

## Project summary

Common Fund for Commodities / FAO / IFOAM :

Development, Production and Trade of Organic Tea (Phase II)

### Goal

To contribute to the development, production and trade of organic tea:

Indicators:

- a) increase number of farmers engaged in organic tea production;
- b) increase in the production of organic tea.

The project aims at developing the technology, skills and systems of organic tea production. It would include the development of appropriate technology for the establishment of new, and the conversion of existing, tea areas to organic tea farms. The project also aims at the development of acceptable international standards for the export of organic tea and the establishment of an internationally accepted certification mechanism in both countries. The project includes an assessment of the demand for organic tea exports and the development of appropriate export strategies.

### Purpose

1. Technology, techniques and systems for organic tea production
2. Appropriate national certification agency with international recognition
3. Assessment of global market for organic tea and appropriate market strategies

### Output

4. Technology and techniques applied on model farms and elsewhere (China: 133ha model farms; India 320ha model farms)
5. Internationally acceptable standards and an established certification office with trained inspectors (China: 15 inspectors trained -10 in China-; India 6 persons trained)
6. Identification of and access to export markets for organic tea

### Project Components and Activities

- A. Support for Research and Development :
  - (i) Establishment of model farms - the project would support the establishment of model farms in the three regions of each country - Wuyi and Shaoxin in Zhejiang

province, Anxi in Fujian province and Wangpo in Guangdong province in China and in Assam, Darjeeling and Anamalai in India;

- ii) **Research and development** on model farms - the project would support the research and development establishments in both countries for undertaking soil management practices, the development of bio-organic fertilizers, pests and disease management and the conversion of existing tea gardens to organic gardens; and
- (iii) Workshops, seminars and **dissemination**.

B. Support to Establish a Certification System:

- (i) Consultancy services;
- (ii) External and internal training for **certification inspectors**;
- (iii) The development of **standards** including the holding of national and international workshops; and
- (iv) The establishment of a unit with trained staff and **office infrastructure**.

C. Market Development:

- (i) **Market surveys** and analysis of data;
- (ii) Promotional activities in the case of India;
- (iii) The establishment of a small promotional office with staff and office infrastructure in the case of China; and
- (iii) Development of appropriate **marketing strategy**.

D. Project Organization and Management:

- (i) Organization and management of project activities by the Project Executing Agency;
- (ii) Establishment of a small **project management office**, located at TRI in the case of China and TBI in the case of India;
- (iii) Project monitoring and supervision by CFC/SB.

## Partner Institutions

### A/ China

#### TRI, the Collaborating Institution

Tea Research Institute, Chinese Academy of Agricultural Sciences, No 1 Yunqui Road, Hangzhou, Zhejiang Province 310008, P.R. China. Telephone: 0086-571-866 50187

Established in 1958 as a national research institute under the management of the Ministry of Agriculture, TRI's jurisdiction covers the entire tea industry of China. In addition to being a research agency, TRI CAAS has direct ownership of two companies,

both of which are involved in commercial tea trade. The first, the Hangzhou Longguan Tea Company, is involved in the trade of 'Chinese famous teas' with sales over US\$1 million and business growing at about 15 percent per year. The second, Zhejiang Orient Tea Science and Technology Company Ltd., is also involved in the export of functional components from tea with an annual turnover of nearly US\$ 2.0 million.

#### Tea Breeding and Cultivation Division of TRI (TBCD)

Tea research institution

#### Organic Tea Research and Development Centre (OTRDC)

Certification development

#### The Model Farms:

- a) Wuyi Jinshan Tea Industry Co and Shaoxin Organic Tea Farm in Zhejiang Province,
- b) Anxi Tea Company of Fujian Province
- c) Wangpo Tea Farm in Guangdong Province.

The Hangzhou Branch of the Agricultural Bank of China (ABC) has agreed to stand as guarantor for the loan element of the support to be provided by CFC.

#### B/ India

##### Tea Board of India, the Collaborating Institution

Tea Board India, 14 Biplabi Tralokya Maharaj Sarani, Kolkata 700 001, Tele: 00-91-33-221-5717

The Tea Board, an independent body under the Ministry of Commerce, is the apex body for the tea industry in India with responsibility for the implementation of the Government's regulations and policies. It is involved in all aspects of promotion, development and research on tea in India including all activities at the national and international level. The Board consists of persons representing the Parliament, owners of tea estates and gardens and growers of tea, the Government of the principal tea growing states, persons employed in the tea estates and gardens, dealers, manufacturers, consumers and other interests. It provides financial support to three regional institutes in Assam, Darjeeling and Valparai. To help develop the Indian tea industry, the Board promotes tea research and export of tea world-wide, collects and disseminates statistical data as well as encourages labour welfare programmes, among a host of other activities all aimed at ensuring the health and vibrancy of one of the world's largest producers of tea.

The Tea Research Association (Tocklai),  
Darjeeling Tea Research and Development Centre (Kurseong) and  
Upasi Tea Research Foundation (Valparai)  
All tea research institutions.

#### The Model Farms

- d) Maud Tea Estate in Assam
- e) Ambootia Tea Estate in Darjeeling
- f) Iyerpadi-Paralai Tea Estate in the Anamallai Hills of Tamil Nadu.

Guarantor of the loan to be determined.

#### **Responsibilities**

TRI will, under the guidance of IFOAM, be directly responsible for co-ordination and implementation of all aspects of the Chinese Component of the project. It will be the recipient of the grant and borrower of the loan portion of the project supported by CFC. It will prepare all documentation related to the import of equipment and be the principal agency involved in its handling. TRI will be responsible for undertaking the research and experimentation on the model farms and coordinating the implementation of the different components under the project including training. It will take the necessary administrative steps for the establishment of the certification agency, coordinating the training of staff abroad and workshops within the country. However, once established, the certification agency will be allowed to function independently. TRI will organise systematic quarterly reviews of project implementation, identify and resolve problems and submit six-monthly reports to IFOAM, CFC and FAO.

TBI will, under the guidance of IFOAM, be directly responsible for co-ordination and implementation of all aspects of the Indian project component. It will be the recipient of the grant and borrower of the loan portion of the project supported by CFC. It will prepare all documentation related to the import of equipment and be the principal agency involved in its handling. TBI will be responsible for coordinating the research and experimentation on the model farms through the three regional tea research institutes and for coordinating the implementation of the different components proposed under the project including training. It will take the necessary administrative steps for the establishment of the certification agency, coordinating the training of staff abroad and workshops within the country. However, once established, the certification agency will be allowed to function independently. TBI will organize systematic quarterly reviews of project implementation, identify and resolve problems and submit six-monthly reports to IFOAM, CFC and FAO.

CFC will ensure the financing of the project. CFC will be involved in the supervision of the implementation of the project (see below). Technology and know-how acquired as a result of, or otherwise emanating from the project shall be property of the fund. Property (equipment, materials, etc.) financed from the Grant or provided by the Fund shall belong to the Fund.

Intergovernmental Group of Tea / FAO will act as a supervisory body. The specific task attributed to this role is as following: assessment whether the actions undertaken, the expenditures made and the results achieved by the PEA conform with the provisions and with a continued successful implementation, including impacting on the target beneficiaries.

IFOAM will act as the project implementing agency and shall be responsible for carrying out the project. PEA responsibilities comprise to :

- Ensure detailed annual planning and budgeting .
- Participate in midterm and terminal evaluation.
- Establish contractual relationship to local partners, arrangements on audits and accounting allocated to project funds
- Ensure local partners performance: employment of qualified staff, consultants and contractors acceptable to CFC, insurance consistent with sound commercial practice, accordance to national environmental and public health standards.
- Coordination of implementation of project: day to day management, provision of all information relevant to implementation and financing, annual reports and 6 month report to CFC.
- Ensure a sound financial implementation: monitor grant and loan disbursement, monitor procurement of goods and services, supervise accounting of eligible expenditure only from grant and loan proceeds , ensure that contributions in kind are made available, ensure audits in time, auditors acceptable to CFC.

### Contracts / Basic documents

No	Contract designation	Partners	Status
1	Project Agreement	Intergovernmental Group of Tea/FAO (SB), CFC, IFOAM	To be signed
2	Appraisal Report		Reference
3	Memorandum of Understanding (PEA - China collaborating	IFOAM, TRICAAS	To be developed

	institution)		
4	Memorandum of Understanding (PEA - India collaborating institution)	IFOAM, TBI	To be developed
5	China Loan Agreement	CFC, TRICAAS, Agricultural Bank of China	To be signed
6	India Loan Agreement	CFC, TBI, guarantor to be designated and checked	To be signed
7	Grant Agreement	CFC, Intergovernmental Group of Tea /FAO (SB)	Signed
8	Annual detailed work plan and budget : 2006 China	IFOAM, China partner institutions	To be developed, to be approved by CFC and SB
9	Annual detailed work plan and budget : 2006 India	IFOAM, India partner institution	To be developed, to be approved by CFC and SB
10	CFC: Second Account operations Basic Instruments		Reference with regard to procurement
11	CFC Financial Procedures Manual		Reference

### Starting Procedure

The signing of the project agreement is a prerequisite to have expenses covered.

Conditions for first Grant disbursement to PEA:

- PEA Grant account opened,
- first detailed draft work plan and budget (8/9) submitted and approved.

First Grant disbursement to PEA will sum up to 100.000 USD. For further disbursements also the Country segment conditions will have to be fulfilled.

Conditions for first Grant disbursement to Country segment:

- as above and,
- binding commitment to provide contributions in kind,
- contractual relationship (3 / 4) and arrangements on audit and accounting of Project Funds.

First Country segment disbursement will sum up to 100.000USD. For further disbursements the signature of Loan agreement (5/6) is a condition to meet.

Disbursements will be suspended if conditions for first Grant disbursements to PEA and to Country segments are is not fully met after 90 days after Project Agreement (1) signature.

The loan agreements (5/6) have to be signed at least after six months.

First Disbursements of loans must to be made after nine month.

## Reporting

First Reporting Period expires on 31 December 2005. Reporting period is 12 (twelve) month.

Detailed draft work plan and budget to be submitted not later than two month before reporting period to CFC and SB.

Progress report to be submitted by PEA not later than two month after respective reporting period.

Interim report covering first six month not later than one month after covered period.

Annual audited financial statements and auditors' report of the Project, including a separate opinion on expenditure by external auditor not later than three month after respective reporting period.

## Financial Aspects

Three elements of finance: Grant, Loan, and Contributions in kind by counterparts.

Borrower of the loan is TRI in the China case and TBI in the India case.

### Summary of Financing Plan by Component and Source (USD)

	CFC		Counterpart Contribution from China	Counterpart Contribution from India	Total
	Grant	Loan			
China	606,702	773,286	1,172,164		2,552,692
India	643,926	965,888		2,438,019	4,047,833
Shared costs:					527,759
PPF	40,000				
PEA	250,000				
Monitoring/ Supervision/ evaluation	100,000				
Contingency	137,759				
Total	1,778,387	1,739,714	1,172,164	2,438,019	7,128,284

(PPF = project preparation facility)

Grant disbursements will be - as first installment - up to 100.000 USD (Ref. Schedule 4).

The Loan will be applied respectively in two tranches.

IFOAM shall procure that proceeds from Grant are applied only to eligible expenditures. IFOAM shall supervise disbursements and monitor application of all proceeds of the Loans. Here as well only eligible expenditures can be covered.

IFOAM shall procure that the responsibility of the collaboration institutions is assumed for provision of contributions in kind not less than 1,172,164 USD (China) and 2,438,019 USD (India).

Eligible expenditure differs from Grant to Loan and from country to country (References : Project agreement schedule 2, Appraisal Report, Loan agreements), but shall not comprise in any case (loan / grant) direct taxation or custom duties on goods imported and exported.

**China Grant**

All personnel (salaries and labour) will be provided as counterpart contribution.

China eligible expenditure category / components

Funding	Eligible component	Eligible category
Grant	<ul style="list-style-type: none"> <li>- Establishment of certification</li> <li>- Research and development</li> <li>- Workshops, seminars, dissemination and education</li> <li>- Market development</li> <li>- Organisation and management</li> </ul>	<ul style="list-style-type: none"> <li>- Vehicles and equipment</li> <li>- Technical assistance and Consultants</li> <li>- Dissemination and training</li> </ul>

**India Grant**

The dissemination of results of the research activities, workshops and seminars etc. is also completely counterpart contribution. All technical assistance and consultants will be funded by the grant.

India eligible expenditure category / components

Funding	Eligible component	Eligible category

Grant	<ul style="list-style-type: none"><li>- Establishment of certification</li><li>- Research and development</li><li>- Market development</li><li>- Organization and management</li></ul>	<ul style="list-style-type: none"><li>- Materials and supplies</li><li>- Personnel</li><li>- Technical assistance and Consultants</li><li>- Dissemination and Training</li></ul>
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## China segment

In China, tea production is 60 percent by smallholder production, 20 percent by private companies that rent land from government and 20 percent by collective smallholders.

### Components by financiers (USD)

	CFC Grant	CFC Loan	TRI	Tea farms	Total
Inspector training	170,900				170,900
Certification office and staff training	78,134		373,510		451,644
Model farms		557,672		139,418	697,090
R&D on farms etc.	110,000	47,023	400,000		557,023
Workshops, dissemination	146,767	92,087	159,237		398,092
Market development	51,363	77,044			128,407
Organisation, management	49,536		100,000		149,536
TOTAL	606,702	773,827	1,032,747	139,418	2,552,693

### The Model Farms / R&D

The research effort on model farms would be undertaken on existing tea growing areas provisionally selected as Wuyi Jinshan Tea Industry Co and Shaoxin Organic Tea Farm in Zhejiang Province, the Anxi Tea Company of Fujian Province and the Wangpo Tea Farm in Guangdong Province. In addition to contributing a small percentage of costs as a commitment of their participation, expenditures on model farms will be provided as a loan to the estates, which would be repaid to TRI on terms to be agreed upon. Broadly the research effort would be directed at covering a range of activities that would include soil management practices, the development of bio-organic fertilisers, pests and disease management and the conversion of existing tea gardens to organic gardens.

There are problems of chemical and heavy metal residues in the tea. Some of these problems are environmental and no farming practices can avoid the influences from outside the system (apart, perhaps, for protected cropping). It was generally felt

that where the environment was suitable, organic farming could play an important role in alleviating these problems.

#### Model farm establishment

The proposal is for four model farms - two producing green tea in Zhejiang province, one oolong tea in Fujian province and one black tea in Guangdong province. Each will be about 33 ha and will represent one of the above types of production and will be in a different climatic/environmental zone.

Total 132ha: investment ca. 426,750 USD; total 697,090 USD;

Major activities: Identification of project sites, Establishment of model farms, civil works in the first and second year.

#### Research and development on model farms:

Investment cost : equipment 301,992 USD ; total 557,023 USD..

Major activities: R&D on conversion methodology, basic technological system, soil management, pest and disease management, organic fertilizer and fungi production, promoting biodiversity, environmental protection etc.

#### Workshops, seminars, dissemination and education

398,092 USD financed by grant, loan and contributions in kind (TRI).

Major activities: organic farming workshops, on-farm technical services, training of trainers, development of national, organic extension services, demonstration of new technologies, publication of technical materials, newsletter and video tapes.

#### **Previous work in the field of standard development**

In the case of China, TRI CAAS has already (1999-2001) worked on developing the parameters of organic tea production through a project entitled “Development of Organic Tea and Establishment of Model Organic Farms” sponsored by the Zhejiang Provincial Government and implemented in four different ecological areas. This has extended to the development of organic fertilisers and bio-pesticides. However, there is still a need for additional work. With respect to standards and certification, TRI CAAS has developed a series of standards for organic tea covering production area, production, processing and product standards in conformity with those established by IFOAM. These have been approved as national standards in agriculture by the Ministry of Agriculture. Based on this, a national certification programme has been in operation by OTRDC which

has certified 160 farms as organic. However, there is a lack of acceptance of the standards and certification by the tea importing countries in the west.

#### **Certification office establishment /standard development**

Training of senior inspectors and inspectors (lower level).

Establishment of certification office :

a/ equipment: computer server, 2 desktop computer, 4 laptop , 3 printer,1 photocopier, overhead, 2 digital camera, office consumables.

b/ personnel : 2 professionals and 1 translator.

Total 622.544 USD

Major activities : senior inspectors and inspectors training, , development of organic standards, establishment of certification office, operating manual, national and international accreditation, training of certification personnel.

#### **Market development**

It is proposed that a unit will be established under the patronage of the TRI & Tea Association of China. Its exclusive role will be promotion of the generic concept of Chinese organic tea both within China and abroad; total 128,407 USD.

Personnel :2 managers and 1 support employee. 1 laptop and 1 desktop computer.

#### **Organisation and management**

Supervision, personnel (1 director, 1 office assistant, 1/2 accountant), office, auditing, allowance and travel) ; total 149,536 USD.

## India segment

### Components by financiers (USD)

	CFC Grant	CFC Loan	TBI	Tea farms	Total
Inspector training	123,118				123,118
Certification office central	125,496		53,784		179,280
Certification office regional	67,637		28,987		96,624
Model farms		807,295	1,490,922	401,927	2,700,144
R&D on farms etc.	211,456	158,593	158,593		528,642
Workshops, dissemination			187,020		187,020
Market development	52,759		116,786		169,545
Organisation, management	63,460				63,460
<b>TOTAL</b>	<b>643,926</b>	<b>965,888</b>	<b>2,036,092</b>	<b>401,927</b>	<b>4,047,833</b>

### The Model Farms / R&D

The research effort on model farms would be undertaken as a joint venture on existing tea plantations - the Maud Tea Estate in Assam, the Ambootia Tea Estate in Darjeeling and the Iyerpadi-Paralai Tea Estate in the Anamallai Hills of Tamil Nadu. An indication of the participatory nature of the effort is the fact that in addition to contributing a small percentage of costs as a commitment of their participation, expenditures on model farms will be provided as a loan to the three estates, which would be repaid to TBI on terms to be agreed upon. The research effort would be broadly directed at covering a range of activities that would include soil management practices, the development of bio-organic fertilisers, pests and disease management and the conversion of existing tea gardens to organic gardens.

### Model farm establishment

Assam 100ha: total ca. 1,042,000 USD; investment ca. 217,000 USD

South India 100ha: total ca. 911,000 USD; investment ca. 239,000 USD

Darjeeling 100ha: total ca. 747,000 USD, investment ca. 226,000 USD

Major activities: Establishment and operation, civil works in the first year.

Research and development on model farms:

Assam ca. 204,000 USD, South India ca. 105,000 USD, Darjeeling ca. 216,000 USD.

Major activities: R&D on conversion process, standards on new organic plantation, organic composting methods, soil management, bio organic fertilizers, pest and disease management, bio pesticides, processing and packaging technology, methods for processing, storage and handling, etc.

Workshops, seminars, dissemination and education

187,020 USD financed by TBI. Responsibility PEA/TBI/ Research centers.

Major activities: organic farming workshops, on-farm technical services, training of trainers, development of national, organic extension services, demonstration of new technologies, publication of technical materials, newsletter and video tapes.

**Previous work in the field of standard development**

In the case of India, both the Indian Bio-Organic Tea Association and the Tea Research Institutes have been working on developing the parameters of organic tea production and processing. These efforts, however, have been somewhat limited and there is a need for expanding the activities. At the same time, the Government of India has been drafting policies that will regulate organic farming and certification in India. A "Guideline for Production of Organic Tea in India" has been prepared on the basis of national organic standards drawn up as part of the "National Programme for Organic Production". There are plans to establish an Indian organic certification body recognized and accredited by all external agencies.

**Certification office establishment /standard development**

Training of inspectors and certifiers.

Establishment of central office and four regional offices.

Equipment: 2 desktop computer & printer, 1 photocopier, 1 digital camera, office equipment and supply, 4 laptop & printer, 4 motorcycles.

Personnel: 1 director, 1 officer, 1 office assistant, 1 accountant, 4 (regional) inspectors.

Major activities : inspectors training, training of certification personnel, organic standards development, certification office establishment, operating manual, national and international accreditation, establishment of regional certification office.

**Market development**

Market survey and analysis, ca. 63,000 USD

Promotional activities, ca. 105,000 USD

**Organisation and management**

Supervision, personnel (1 director, 1 office assistant, 1 accountant), office, auditing, allowance and travel) ; total 63,460 USD.

## Development, Production and Trade of Organic Tea

### PROJECT General Information

The project aims at developing the technology, skills and systems of organic tea production. It would include the development of appropriate technology for the establishment of new, and the conversion of existing, tea areas to organic tea farms. The project also aims at the development of acceptable international standards for the export of organic tea and the establishment of an internationally accepted certification mechanism in both countries. The project includes an assessment of the demand for organic tea exports and the development of appropriate export strategies.

#### **Partners**

Funding facility : Common Fund for Commodities

Recipient of Grant : FAO Intergovernmental Group on Tea

Borrowers of Loan : Tea Research Institute of the Chinese Academy of Agricultural Sciences (TRICAAS); Tea Board of India (TBI)

Project Executing Agency (PEA) : IFOAM

Supervisory body (SB) : FAO Intergovernmental Group on Tea

#### **Contracts /References**

1. Project Agreement
2. Appraisal Report
3. PEA - China collaborating institution MoU (IFOAM - TRICAAS)
4. PEA - India collaborating institution MoU (IFOAM - TBI)
5. Annual detailed work plans and budget
6. China Loan Agreement
7. India Loan Agreement
8. Grant Agreement (CFC - SB)
9. CFC, Second account operations: basic instruments
10. CFC, Financial procedures manual

#### **Financing**

- Grant: China 606,702 India 643,926 USD; shared costs 527,759 USD
- Loan: China 773,286 India 965,888 USD
- Contribution in kind from counterparts: China 1,172,164 India 2438019 USD
- Overall: 7,128,284 USD