>
</tbody>
</table>

Source: Direktorat General Perkebunan, cited from Business Watch Indonesia 2010.

Occupying the largest overall share in tea cultivated area, and two times the area planted by private estates, tea production of smallholders in 2011 was only slightly higher than production by private estates. In 2010, smallholders produced even less tea than private estates.

Yield comparisons show that over the last five years (2007-2011), smallholders on average reached only 35% of the yields achieved by government-owned plantations, and 55% of the yields achieved by private estates. A major reason for these low yields is that the smallholder gardens are over aged and their planting density (number of tea bushes planted per hectare) is extremely low.

Tea cultivation in Indonesia is concentrated in a few provinces. More than 75% of Indonesia’s smallholder tea plantations are located in West Java. Other provinces with relevant shares in area managed by smallholders are Central Java, and North and West Sumatra. Table II gives an overview of the tea growing provinces in Indonesia and their share in production in 2008.

2.1.3 Structure of the Indonesian tea market
Primary production of tea takes place on smallholder, government-owned or private company plantations. Afterwards, tea is processed to either black or green tea. The processing involves different technologies in respectively green tea or black tea factories. Estimates suggest that 90% of the fresh tea leaves are processed into green tea, which also serves as a basis for the production of jasmine tea. Only 10% is used to produce black tea, which is mainly sold in bulk on the export market.

15 Calculations based on Direktorat Jenderal Perkebunan
16 C.f. Business Watch Indonesia 2010: 5
17 C.f. V.R. Kustani and T. Widiyanti 2007: 8, 14
60% of black tea from Indonesia is exported; sold through the Jakarta Tea Auction (JTA) or directly to large packers or exporters. Sellers at the JTA are mostly state owned companies. Two big players dominate, jointly buying 90% of all auctioned tea. The Bandung Tea Auction, meanwhile, handles sales of green tea.

Large private and government estates dominate production for export. The most influential players in the Indonesian tea supply chain are big packing and blending companies. Government and private companies are often vertically integrated, operating tea plantations, tea factories, and blending, trading as well as packaging facilities. The structure of companies is diverse. Many serve as a supplier for one of the big blenders or processors of tea-based product, while at the same time marketing their own brand in the domestic market.

Smallholders meanwhile have very limited bargaining power, lack organization and often depend on services and finance from collectors. Smallholders produce mainly for the domestic market, selling their fresh tealeaves either through local collectors or via farmers’ cooperatives, to small tea factories. Smallholders also supplement tea supply of bigger tea companies from their own estates.

Figure 5 roughly depicts this supply chain, from domestic tea production to the consumer abroad.

2.2 The opportunity and need for sustainability certification in the Indonesian tea sector

Latent emerging demand for sustainable tea
With a population of nearly 240 million citizens, Indonesia has a huge market for the tea industry. The size of the market poses a good starting point to answer to the challenges in the industry development. A quantitative research conducted by BWI and Solidaridad into Indonesian tea consumption (2010) provided some preliminary insights into the opportunity to develop a domestic market segment for sustainable tea. Some key findings:

- 75% of respondents (n=1000) had never heard of the sustainability topic with regard to tea;
- Consumers are mostly concerned about: awareness for the chemical content information (75.4%), awareness for the additive element information (9.7%), and the intention to understand the production process (89.2%);
- The respondents scored low on insight into region of origin, farmers’ and laborers’ welfare and the price of tea leaves;
- But on the bright side, 58.4% of respondents was willing to try the innovative product if available;
- 55% would pay a higher price to improve farmer welfare. 66% was willing to pay more in return for the safety and health standard and also the welfare of the farmer. 65.7% would pay a higher price for certification of the product by an independent institution that could confirm that the tea production has followed the industry ethics and properly addresses social issues;
- While the indicated price ranged from less than IDR 500 to more than IDR 3,500, basically the largest percentage of the respondents showed the willingness to pay IDR 500 - IDR 2.000 more for each product unit.

Economic Issues
From an economic point of view, the tea growing business is losing its appeal. Figure 3 and Figure 4 clearly depict the decreasing planting area and production volumes. For smallholders, the main concern in securing the future viability of their farm operation is the low productivity of their land. Combined with low prices for fresh leaves paid by collectors, this results in a low profitability of growing tea. Profits of smallholders can vary significantly. An example of one village in West Bandung, where figures are available, shows monthly profits from tea operations ranging from IDR 500,000 to 1,500,000 (USD 50 - 150), which is hardly sufficient to cover daily needs. In addition, the profitability in the specific location is reported to be high when compared to other, more remote tea growing regions. As a result, growing tea is losing its importance in providing a decent income. Tea cultivation tends to become a source of side income, besides other activities like rice and vegetable farming, or cattle breeding.

The root cause of the low productivity of smallholders is the low and stagnant price of poor quality fresh tealeaves at the farm level. Low prices do not permit farmers to make adequate investments, which again leads to insufficient maintenance and fertilization of the trees, lack of rejuvenation by replanting and a very low planting density of tea plants. This planting density (infilling) of smallholder tea

19 C.f. V.R. Kustani and T. Widiyanti 2007: 52
20 C.f. V.R. Kustani and T. Widiyanti 2007: 2
21 The figures provided by BWI (2010) are based on interviews with farmers from only one village in West Bandung, where reportedly smallholders have been receiving solid extension services over the last 10 years. Therefore, the figures cannot be considered as representative for the average tea smallholder in Indonesia. The figures also vary significantly (USD 50-150) without providing a reference of profits to farm size or average profit per ha.
23 Income from tea accounts for 28-31% of total income (calculation based on BWI 2010: 8)
gardens is as low as 50% of the technical optimum, which is around 13,500 bushes per hectare. The average age of the tea bushes is very high and it is estimated that 40% of the bushes are as old as 100 years. Constantly rising prices of farm inputs, like labor and fertilizer, enforce this process. In addition, the knowledge of most farmers on good agricultural practices (GAP) is limited, due to a lack of effective extension services. This process can be described as a vicious cycle of decreasing investment, - yields and - quality of fresh tealeaves, which again threatens the overall profitability of the farms. Figure 6 shows a schematic representation of this cycle of declining profitability.

**Social Issue**

Moreover, Figure 6 builds a link to the social dimension involved. Low returns from smallholder tea plantations directly affect the livelihood of its workers, who have to depend on additional activities to provide for their livelihood. Hence, the challenges of economic sustainability in tea production have a real social dimension. This direct link between economic and social sustainability is in line with the main sustainability issues recognized at the global level.

**Environmental Issue**

Looking at environmental issues from a global perspective, there are a number of interrelated issues. Tea plantation establishment contributes to the conversion of natural forests. In addition, a combination of high application rates of fertilizer and pesticides, combined with soil erosion, results in the pollution of waterways.

Awareness of the importance of environmental protection is reported to be relatively high in smallholder tea plantations in Indonesia. A clear picture of the environmental impact and challenges in tea smallholdings in Indonesia, however, seems to be lacking. Reports on the environmental assets of tea smallholders state that “access to water resources will be increasingly limited due to the intensive deforestation surrounding the tea areas, either for household needs or for thermal energy”. This statement contradicts the above-mentioned observation of tea smallholding communities’ high awareness of their direct and indirect environmental impact.

At the same time, tea plantations play an important role in the overall landscape ecology. They prevent soil erosion in steep terrain and increase the capacity of the soil to retain water and prevent surface runoff. The decrease of area planted with tea and the conversion to other crops raises concerns about increased flooding and excessive erosion, among a number of stakeholders in the tea industry.

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27 C.f. BWI (2010): 9
28 C.f. Potts et al. (2010): 84
29 C.f. Potts et al. 2010: 84
30 C.f. BWI 2010: 10
31 BWI 2010: 11
The following section presents internationally acknowledged certification schemes that are applied globally as well as in Indonesia. In the light of the above mentioned sustainability issues, the certification systems are briefly analyzed, in order to expose the need for a national standard for the Indonesian tea sector and its individual features.

3.1 Certification schemes

As described in the previous section, the tea sector is facing serious economic, social and environmental sustainability challenges, all of which are interrelated and cannot be addressed one-dimensionally. The need to integrate long-term sustainability targets, such as increasing yields, stable prices and revenues and soil protection into the tea value chain has become apparent and has been internationally acknowledged. Certification schemes address and enhance sustainability. This is why the following section scrutinizes the most globally dispersed standards, which also play a role in the Indonesian tea sector.

3.1.1 Global certification schemes

There is a variety of certification schemes that assure sustainable production of tea. Most prominent ones are the Rainforest Alliance (RA), UTZ Certified and Fair Trade. Their market share in global tea production increased rapidly in the last years, from a share of 1% in 2007 to one of 10% in 2010, as reported by TCC. RA is currently dominating the market, with close to 60% of all sustainability certified tea produced in 2011. RA took over the leading position from Fair Trade that, together with Organic, had a much longer presence in the tea sector than the rapidly developing UTZ and RA. The latter two entered the tea market only recently, in 2007 and 2008 respectively. Africa is the main origin of all schemes, with a share of 59% to 71%. Asia follows with 25% to 32%. As conventional tea for export is mainly produced by Asian countries, one could assume a large potential to increase certified production in Asia.

Some of the biggest international buyers of tea are committed to increasingly buy certified tea. Unilever, Twinings and Tetley (Tata Tea Group) made major commitments to RA and DE Masterblenders 1753 to UTZ Certified, with 2015 as a common timeline for the transformation of their supply. This will most likely boost demand for certified tea in the short term.

Figure 7: Geographic distribution of tea production for export by certification system (2007 to 2009)

Source: FAO (2010); FLO (2010); RA/SAN (2009), cited in C.f. Potts et al. 2010.

32 C.f. TCC 2010: 12
33 C.f. Potts et.al. 2010: 87, based on the figures estimated in SSI.
34 C.f. Potts et.al. 2010: 91
35 C.f. Potts et.al. 2010: 92
Besides Fair Trade certification, which has a prescribed system for minimum prices and a social premium paid to tea producers, data on premium prices for sustainable tea is scarce. The SSI report estimates that prices of certified tea were 30% to 70% higher than the prices for uncertified tea.

### 3.1.2 Global certification schemes in the context of Indonesia’s tea market

Every year, Indonesia produces an estimated 64,345 tons of certified tea. The largest share (approximately 71.2%) consists of tea certified by the RA certification system, followed by Lestari Tea (18.4%) and UTZ Certified (10.4%). In the domestic market, Lestari is the only standard used. RA and UTZ Certified are only relevant for exports.

RA has certified 21,215 ha of tea plantations in Indonesia. Annual production of made tea amounts to 45,839 tons per year. Thereof, 40-70% is sold as certified tea and into certified supply chains. The rest is sold on the conventional tea market. Currently all RA certified tea in Indonesia is coming from professional estates. No smallholders are certified so far. However, smallholder capacity building and certification projects are underway and the first smallholders are expected to receive certification by the end of 2013. RA certified tea is expected to rise in the coming years, as Unilever (buying 60% of the Indonesian tea export) has committed to source RA certified tea for two of its main brands by 2015.

3,932 ha of tea plantations are certified to the UTZ certified tea code in Indonesia in 2012. Certified tea volumes are estimated at 6,683 tons of made tea. Thereof, around 10% is sold as UTZ certified tea and into certified supply chains. As more production is expected to be certified in 2013, the supply – demand gap could become even wider. UTZ certified tea is solely produced on large tea estates in Indonesia, involving 5,622 workers. One previously certified cooperative did not renew certification again in 2012, due to the high cost of certification. Another reason for the non-continuation of the certificate may be the limited demand for UTZ certified tea as shown above.

<table>
<thead>
<tr>
<th>Certification Scheme</th>
<th>Area under certification (ha)</th>
<th>Production volumes (tons of made tea)</th>
<th>Production share approx. in %</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rainforest Alliance</td>
<td>21,215</td>
<td>45,839</td>
<td>71.2</td>
<td>No smallholders in Indonesia have been RA certified thus far</td>
</tr>
<tr>
<td>UTZ Certified</td>
<td>3,932(^{36})</td>
<td>6,683(^{43})</td>
<td>10.4</td>
<td>5,622 workers produce UTZ certified tea, but no smallholders</td>
</tr>
<tr>
<td>Teh Lestari</td>
<td>7,303(^{44})</td>
<td>11,823</td>
<td>18.4</td>
<td>90% of Lestari tea is produced by smallholder cooperatives</td>
</tr>
<tr>
<td>Total</td>
<td>32,450</td>
<td>64,345</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

\(^{36}\) C.f. Potts et.al. 2010: 94

\(^{37}\) C.f. e-mail communication from February 13th, 2013 with Petra Tanos, Senior Projects Associate Asia Pacific Region, RA

\(^{38}\) C.f. Potts et.al 2010: 92

\(^{39}\) Annual Report (2012), E-mail communication from March 4th, 2013 with Wim Spieringhs, Field Coordinator Asia at UTZ Certified

\(^{40}\) C.f. email communication from March 6th, 2013 with Dr. Shatadru Chattopadhayay, Managing Director Solidaridad South and Southeast Asia

\(^{41}\) UTZ (2013), e-mail communication from March 4th, 2013 with Wim Spieringhs, Field Coordinator Asia at UTZ Certified.

\(^{42}\) UTZ (2013), e-mail communication from March 4th, 2013 with Wim Spieringhs, Field Coordinator Asia at UTZ Certified.

\(^{43}\) Annual Report (2012). E-mail communication from March 4th, 2013 with Wim Spieringhs, Field Coordinator Asia at UTZ Certified.

\(^{44}\) This represents the total area under certification including area that is in conversion.
3.1.3 The need for a domestic certification scheme

As mentioned in the previous section, globally accepted certification schemes have found their way into the Indonesian tea sector in which now a visible percentage of tea produce is sustainability certified. However, the need to develop a national sustainability standard for tea has become apparent in the past due to various reasons:

1. The Indonesian government actively supports development of Indonesian national standards as part of policy to enhance tea quality;
2. None of the international certification schemes have clear plans to operate in Indonesian domestic markets;
3. Stakeholders believe that to address Indonesian consumers a unique localized proposition is needed;
4. Smallholder tea farmers have so far profited little from these global initiatives. The costs and standards, which relate to certification, are too high for small-scale growers. This makes it impossible for them to comply with the determined criteria; A large percentage of the produced tea in Indonesia remains in the country for domestic consumption. The export-oriented standards focus solely on tea that is destined for export, leaving out the high percentage of nationally traded tea. A standard that would focus on domestically consumed tea would not only raise awareness of sustainable production; it would also target the production of domestically consumed types and quantities of tea - while a few large companies are mainly responsible for the export tea sector (see section 1).
5. Smallholders mostly produce for national consumption and do not have contact with the export auctions, where most certified tea is traded. Tea smallholders are thus mostly excluded from the profits of certified tea.

3.2 The Lestari Tea Standard

Since 2008, a working group of various stakeholders, the National Reference Group (NRG), joined forces to develop a standard that would be applicable to the national context of Indonesian tea.

At the core of its work, the NRG developed an Indonesian certification system for sustainable tea, the Teh Lestari standard. The NRG acted as an informal group for four years, until it was officially registered as a foundation in 2012.

The following sections depict the need, set-up, implementation and development of the Lestari standard.

3.2.1 Developing the Lestari Tea Standard, stakeholders and motivation

Development of the standard

In 2008, Solidaridad and Business Watch Indonesia organized a multi-stakeholder consultation in Bandung, West Java, in order to discuss current sustainability challenges of the Indonesian tea sector. Fifty stakeholders, including private and government estate farmers, smallholders, buyers, certifiers, consultants and representatives of the Indonesian Tea Board joined the workshop.45

During the meeting, participants welcomed the idea to conjointly face current sustainability challenges in the tea sector through sustainability certification. Instead of using existing certification systems, which are mainly driven by foreign buyers, the participants agreed on the need for and drive of developing a national sustainability initiative for tea.

To start the initiative and develop a standard that is applicable to national circumstances, the NRG was launched. Business Watch Indonesia (BWI) was contracted by Solidaridad to coordinate the NRG. IDH provided funds and Solidaridad supported the NRG through financial and technical support.46 To develop a national suitable standard with a clear added value to international schemes, the NRG focused on two points:

46 Business Watch Indonesia 2008: 3
1. The certification of smallholders who, without the necessary support, would not be able to deal with the certification requirements arising on the export market.

2. Reaching scale in sustainable certification of tea in the domestic market of Indonesia.

A first draft of the farm standard was finalized in October 2010 and directly implemented with a smallholder cooperative. The farm standard was updated in June 2011, based on further experience from its implementation. After a benchmarking with the Unilever Sustainable Agriculture Code (USAC) in 2012, additional modifications were made. The farm standard was finalized in January 2013.

In parallel to the farm standard, one for tea processing factories was developed and implemented in certification pilots. A first draft was published in October 2010. The standard was updated in September 2012.

Stakeholders
Two working groups were set up to develop the Lestari Tea Standard. The Standard Working Group (SWG) works on the development of the Lestari Tea Standard, the certification system and the respective documents. This was done in a set of consultation meetings over the last four years. The Marketing Working Group (MWG) promotes the consumption of sustainable tea in the domestic market by encouraging important stakeholders in the Indonesian tea industry to join the initiative.

The Lestari Tea Standard has been at the core of the NRG’s work during the last four years. Lestari is now officially owned by the Indonesian Tea Board and managed by the NRG. The latter heavily relies on support from BWI, which acts as the Secretariat for the NRG and coordinates the Lestari Tea standard development process. BWI, with the support of Solidaridad and the NRG, also organized the implementation of certification pilots with smallholder producers, tea factories and tea estates. An overview of the development process is given in Appendix 2.

Appendix 3 shows the Stakeholder Map of the Lestari Tea Standard. However, main buyers like Unilever Indonesia and APT Sinar Sosro as well as important institutions like the Ministry of Trade and the National Accreditation Committee still need to be involved.

Motivation
The stakeholders’ most commonly shared motivation to join the NRG is a general concern about the overall sustainability of the Indonesian tea industry. NRG members also see the support of smallholders on strengthening their position in the value chain as a common goal and reason to join.

The NRG members believe that the support is necessary to ensure that tea remains an economically viable livelihood activity for farmers in the future. Another important motivation is the need for quality improvements and the secure supply of quality tea in the long term. Finally, some NRG members mention the importance of tea plantations in the overall landscape ecology in tea growing regions, as a reason to support the NRG and the establishment of the Lestari Tea Standard. Details of the motivations of selected key members of the NRG and the input they provided in the standard development are given in Appendix 4.

3.2.2 Functioning of the Lestari Tea Standard
Several elements of the certification system have been developed and are the basis for the current certification pilots.

The Lestari certification system requires internal audits by groups of smallholders, prior to the certification audit, which takes place annually. Independent certification bodies have to be approved by the NRG, and will audit the documents of the management unit of the applying farmer group.

Assessing the internal control system and the competency of the staff responsible for its management is also part of the audit. Annual audits include visits to a sampled number of group members. The sample size is the square root of the number of farmers. The audited farmer samples are chosen randomly.

Other elements and documents of the standard are still being developed and reviewed. The certification protocol of the Lestari Standard is a key standard document that outlines the functioning of the certification system. The protocol is currently under development. At its status of development, it contains requirements for membership and...
The certification protocol is still under development. Lestari provides a label to be used as a communication tool on the end product. Certified producers are already applying the label. The rules of communication and use of the label have yet to be developed. In addition, traceability requirements are currently unclear. Also, chain of custody requirements still need to be developed.

Further elements under discussion are a maximum daily rate and allowance permitted to be charged by certification bodies doing audits towards the Lestari Tea Standard. Another discussion point is a trading fee going to the smallholders, a membership fee and several other elements.

### 3.2.3 Status of implementing Lestari certification

7,303 ha of tea plantations have been certified by the Lestari Tea Standard. 90% of the certified area is managed by four smallholder cooperatives. In addition, one private company certified three of its tea estates. The yearly production of Lestari certified tea amounts to approximately 11,823 tons of made tea.\(^4\)

During the development process of the Lestari Tea Standard, certification pilots have been implemented with smallholders, private estates and processing factories. The provided results are feedback in the standard development and important lessons learned for the further development and revision of the farm standard, the factory standard and the certification protocol. Table IV gives an overview of the currently certified producers.

#### Table IV. Status of certification to the Lestari Tea Standard

<table>
<thead>
<tr>
<th>Producer</th>
<th>Members</th>
<th>Date of certification</th>
<th>Area under certification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mekar Jaya Cooperative</td>
<td>704</td>
<td>February 2011</td>
<td>182 ha</td>
</tr>
<tr>
<td>Sidoarjo Factory</td>
<td>N.A.</td>
<td>February 2011</td>
<td>N.A.</td>
</tr>
<tr>
<td>Putera Mekar Cooperative</td>
<td>99 355</td>
<td>August 2011, July 2012</td>
<td>407 ha</td>
</tr>
<tr>
<td>Mitra Harapan Cooperative</td>
<td>7,433 2,086</td>
<td>August 2011, July 2012</td>
<td>5,150 ha</td>
</tr>
<tr>
<td>Cikal Bakal Cooperative</td>
<td>976</td>
<td>August 2011</td>
<td>836 ha</td>
</tr>
<tr>
<td>PT Sariwangi Factory</td>
<td></td>
<td>August 2011</td>
<td>N.A.</td>
</tr>
<tr>
<td>PT Tambi (three estates and one factory)</td>
<td>N.A.</td>
<td>December 2012</td>
<td>727.56 ha</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11,653 smallholders</strong></td>
<td>-</td>
<td><strong>7,302.56 ha</strong>(^4)</td>
</tr>
</tbody>
</table>

\(^4\) Table IV gives the total area under certification including area that is in conversion.

\(^4\) Calculation based on data from Business Watch Indonesia and email communication from February 14th, 2013 with Veronika Ratri, Project Coordinator, Business Watch Indonesia.
Until now, 11,653 farmers, organized in four cooperatives, received certification on an overall area of 6,575 ha. At the end of 2012, PT Tambi received certification of its estates as well as its factory.

The first certified producer group was the Mekar Jaya Cooperative in Batang District, Central Java. This cooperative has 704 members. The cooperative and the Sidoarjo Factory of PT Pagilaran obtained certification in February 2011. In August 2011, three other cooperatives and one additional factory received certification West Java. They consisted of the Putera Mekar Cooperative in Garut, the Mitra Harapan Cooperative in Cianjur, and the Cikal Bakal Cooperative in Cikalong Wetan as well as a factory owned by PT Sariwangi.

Until now, for all certificate holders, the audits have been conducted as part of a pilot project. Here, the draft certification policy and, in some cases, the draft standards were used. Members of the NRG with the necessary experience and educational background conducted the audits on a voluntary basis. The NRG members consider the ‘learning by doing’ approach most appropriate in developing a practical certification system. Beyond the pilot implementations, the overall standard system is not fully operational yet. So far, the standard for farm management, and the standard for tea factories have been finalized. Due to continuous revision, the standard for farm management was incorporated at the end of 2012 only.

### 3.3 Comparing the Lestari Tea Standard with other Sustainability standards for Tea

If the Lestari Tea Standard were accepted as an equivalent to the existing sustainability standards in tea, Indonesian producers would be able to avoid multiple certifications. Furthermore, they would be more flexible in accessing the market for certified sustainable tea. To achieve this goal, the NRG is looking for support in lobbying towards existing standard initiatives and big buyers.

A comparison of the Lestari tea standard to other sustainability standards for tea was not part of this research. However, a benchmarking process against the Unilever Sustainable Agriculture Code (USAC) was conducted by Unilever and showed “a high level of equivalence with Unilever SAC in terms of content, scope and ambition”. The standard is considered to be equal to the Unilever SAC in five out of the nine aspects, and slightly below it in two areas. Table V outlines these findings.

### Table V. Equivalence score of the Lestari Tea Standard to the Unilever Sustainable Agriculture Code

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2/3a</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Lestari Benchmarking Assessment: 8 2013.

49 Scores based on IKB Production Standard with no reference to guidance. Where 0=does not cover Unilever SAC; 1=covers only a few elements of Unilever SAC; 2=slightly below Unilever SAC; 3=equivalent to Unilever SAC; 4=exceeds Unilever SAC; a) Fertilizer section is a below part; b) Fully equivalent if no irrigation is applied.

50 Lestari Benchmarking Assessment: 7

51 Ten aspects are considered for the Unilever SAC however Animal Welfare is not relevant for the Lestari Tea Standard.
The area of strongest deviations from the Unilever SAC is energy use and waste disposal at the farm level. Here, Lestari covers only a few of the elements. The Working Group on Standards took up the results of the benchmarking assessment. Changes in the respective elements of the Lestari farm standard were undertaken to close the gap with the Unilever SAC, while keeping the standard practical for smallholders.

Although Lestari has sustainability goals that are similar to those of existing sustainability standards in tea like Fair Trade, RA and UTZ Certified, all involved stakeholders are convinced that a national standard like Lestari is the more effective and efficient approach to ensure the sustainability of the Indonesian tea sector. National ownership is seen as one of the main advantages of Lestari. It allows mobilizing all relevant stakeholders. Furthermore, with Lestari, the stakeholders developed a practical standard that fits the local conditions and addresses the specific needs of the Indonesian tea sector.

Especially the issue of smallholder inclusion is considered to be inadequately addressed by existing standards. High compliance requirements often impede smallholders from using the standards. This refers to standard elements, like the buffer zone requirements of RA, and a lack of capacity building activities provided to smallholders. Another point of criticism is the high cost of certification; including the necessary investments and operational costs as well as auditing costs, which pose an additional burden for smallholders. Together with a limited demand for certified tea as reported for UTZ Certified Tea and RA, those factors make existing sustainability standards unattractive. This applies especially to smallholders who should be considered to be the main target group for any sustainability initiative for tea from an Indonesian perspective. RA, with an expected higher demand in the market, is seen as especially difficult for smallholders to comply with. Earlier efforts to support a smallholder cooperative towards certification have failed.

Business Watch Indonesia and Solidaridad played a leading role during the establishment of the NRG and the development of the Lestari Tea standard. This was a combination of Solidaridad’s decades of experience in code setting and implementation across Europe, with a strong local understanding of BWI. It provided the necessary resources to facilitate the process from its initiation in 2008 to the status it has reached now. The provided external funding for managing the multi-stakeholder process and implementing certification pilots, together with the commitment and voluntary contributions of everybody involved was a prerequisite for the success of Lestari. Obtaining the buy-in from relevant stakeholders and ensuring their continuous participation and commitment in the process was crucial to achieve the recognition and uptake that Lestari gained in the Indonesian tea industry and beyond.

The stakeholders comprise major producers and sector representatives. In addition, technical experts contributed with their commitment to the development of a sound certification system and implemented it with smallholder farmers. All of the participating stakeholders provide weight to the initiative and ensure its acceptance on the broader governance scale. To include smallholder producers in the standard development through field pilots is considered an important aspect for developing a practical standard that can provide meaningful impact.

Understanding the smallholders’ needs and the ability to convince them to join the initiative is considered to be a major factor for the overall success of Lestari - and critical for its future. The joint effort of all members of the NRG is based on their belief in a shared vision for the Indonesian tea industry as well as their trust that Lestari, as a national initiative, is the right approach to move forward.

3.4 Conclusions: Critical success factors and learning during the process

Independent cost comparisons of the different certification schemes are not available for the research.

Certified production exceeds the actual uptake of certified product as reported for both schemes.
Most NRG members that were interviewed during the conducted field study expect Lestari to reach the same level of sustainability as international standards. The Unilever equivalence of the Lestari Tea Standard against the Unilever SAC further supports this argument. The suitability for smallholders, the local context and local ownership, however, are considered to be Lestari’s main advantages in comparison to other standards.

To reach the goal of the NRG and give Lestari increased national and international recognition and uptake in the market place, the overall certification system and its management still need to further professionalize.
4 Lestari’s impact on farmer’s business

A business case is the underlying reasoning for a certain project, activity or investment. It should make sense to the business and increase economic performance in the long term. Identifying the business case for smallholders’ certification to the Lestari Tea Standard requires evaluating whether the related investments improve performance of the farmer’s businesses and whether there would be a long-term positive effect on the farmer’s economic position and livelihood.

4.1 The business model of a tea producing smallholder

To discuss the business case of the Lestari Tea Standard for a smallholder farmer, it is necessary to have a clear picture of the usual business model of the average smallholder farmer in Indonesia. Figure 8 illustrates the general elements of such a business model. It is used to briefly describe the revenue model and cost structure of Indonesian tea smallholders.

Figure 8. The Business Model Canvas

Source: A. Osterwalder and Y. Pigneur, 2010: 18
4.1.1 Revenue model
The revenue model is the right part of the business model (figure 8) and comprises the product, the client, the distribution and the client relationship.

Product
The product that individual smallholder tea producers offer is fresh tea leaves that are processed into made black or green tea. It is a basic commodity, exchangeable between different producers. The market considers the product of smallholders in Indonesia to be of low quality. Downstream players in the supply chain however depend on their supply. Moreover, producers ask for tea from different areas and qualities to produce a made tea product with specific characteristics.

Customers reward quality with a higher price. However, quality requirements apply mainly downstream and are considered to be at the level of a tea factory buying fresh tea leaves or between different levels of traders. The farmers’ direct customer, which usually is the local collector, does not necessarily adjust its buying price to quality.\(^{54}\) The price of the farmer and along the supply chain depends on a number of factors.\(^{55}\)

Smallholder yield depends on a number of factors, such as the harvesting cycle and the agricultural practices of farmers. Maintaining a high planting density in the fields and the regular application of fertilizer can significantly increase yields. As shown in Table I, smallholder yields are considerably lower than those of professionally managed government or private estates. This stems from a low planting density in smallholder tea plantations, reported to often be 50% lower than the recommended planting density, and from limited or no fertilizer application.

Clients
Smallholders sell fresh tea leaves to local collectors, who can be smallholders themselves but with the necessary capital to get involved in trading tea in their village or sub-district. Producer cooperatives also act as collectors in some cases.\(^{56}\) Collectors pay in cash or in deduction of debts resulting from cash previously provided to the farmers.

Collectors are looking for a stable supply of fresh tea to transport and sell with a small margin to larger traders or tea processing factories, mostly green tea or jasmine tea factories. Collectors will organize the sales of a group of smallholders to ensure the efficient delivery of their product, which needs to be in a fresh condition, and delivered within four to six hours after harvest. Although the direct customers of smallholders are the collectors, the requirements of the smallholder's product depend on the downstream players like tea factories as well as tea traders and blenders.

Some of the large estates source fresh tea leaves directly from smallholders, because they consider it to be their responsibility to support smallholders rather than opting for the most efficient sourcing process.\(^{57}\) Downstream buyers state that direct sourcing from smallholders would be difficult to implement because of a lack of organization of most smallholders.

Distribution Channels
As described above, the smallholder farmers hardly play any role in distribution. Smallholders are waiting for the collector to pick up their produce after harvest. Producer cooperatives or less commonly large estates or factories can also organize distribution.

Relationships
The relationship with the ‘customer’ - most commonly the local collector - is informal. Collectors organize the harvesting and delivery in a certain village or sub-district. The relationship is characterized as oligopolistic with little room for the smallholder to bargain on the price of his produce sold in a cash-and-carry transaction. The relationship with traders often involves a financing relationship, in which farmers are indebted to traders who pre-finance the farmer’s consumption and investment, which further worsens the bargaining position of the farmer.\(^{58}\)

\(^{54}\) C.f. The Business Watch Indonesia 2010: 19
\(^{55}\) C.f. The Business Watch Indonesia 2010: 20
\(^{56}\) C.f. V.R. Kustani and T. Widiyanti 2007: 24
\(^{57}\) C.f. The Business Watch Indonesia 2010: 12
\(^{58}\) The Business Watch Indonesia 2010: 15, 19
4.1.2 Cost structure
The cost structure is the left part of the model and comprises key resources, activities and partners.

**Key resources**
Land, planting material in the form of tea plants, water, soil, farm inputs like fertilizer and pest control technology, knowledge on tea farming, labor to support harvesting and farm maintenance, and market access through a reliable trading relationship are the key assets that are required by a smallholder tea farmer to produce and market fresh tea leaves.

Another important resource is capital to finance resources. Finance is the most limited resource. Formal finance from banks is generally not accessible for tea smallholders. Another constraining resource is smallholders’ land size - sometimes too small to provide an income. Finally yet importantly, farming skills of farmers and their workers is often insufficient.

**Farmer’s activities**
Activities, after establishing the tea plantation, are the maintenance of the farm, the harvesting of the product and selling to a collector. To maintain their farm in a good condition, farmers are required to conduct regular weeding, digging and maintaining water - and compost pits which hold nutrients and water in the farm, and applying fertilizer on a regular basis.

**Key partnerships**
The networks of partners of farmers to successfully manage their farm consists of farm laborers, providers of farm inputs like fertilizer, pest control and planting material, collectors providing market access and sometimes finance, as well as potentially organizations providing support in the form of capacity building.

For certification, farmers do need support in capacity building to meet the standard requirements and to manage the certification process. In the case of the Lestari certification pilots, Business Watch Indonesia and its network (e.g. estate companies or the Research Institute for Tea and Cinchona) have provided this support.

4.2 Impact of the Lestari Standard on the business case
This section describes the impact of the standard on the revenue model plus cost structure, and analyzes the data derived from the certification pilots, to answer the question if the introduction of the standard improves a farmer’s business case.

4.2.1 Impact on the business case (qualified)
This section summarized the expert opinions on the impact of the standard on the farmer’s revenue model and cost structure.

**Impact on the revenue model**
The Lestari Tea Standard requires the application of good agricultural practices including frequent harvesting that should result in the production and sale of fresh tea leaves of high quality. A number of stakeholders interviewed reported that yields increase with 75% to 166% by applying the Lestari Tea Standard. Interviews did not reveal the timeframe and investments necessary to achieve this; only one expert estimated three to five years to increase yields by 166%.

Experts and research report that prices increase between 10-20% through the application of the standard. The higher price would be the result of higher quality and not of the certification claim that can be made after certification. However as reported above (section 3) the NRG is currently considering a mandatory premium price to be paid to certified smallholders from downstream industry actors, probably channeled through the NRG. This is currently under discussion in the design of the certification protocol.

Partnerships with tea estates or factories as well as support agencies established the current certification pilots. Activities during the transformation to certification included strengthening the organization of farmers and their relationship with their customers as well as upgrading in the value chain by getting involved in marketing a finished product, green, black or jasmine tea in bags, through
contract processing. Farmers also reported that certification improved their relationships with government organizations and enabled some to become beneficiaries of a number of government projects.

Producers that are interested in certification are planning to strengthen the relationship with smallholders and to improve their organization as an important pre-condition for a sustainable and efficient business relationship. The Sari Wangi Group set up a new subsidiary company for sourcing from smallholders as well as supporting smallholders to organize and professionalize.

The research also shows that the Lestari Tea Standard meets the requirements of important downstream players like Unilever, the biggest buyer of tea in Indonesia, who confirmed “a high level of equivalence with Unilever SAC in terms of content, scope and ambition.” The NRG as the current management body of the Lestari Tea is committed to further developing the demand for Lestari certified tea by pursuing marketing activities on the domestic and international market and by strengthening the functioning and credibility of the Lestari certification system.

Impact on the cost structure

The cost structure of farmers can differ significantly between different smallholders and depends on their farming practice as well as external factors like the price of labor and farm inputs. To achieve certification, farmers have to participate in trainings on the Lestari tea standard requirements including good agricultural practices, and comply with the standard requirements.

Depending on the practice of the farmer before certification, compliance will require additional input of labor and fertilizer. Recommended are two fertilizer applications per year. Farmers need to harvest on a more regular basis (from 90 days to 20 days or less). This will increase plucking costs, consuming 14-30% of the revenues from the tea sold. A well-managed smallholder farm of one hectare requires 40 working days for weeding. Seven working days and 300 kg of fertilizer are needed per ha to ensure good fertilization. Maintenance of water and compost pits requires 40 working days per year.

As reported above, the NRG plans to integrate an extension service program in the Lestari certification system. This will ensure that smallholders or their organizations will not have to cover the costs for capacity buildings, but the supply chain players together. How this will affect the business model is still unclear.

4.2.2 Impact of the Lestari Standard on the business case (quantified)

The analysis (in section 3) is based on expert opinions and expectations. The proof is in the financials. However, data on financials regarding the business case is not always available and the quality is often poor. This section discusses the source and quality of financial data and analyses two different scenarios that calculate the financial impact of the introduction of the standard.

Data and its source

To conduct the financial analysis of the business case, the research team received data from four certified groups of farmers from Business Watch Indonesia. Business Watch Indonesia obtained this data through the leaders and their network within the certified cooperatives. Some data is derived from records maintained by the cooperative; some are estimates as no records have been available.

The data covers the timeframe of 2009 to 2012 and comprises 9567 members, relates to average land size, annual production of fresh tea leaves, the average price for fresh leaves per year as well as their production costs that consist of weeding, plucking, maintaining water and compost pits, fertilizer application and costs of fertilizer per year.

The research team obtained additional data from interviews with members of the NRG. The interviews focused on identifying the formulation process of the NRG multi-stakeholder initiative and the process of local ownership. However, some expert views on the business case of smallholder certification to the Lestari Tea standard are available for comparison with the data from the four certified cooperatives.

61 Lestari Benchmarking Assessment: 7
62 The Business Watch Indonesia 2010: 8 and data provided by Business Watch Indonesia on the four cooperatives involved in the certification pilots.
63 Data provided by Business Watch Indonesia on the four cooperatives involved in the certification pilots.
64 Judgments from Mr. Iyus Supriatna, Mrs. Salwa Lubanan, Rachmad Gunadi, Mr. Endang Sopari and five group members of the Mekar Jaya Cooperative including Mrs. Septi Arintawati, the Village Chairman of Mojotengah and Mr. Tusir, management staff of the cooperative.
Data quality
The research team did not perform primary research to analyze the business model in detail so the study relies on previous research on the tea value chain in Indonesia done by Business Watch Indonesia.

Part of the data is based on estimates of individuals from the four farmer cooperatives. The research team discussed with Business Watch Indonesia that the data might represent farmers already applying relatively good agricultural practices, before certification. The information received during the expert interviews supports this assumption. Especially for the reported yields before certification, experts estimate volumes that are 28% to 57% lower than the data provided by BWI. Generalizing all figures of tea smallholder production in Indonesia should therefore be done with caution.

The quality of the data has also been affected negatively by the fact that two of the cooperatives increased their membership during the four years reported. As a result, the average farmer size (in ha) decreases slightly in our model after certification (-6%). Last but not least, the research relies on the professional and non-biased delivery of data by BWI which has a clear stake in the introduction of the standard.

Scenarios
Two scenarios are presented below, a ‘GAP farmer’ scenario and a ‘non GAP farmer’ scenario. The starting point of the first scenario is the data received from Business Watch Indonesia without adjustments; the second scenario uses the same data received but calculations include adjustments based on information received from experts.

Figure 9a. GAP farmer scenario

<table>
<thead>
<tr>
<th>Year</th>
<th>Total income</th>
<th>Margin</th>
<th>EBITDA</th>
<th>EBIT</th>
<th>Net income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
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<td>2012</td>
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<tr>
<td>2013</td>
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<tr>
<td>2014</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

in USD
Both scenarios calculate in USD (USD/IDR: 1/10,000). The calculations are based on averages and represent the ‘farmers gate’ business case of one ‘0.6 ha’ tea producing smallholder, who became a certified farmer during the year 2010-2011. To simplify the model, 2009 is a ‘pre certification’ year and 2011 and further are ‘post certification’ years.

The starting point of both scenarios is the year 2009 (the baseline). The delta in the model is the difference between calculated amounts (e.g. 2011) and the baseline (2009). The model compares the delta (in %) with the actual difference in the data (year to year) is derived from the data of Business Watch Indonesia. The model extrapolates the data from 2012 to 2014, without adjustments.

Figure 9a does not include an imaginary farmer’s own income in the model. Calculating a farmer’s imaginary income of USD 267 per year (2009) and a delta (increase of this income compared to 2009) of 70% (2011) figure 9b shows a breakeven situation. Therefore, after certification the income of a smallholder improves significantly. This is due to:

- Increase in production (31%)
- Increase in pricing (43%)

65 Imaginary farmer’s own income refers to the opportunity cost of a farmer spending time on its own farm practices.
Figure 10 (below) shows the annual average tea prices (made tea) at the Jakarta Tea Auction; from 2009 - 2011 the average price increases about 8%. As farmers are selling fresh tealeaves, not made tea, and the price relates strongly to the specific quality, this increase in price cannot easily be compared to our data; on the other hand the pricing trend from our dataset clearly ‘outperforms the average’.

**Figure 10. Yearly average prices of made tea (2002-2011) sold at the Jakarta Tea Auction**

![Graph showing annual average tea prices](image)

Indonesia’s annual average tea prices

- Price in USD/kg made tea

The cost structure changes as well, especially the labor related costs increase:

- Cost of tea plucking increases due to a shorter production cycle and a rise in wages (81%)
- Labor costs related to the other activities like weeding and fertilization increase as well, most likely due to increasing wages (41%)

The costs related to fertilizers increase with 13%. In addition, specific costs allocated to the certification process occur:

- Initial training costs (USD 30 and USD 11, respectively in 2010 and in 2011)
- Initial internal audit costs (USD 10)
- Initial external audit and compliance costs (USD 6)
- Recurring internal - and external audit and compliance costs (USD 13)

Again, it has been difficult to compare our cost data with relevant market averages or expert opinions.

**Figure 11a. Non-GAP farmer scenario**

![Graph showing non-GAP farmer scenario](image)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total income</th>
<th>Margin</th>
<th>EBITDA</th>
<th>EBIT</th>
<th>Net income</th>
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<td>2014</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
</tbody>
</table>
Figure 11b. Non-GAP farmer scenario

Figure 11a does not calculate an imaginary farmers own income in the model. When calculating a farmer’s imaginary income of USD 150 per year (2009) and a delta (increase of income compared to 2009) of 56% (2011), figure 11b calculates a breakeven situation (> 2012). Therefore, after certification the income of a smallholder improves significantly. This is mainly due to:

- Increase in production (75%)
- Increase in pricing (20%)

The increase in income is less stringent if compared to the GAP scenario, due to the effect of the increase of pricing (20% instead of 43%).

The cost structure follows the GAP scenario with the following exceptions:

- The fertilizer costs in 2009 are set at 33% of those in the GAP scenario
- The costs related to water and compost pits are 50% of those in the GAP scenario

Due to the certification process, the costs related to fertilizers increase with 75%. In addition to the certification costs mentioned in the GAP farmer scenario, the following costs occur:

- Initial costs regarding water and compost pits: USD 24
- Recurring costs regarding water and compost pits: USD 30

Please note that the calculations in this scenario are not confirmed by quantified data from the field. Based on expert opinions and our own assumptions the GAP farmer scenario has been adjusted; these are rough estimates.

Conclusions:
From both scenarios, the following conclusions can be drawn:

- Yields improve with 30-75%, depending on the quality of the group of farmers
- Prices increase with 20-30%, taking into account the increase of market prices
- Farmers income improve with 60-70%, depending on the performance before certification
- The costs of certification (initial and recurring) are covered immediately by the increase in income

Imaginary farmers own income refers to the opportunity cost of a farmer spending time on its own farm practices.
When calculating a downside scenario (Figure 12ab) in which it is assumed that 50% of the yield and price improvements have been realized, the farmer’s income improvement would be marginal (imaginary income USD 267, improvement 10%).

### 4.3 Impact on farmer’s livelihood and dynamics in the value chain

In addition to the economic benefits, interviewed stakeholders reported social and environmental benefits. Solid research on identifying and quantifying those benefits does not yet exist. As reported in the interviews conducted, the use of chemicals was minimized or eliminated after certification to Lestari, which could reduce health and safety risks in smallholder plantations. This could also reduce the threat of water contamination from agro-chemicals for nearby communities. As the application of fertilizer increases with compliance with the standard, the overall impact on water quality remain unclear.

Better farm management practices in compliance with the Lestari Tea Standard require more labor and might provide additional jobs and/or improve wages in the rural tea growing areas, hence decreasing the pressure on urbanization. Through the publicity that the first certified cooperative received after gaining certification, the cooperatives were in a much better position to attract government programs in their district, which enabled them to participate in a livestock project as well as a program on increasing the quality of water.

The general perception of stakeholders is that farmers will benefit from a higher level of organization and hence improve their bargaining position towards buyers. Part of the work of the NRG has been to provide smallholder cooperatives access to new markets, and upgrading their activities in the value chain by getting them involved in contract manufacturing, packing and marketing. Three brands of smallholder tea have been developed so far and efforts are made to find a market for those products.
Plans exist for improving and developing inclusive business models with smallholders, providing farmers a higher share of the overall value chain. The success and long-term viability of these initiatives are not yet clear and would require further analysis. In one case, it has been reported that the ambition of a farmer cooperative to develop their own product and brand for the marketplace lead to conflicts with the contract manufacturer as the farmers’ product was undermining the prices of the manufacturer, which resulted in termination of the cooperation.

Downstream players expect to benefit from a secured supply of better quality tea from smallholders, by engaging them in certification. Benefits regarding market access are also expected but these still have to materialize into an increase in actual sales. Cost benefits resulting from avoiding multiple certifications are another advantage hoped for by the downstream industry that is currently involved in certification. This will depend on the acceptance of Lestari in the market place.

4.4 Conclusion: impact of the standard

Although the Lestari Tea Standard improves the business case significantly, the business case of a 0.6 ha Lestari certified tea producing smallholder is still thin and results in an average income of USD 300 – 450 per year. This income is not sufficient to finance investments like the infilling of tea bushes or investments needed to rejuvenate the production area.

The introduction of the standard seems to improve a farmer’s livelihood and strengthens relationships within the supply chain. However, farmers are not in the position to enforce the allocation of a higher share of the ‘added value’ embedded in the value chain to their profit and loss. Dominant players do not seem to be convinced yet that a thin farmer’s business case might lead to a changeable and unpredictable supply pattern (both in volumes and in quality).
Stakeholder interviews and focus discussions with members of the NRG and certified producers showed the ambitious goals of the NRG and its Lestari Standard. The ambitions expressed vary significantly and there seems to be no consensus yet on a clear planning for the years to come.

To up-scale, the main goals for the future should be:
- Creating uptake by producers
- Developing the market
- Finalizing and strengthening the Lestari Tea Standard

5.1 Uptake by producers

The tea producing companies involved in the NRG have set more or less concrete goals to certify the production of their own estates as well as their supply from smallholders. Only one company has committed to a timeline for its own estates and planned to have all suppliers certified within two to three years. As a general goal for Indonesia, the producers within the NRG expressed that the certification of 50,000 smallholder farmers in Indonesia within the next three years is a realistic goal.

In order to up-scale production, the industry faces three main challenges:
- Creating demand
- Building capacity at farm level and organizing farmers
- Financing the necessary investments at farm level

Regarding the first challenge, Lestari’s vision on creating demand will be discussed under market development. The second challenge is to organize smallholders, which is the basic requirement to work towards certification, and to build capacity at farm level. As the organization of tea farmers is currently limited, this calls for further extension and presence in the field plus further improvement of the business case, which will be discussed further on in this section together with the third challenge, the access to finance.

5.2 Market Development

Looking at the status of Lestari and its presence in the market place, the standard seems to be rather producer driven, and market development will be an important activity in the years to come. To up-scale, the industry must further develop the domestic market. The international market has less priority.

5.2.1 Domestic market

Creating a larger domestic market demand for sustainably produced tea, and the recognition of Lestari as the sustainability certification of choice are seen as the most important needs and challenges by the members of the NRG. To boost domestic demand, the big packers will be crucial drivers for change and therefore need to be addressed with awareness raising activities about the benefits of sustainably produced tea and the Lestari Standard. To create awareness among consumers, campaigns about the sustainability challenges and benefits of certification are required. Linking this to the Lestari Trademark would allow Lestari to become visible in the market place.

In 2010, Business Watch Indonesia already conducted a study of the awareness of Indonesian consumer, which concluded that Indonesian tea consumers have limited understanding of sustainability issues; however they generally are very willing to pay higher prices for the support of smallholder producers’ welfare, improved business ethics as well as health and safety of the product.

Lobbying for the certification of further big producers and factories is also seen as an important step to increase market uptake. Directly addressing the government could lead to a push on government estate companies to move towards introducing Lestari in their operations, according to the interviews.

5.2.2 International market

The research team (and experts interviewed) consider the international market to be a second priority for the Lestari Tea Standard. However, most of the members of the NRG expect that in time, the standard will gain international

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67 The ambitions regarding upscaling production vary significantly and range from 20,000 certified smallholders to all Indonesian smallholders and estates to achieve certification within the next five years.

68 The Business Watch Indonesia 2010a: 15
recognition and become accepted as equivalent to the existing sustainability standards. Another expectation is that other producing countries will adopt the Lestari standard in the future. However, this wish might be father to the thought.

The ambition of the NRG is to become a member of the ISEAL Alliance and to play a major role in sustainability certification of tea, especially tea produced by smallholders. In driving the market for Lestari Tea in Indonesia and elsewhere, government involvement could play a role. Most of the interviewed stakeholders foresee Lestari becoming a mandatory standard for tea production in Indonesia and even for tea imported to Indonesia.

The NRG sees Lestari as an equal player in the sustainability standard landscape, rather than a stepping-stone to existing standards. The NRG argues for that point with the high level of equivalence of Lestari when compared to international sustainability standards and with the specific advantages of Lestari over those standards. Arguments in favor of Lestari outcompeting other standards are its suitability for smallholder certification and the relatively low cost as reported by NRG members.

5.3 Strengthening of the certification system

The NRG started as an informal movement of committed individuals, with strong support from Business Watch Indonesia. In July 2012 it was registered as a foundation and a business plan for its operation is currently under development. The Executive Chairman of the NRG as well as other members are currently providing their services unpaid. Their contributions are purely based on personal commitment for the Lestari Tea Standard and its goals. They have made impressive achievements in developing the Lestari standard and in local ownership among the NRG members as well as in certification pilots. To achieve its ambitious goals, the Lestari Standard now needs to be equipped with professional management.

In the long term, it is also expected that increasing demand from international markets as well as application of the standard in other producing countries would require a finalization of the standard system and professionalization of the NRG as the standard managing body.

5.4 Continuous improvement of the business case at smallholders’ level

The basis for the successful establishment of the Lestari Tea Standard is professional management of the standard system. This requires the NRG as the managing body to be equipped with the necessary resources to develop as an organization. The ambitious goals of finalizing the standard system, increasing recognition in the market place or achieving ISEAL membership, call for further investment in the organization in the form of employees, capacity building and a solid budget.

Interviews also showed that the current players involved foresee a strong role of the NRG in the provision of support services as well as market promotion. To play this role, it would be necessary to invest in the extension of staff and field representation as well as professional marketing experts.

Farmers developing an interest in the standard and obtaining the necessary capacities to implement it are thought to be the most critical factors in achieving farmers adopting the standard, among NRG members. Gaining farmers’ interest in certification would require a viable business case for smallholders.

The current strategy for building smallholders' capacity and gaining their interest is to set up demonstration plots with good agricultural practices to show the benefits of certification and to train lead farmers intensively so they can build the capacity of other farmers. Each lead farmer trains and assists a group of smallholders (usually 20-30 members). This is a cost-effective strategy and experience confirms that farmers are enthusiastic in participating in the trainings provided.
According to the stakeholder interviews, the NRG, in cooperation with Business Watch Indonesia as well as through creating partnerships between producing companies and smallholder groups, should provide or coordinate those extension services. Support from the Government of Indonesia in providing trainings as well as funding is supposed to be necessary as well. This implies that stakeholders do think that the business case of a tea-producing smallholder is not able to cover the certification costs, or that smallholders are not willing to pay for certification.

Improved access to finance is crucial in up-scaling the standard. This comprises the cost of organizing the necessary extension and organization as well as the operational cost of the farmers needed to migrate to a certified level. Implementing the right agricultural practices as required by the Lestari Tea Standard involves higher labor costs, especially from a more frequent and higher quality plucking. Another cost factor at the operational level is increased fertilization.

To increase the currently low yields of a large number of smallholder producers does not only require investment in good agricultural practices. Another important cause for low yields is the low stands of tea plants. This requires investments in re-filling, revitalization and replanting of their plantations. One of the experts interviewed estimates that an investment of USD 1,285 per ha on farms with 50% of the recommended number of tea plants is needed[^69].

Increasing the price paid to smallholders per kg of tea has first priority according to the parties interviewed; re-filling can only have second priority as a long-term goal, and would depend on external support from government or international agencies. General lobbying for a higher involvement of the government would strengthen the position of the NRG, for example by accreditation by the National Accreditation Committee. This could improve access to support funds for smallholders for example to finance the refilling, revitalization and replanting of their plantations.

5.5 **Conclusion: potential of up-scaling**

Based on the interviews with experts and data derived from the field, the research team believes that the Lestari Tea Standard has potential to up-scale, provided that the business case of the smallholders and the certification system will be strengthened. These efforts should go hand in hand with the further development of the domestic market and a push for change among industry players to work towards a ‘good for all’ distribution of the standard’s added value within the supply chain.

The research team stresses the importance of availability of good quality financial data regarding the farmer’s business case, derived from independent sources. When up-scaling the existing pilots, a well-designed mechanism should be in place able to monitor the improvements regarding the farmer’s business case. This is crucial not only to determine success, but also to increase access to additional (commercial) financial resources as well.

[^69]: The calculation is based on 5,000 tea plants required for the refilling of one hectare of land with the price of a tea plant amounting IDR 2,500 (USD 0.25). Labor required for one hectare is estimated at 14 men days and daily cost of labor at IDR 25,000 (USD 2.50).
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Disclaimer
This report provides approximations of important financial costs and benefits that should be considered in decisions involving up-scaling of the Lestari Tea Standard. The analysis is based on soft and hard information provided by IDH, Solidaridad and Business Watch Indonesia, and believed to be accurate. The cut-off date for data collection was 31 December 2012. Estimation of past and future financial results always includes some uncertainty and might depend on factors beyond authors control and unknown to the authors.
# Appendix 1

## List of interviewees and organizations

<table>
<thead>
<tr>
<th>Name</th>
<th>Organization</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nelia Latief</td>
<td>Ethical Tea Partnership</td>
<td>Regional Manager Indonesia and Papua New Guinea</td>
</tr>
<tr>
<td>Ir. Salwa Lubnan</td>
<td>Research Institute for Tea and Cinchona</td>
<td>Tea Scientist</td>
</tr>
<tr>
<td>Iyus Supriatna</td>
<td>Executive Chairman</td>
<td>National Reference Group on Tea</td>
</tr>
<tr>
<td>Kib Roby</td>
<td>Dharma Teas</td>
<td>Director</td>
</tr>
<tr>
<td>Andrew T. Supit</td>
<td>Sari Wangi Group</td>
<td>Director Trade and Smallholder Relation</td>
</tr>
<tr>
<td>Ade Nugraha Djaja</td>
<td>Anggana Jaya Mandiri (AJM)</td>
<td>Commissioner</td>
</tr>
<tr>
<td>Dr. Atik Dharmadi</td>
<td>Indonesia Tea Association</td>
<td>Executive Secretary</td>
</tr>
<tr>
<td>Veronika Ratri</td>
<td>Business Watch Indonesia</td>
<td>Program Coordinator</td>
</tr>
<tr>
<td>Winaryo Suyono</td>
<td>Control Union Certifications</td>
<td>Lead auditor</td>
</tr>
<tr>
<td>Ir. Rachmad Gunadi</td>
<td>PT Pagilaran</td>
<td>Commissioner</td>
</tr>
<tr>
<td>Dr. Shatatdru Chattopadhayay</td>
<td>Solidaridad South and South East Asia</td>
<td>Managing Director</td>
</tr>
<tr>
<td>Ir. Harry Hendrarto</td>
<td>Indonesian Tea Board</td>
<td>Secretary</td>
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<tr>
<td>Henry Heyneardhi</td>
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<td>Director</td>
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<tr>
<td>Oki Laksana</td>
<td>Elink Schuurman</td>
<td>Tea Buyer</td>
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<td>Septi Arintawati</td>
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<td>Tusir</td>
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<td>Yuni Latifah</td>
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<tr>
<td>Cholikin</td>
<td>Mekar Jaya Cooperative</td>
<td>Member</td>
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# Appendix 2
## Development process of the Lestari tea Standard

<table>
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</thead>
<tbody>
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<tr>
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<td>NRG GENERAL ACTIVITIES</td>
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<td></td>
<td>Survey on Indonesia tea consumer preferences</td>
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<tr>
<td></td>
<td>Set-up of standard committee and working groups</td>
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<td>Review of international tea codes and Indonesian law</td>
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<td>Official launch of the Lestari standard</td>
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<td>WORKING GROUP ON STANDARDS</td>
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<td>Development of farm and factory standards</td>
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<td></td>
<td>Development of certification protocol</td>
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<td>First draft version 1.0 of farm standard developed</td>
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<td></td>
<td>First draft of standard for factories</td>
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<td></td>
<td>Stakeholder consultation meetings</td>
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<td>Focus group discussion on standard for estates</td>
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<td></td>
<td>Review of standard documents and protocol</td>
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<td></td>
<td>Update of farm standard version 1.0</td>
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<td></td>
<td>Update of factory standard</td>
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<tr>
<td></td>
<td>Update of estate standard</td>
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<tr>
<td></td>
<td>Update of certification protocol</td>
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<td></td>
<td>Farm standard version 1.1 finalized</td>
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<td><strong>2011</strong></td>
<td>PILOT PROJECT IMPLEMENTATION</td>
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<td>Mekar Java Cooperative - Farm standard</td>
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<td>Sidoarjo Factory (PT Pagilaran) - Factory standard</td>
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<td></td>
<td>Cikal Bakal Cooperative - Farm standard</td>
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<td>Sariwangi Factory - Factory standard</td>
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<td>Mitra Harapan Cooperative - Farm standard</td>
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<td>PT Tambi - Estates and factory standards</td>
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<td><strong>2012</strong></td>
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### 2010 Calendar

- J: January
- F: February
- M: March
- A: April
- M: May
- J: June
- J: July
- A: August
- S: September
- O: October
- N: November
- D: December

### 2011 Calendar

- J: January
- F: February
- M: March
- A: April
- M: May
- J: June
- J: July
- A: August
- S: September
- O: October
- N: November
- D: December
- J: January

### 2012 Calendar

- J: January
- F: February
- M: March
- A: April
- M: May
- J: June
- J: July
- A: August
- S: September
- O: October
- N: November
- D: December
- J: January
Appendix 3
Stakeholder Map of the Lestari tea Standard

Production | Processing & Trading | Blending & Packaging | Marketing
---|---|---|---
AJM | AJM | | |
PT Sari Wangi | | | |
PTPN 8 | | | |
PT Tambi | | | |
PT Pagilaran | | | |
Certified Cooperatives | | | |

International
- Sustainable Trade Initiative

National
- Indonesian Smallholder Association
- Research Institute for Tea & Cinchoa
- Ministry of Agriculture
- BWI
- Indonesian Tea Board
- Indonesian Tea Association

Key actors of supply chain

Internal

External

Institutions influencing supply chain

PT Kabepe Chakra
PT Agro Pangan Mandiri
Unilever Indonesia
PT Sinar Sosro
<table>
<thead>
<tr>
<th>Player</th>
<th>Motivation to join</th>
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| **Indonesia Tea Association**                                         | • Concerned about the sustainability of the tea industry  
• Maintain tea as an important export commodity, to provide jobs and with benefits for the landscape ecology | • Participate in the working group on standards                                                         |
| **Indonesian Tea Board (ITB)**                                        | • Shared vision of addressing the sustainability challenges in the sector                              | • Member participation in the working groups  
• Promotion of the standard towards the government and the ITB members                                     |
| **Indonesian Tea Smallholder Association (ITSA)**                    | • Perceived benefits in adapting the standard for smallholders  
• Aim to ensure the suitability of the standard for smallholders                                         | • Member of the working group on standards  
• Provide smallholder perspective  
• Promotion of the standard amongst ITSA members                                                          |
| **Research Institute for Tea and Cinchona**                          | • Ensure support of smallholders  
• Increase the quality of smallholder’s production  
• Increase the food safety of tea                                                                        | • Participated in the working group on standards  
• Knowledge on Good Agricultural Practices in tea sector                                                 |
| **Provincial Government of West Java; Foodnote Mr. Iyus has retired and keeps involved as a committed individual and as an exporter for agricultural products** | • Urgency to address sustainability challenges  
• Address food safety issues  
• Address environmental protection  
• The important function of tea in the landscape ecology  
• Provide benefits to smallholders and more transparent pricing | • Executive Chairman of the NRG  
• Reviews audit reports and signs certificates  
• Member of the working group on marketing  
• Conduct pilot audits                                                                                   |
| **Winaryo Suyono – expert on certification; member of the Organic Food Task Force of the MoA** | • Feels responsibility as an expert to contribute to the development of this important initiative  
• Want to learn about the tea sector and current developments  
• Potential future business development opportunity for his current employer (international CB) | • Member of the working group on standards  
• Conduct gap audits for Lestari and UTZ  
• Conduct field tests of Lestari  
• Conduct pilot audits                                                                                   |
| **Dharma Teas – tea trader and importer in Bali; targets the hospitality market** | • Sees benefit of the movement and wants to contribute  
• Increase supply of higher quality tea  
• In the future market certified tea                                                                         | • Member of the working group on marketing                                                                  |
| **PT Pagilaran – Tea Producer with own estates and sourcing from smallholders** | • It is part of their mission to support smallholders  
• They want to increase the quality of their supply from smallholders                                      | • Member of the working group on marketing  
• Pilots conducted smallholders supplying the company                                                        |
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| **Sari Wangi Group – Tea Producer with own estates, sourcing from smallholders and active in blending and packing with their own brand for the domestic market** | • Shared vision to tackle sustainability challenge, decreasing production and decreasing quality  
• Secure sourcing of raw materials  
• Access market for sustainably produced tea  
• Marketing benefit | • Member of the working group on marketing  
• Pilot certification of some of their smallholder suppliers  
• Established KAG a company to support smallholders and develop inclusive business models  
• Provided trainings with support from BWI |
| **Anggana Jaya Mandiri – Producer and Trader of tea with own estates and sourcing from smallholders** | • Support smallholders to make a better living from tea  
• Improve market access through certification (domestic and international)  
• Compete for supply of smallholder production | • Member of the working group on marketing  
• Currently working with smallholder suppliers towards certification |
| **Elink Schuurman – Trader of Tea for export and domestic market** | • Business Development  
• Future demand for sustainable tea in domestic market (10-20% within next 5 years) expected  
• Increase the quality of tea in Indonesia for their sourcing | • Member of working group on marketing |
Appendix 5

Acronyms

BWI  Business Watch Indonesia
CSR  Corporate Social Responsibility
GAP  Good Agricultural Practices
IDH  The Sustainable Trade Initiative
IDR  Indonesian Rupiah
JTA  Jakarta Tea Auction
KTDA  Kenya Tea Development Agency
MT  Metric tons
MWG  Marketing Working Group
NRG  National Reference Group
RA  Rainforest Alliance
SWG  Standard Working Group
TIP  Tea Improvement Program
USAC  Unilever Sustainable Agriculture Code
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