

## STDF PROJECT PREPARATION GRANT (PPG)

### APPLICATION FORM

<b>PPG Title</b>	Preparation of Project Proposal for a Project to Develop Skills and Competency and to Establish a National Cinnamon Training Academy (NCTA) For Cinnamon Processors In The Southern Province, Sri Lanka
<b>Budget requested from STDF</b>	US \$ 30,000
<b>Full name and contact details of the requesting organization(s)</b>	The Spice Council 1, 1/1, Anderson Road, Colombo 05. Sri Lanka
<b>Full name and contact details of contact person for follow-up</b>	Mr. D. A. Perera Chairman, The Spice Council

### 1.0 Background and rationale

Cinnamon production and processing is still implemented mainly in cinnamon huts or locally called “*kurundu wadi*” in Sri Lanka. The sanitary conditions of these traditional peeling huts are very weak and sanitary practices followed by peelers (workers who peel and process the cinnamon bark) are not satisfactory. This situation has been cause for quality degradation of raw cinnamon products and cinnamon value added products. This project is intended to develop and train skilful workforce capable of producing cinnamon, fulfilling production and export market requirements complying with Good Manufacturing Practices (GMP), ISO and HACCP sanitary and phytosanitary standards. Cinnamon is Sri Lanka’s leading spice in terms of foreign exchange earnings and employment and the icon of the Southern Region in Sri Lanka. Cinnamon exceeds by far other spices in terms of volume traded, value generated and the acreage under cultivation. There are about 25,000 -30,000 hectares of cinnamon cultivated lands in Galle and Matara Districts, in the Southern Province of Sri Lanka and recently the land owners in Hambantota and Ratnapura Districts have shown an interest in cultivating cinnamon in those areas. Sri Lanka commands over 90% of world production of true cinnamon and exports close to 13,000 MT of cinnamon per year in the form of quills in different grades, mainly in bulk form. Major markets are Central and South America. Sri Lankan Cinnamon, with its distinctive taste has a captive market in these parts of the world. In 2009 total value of foreign exchange earning generated by the cinnamon exports was US\$ 77 million, which is about 60% of the total earning from spices exports.

Although the Industry resulted export turnover is significant, the stakeholders are in a strong opinion that this export performance is not up to its potential due to the difficulty in harvesting of the plantations. Currently it is estimated that only 25% of the cultivation are harvested twice a year, out of the balance most are harvested once a year and some are not

harvested at all in that particular year. The reason for this harvesting difficulty is due to the scarcity of 'Cinnamon Peelers'. Cinnamon Peeling is a process, which start from the cultivation and up to the final processing viz. preparation of cinnamon quills at the processing shed (which is commonly called *wadiya*).

The main reason for this scarcity of labour is due to the social stigma on the cinnamon peeling profession and **absence of a proper training program**. This issue was highlighted by the stakeholders at a Sector Strategy Development Workshop as one of the major priority issues that the Spice Sector has faced and identified developing a proper training program of the cinnamon peeling as one of immediate-term interventions.

The Industry stakeholders have reached to consensus that the acute shortage of cinnamon peelers is affecting capacity of the Industry in terms of both volume and quality. They also have given highest priority for establishing a properly structured and conducted training program based on GAP and GMP methodologies. It will have a better opportunity to access European and other high level markets which concerns higher quality standards, through the production of GMP and GAP certified cinnamon products. Further to the expansion of world market through high quality cinnamon products, livelihood of rural community engaged in spice sector, will be developed.

The total employment under the spice sector is estimated as 400,000 total household units and about 60 % household units are employed under cinnamon industry. Majority of them receive very low monthly incomes compared to other parallel social strata in the country. Majority of these people are confined to rural cinnamon peelers and small scale rural cinnamon growers, who are being in the margins or below of poverty line. The drawbacks of cinnamon exports from the country due to the quality and cleanliness statuses of the product tend to adversely affect the peelers and small scale growers. Through the establishment of a National Academy to train the peelers on hygienically sound and quality preserved peeling techniques will facilitate the upliftment of livelihood of cinnamon peelers contributing to alleviate the rural poverty allied to cinnamon industry.

There are several Sanitary and Phytosanitary (SPS) problems that can be identified in the process of cinnamon peeling and production. Traditional peeling techniques lead to contaminate the cinnamon bark quills with microorganisms. Further the open air sun drying, unsanitary nature of peeling huts and low hygienic conditions of peelers tends to increase the possibility of microbial contamination. Production of cinnamon without concerning the proper sanitary conditions has resulted economic downturns in cinnamon exports. In order to produce high quality cinnamon products, the peelers should be trained through training programmes based on GMP, HACCP and ISO quality standards. Through the requested PPG, it is intended to develop a descriptive proposal in order to establish a National Cinnamon Training Academy (NCTA) to train the peelers on clean production techniques and to establish 10 GMP centres for the trained peelers.

Members of The Spice Council who represents the academic, industry, research and development, production and other sectors of spice industry will facilitate for this PPG request.

The setting up Good Manufacturing Centres (GMP) will be implemented under the second phase of the project. There are several GMP certified cinnamon peeling centres already established with the grants received from the Government and Non Government Organizations. Establishment of NCTA will be beneficial to them to obtain trained cinnamon peelers for the GMP centres.

## **II. Cooperation with UNIDO**

The Spice Council started this initiative based on a comprehensive consultation process with all related stakeholders from the private and public sector institutions represented at the Spice Centre, it was based also on the lessons learned from the implementation of different related development projects in the sector.

The Spice Centre had constructive discussions with the United Nations Industrial Development Organisation (UNIDO) with the aim of establishing synergies with the ongoing UNIDO projects in the field of food safety training and certification, the discussions resulted in an agreement to establish a partnership between The Spice Council and UNIDO in the implementation of the project.

UNIDO has been very active in Sri Lanka for the last 10 years providing technical support in TBT/SPS related areas, in specific, UNIDO achieved the following remarkable achievements:

- Supporting a number of national testing labs (food and textile) to achieve international accreditation and recognition.
- Supporting a group of SMEs to achieve international certification against the international quality/food safety and environment standards (ISO9000/ISO22000/ISO14000)
- Support the setup of a national, non-for-profit and private sector driven food safety training and certification body named INDEXPO, the centre received international recognition as accredited training provider in food hygiene and safety.
- The introduction of conformity/certification marks in the food catering sector as well as the agri-business sector following international best practices

The Spice Council and UNIDO will work closely with all the related stakeholders during the project preparation phase to ensure the design of the most feasible model for establishing a national academy building on the existing capacities and experiences UNIDO and the Spice Council created in the country. Special attention will be given to the successful model

established by UNIDO in setting up a non-for profit, private sector driven and sustainable food safety training and certification centre named INDEXPO which is currently one of the success stories in terms of sustainability and credibility.

UNIDO will support the Spice Council in the implementation of the preparatory and design phase and will provide the necessary resources under the ongoing UNIDO projects to ensure successful implementation of the design phase; UNIDO expressed their interest to raise the additional resources for the full implementation of the project.

### III. Implementation

With the understanding that the STDF decision on the PPG will not be available before 1<sup>st</sup> April and in order to ensure sufficient time for the design of the full proposal to be submitted to STDF by the 8<sup>th</sup> July, UNIDO and the Spice Council will start the preparatory work as of 1<sup>st</sup> March using the existing limited resources available at the Spice Council and UNIDO.

The following timetable is proposed by the Spice Council and UNIDO:

*Pre-PPG preparatory phase:* 1<sup>st</sup> March – 1<sup>st</sup> April

*PPG Phase* - 1<sup>st</sup> April – 1<sup>st</sup> July

The Spice Council and UNIDO will lead the process of implementing the PPG, the activities that are expected to be implemented under the project preparation process are illustrated in the following table.

Activity	Responsible	Completion date	Expected output
Mapping study to identify all past and ongoing initiatives in the country – with focus on the existing resources, service providers, and existing schemes/models.	UNIDO & TSC	15 <sup>th</sup> April 2011	Mapping report with conclusions
Complete a full feasibility study to identify the different options available for the setup of the academy and propose the most feasible option in terms of efficiency, practicality, sustainability and credibility.	UNIDO & TSC	<b>15<sup>th</sup> June 2011</b>	Complete feasibility report
Design the full project proposal based on the selected option and define the scope, services, legal setup, action plan and resources.	UNIDO & TSC	<b>1<sup>st</sup> July 2011</b>	Full project proposal

## IV. Budget

<b>Item</b>	<b>Description of inputs required</b>	<b>Estimated budget (US\$)</b>
<b>Expertise</b>	<b>National experts to support the implementation process</b>	<b>17000</b>
<b>Travel</b>	<b>Internal travel by vehicle</b>	<b>3000</b>
<b>Stakeholder meetings and workshops</b>	<b>Multimedia, Computers, Public Addressing Systems, Stationeries, Conference hall</b>	<b>7000</b>
<b>General operating expenses</b>		<b>3000</b>
<b>Total</b>		<b>30000</b>

# ANNEX I

## Projects Implemented By The Spice Council

### Projects Implemented With USAID

#### 1. “REVIVE” PROJECT IMPLEMENTED TO REVIEW THE LIVELIHOOD OF PEOPLE AFFECTED BY TSUNAMI - 2005

REVIVE was a United States Agency for International Development (USAID)-funded special assistance project which was implemented to help restore livelihoods lost or adversely affected by the tsunami. The program was implemented through a contract held by Nathan Associates Inc. as prime contractor with J.E. Austin Associates Inc., as lead sub-contractor.

#### Scope and Mechanisms of REVIVE Project

The REVIVE Program Management providing grants and technical assistances to the projects submitted by the partners, which would be fulfilling REVIVE requirements of revive and upgrade economic livelihood in areas in the country battered by the tsunami.

One of the mechanisms of REVIVE was to provide assistances to the tsunami victims under the small grants program. The organizations that were eligible (to be the partners in this program) included with the private sector associations.

#### The Proposal: ‘Support to Revive the Livelihoods of the Cinnamon Peelers and Producers Affected by the Tsunami’

Understanding the prevailed requirements of the assistances for the tsunami affected persons in the cinnamon industry and the objectives and the mechanisms of REVIVE Project the Spice Council submitted a proposal for a project to ‘Support to Revive the Livelihoods of the Cinnamon Peelers and Producers Affected by the Tsunami’ and it was accepted by the REVIVE Project.

Prior to submitting the proposal to the Revive Project The Spice Council (TSC) with the support of the Value Chain Promotion Component (VCP) of the German Technical Cooperation (GTZ) carried out a rapid assessment in the Tsunami affected cinnamon growing areas.

The survey revealed that the tsunami has affected 124 cinnamon peelers those who are employed in the cinnamon peeling as a vocation; the cinnamon producers (total number of 228) were also found to be affected by the disaster; and about 125 acres of cinnamon cultivated lands were also found to be destroyed, mainly due to the sea water intrusion during the tsunami. Four commercial level nurseries were also found to be affected by the disaster.

In general, the Tsunami has directly and indirectly affected the income sources of 400 families (around 2000 population) associated with the cinnamon industry and this has a significant impact on the cinnamon industry in terms of economically as well as socially.

### **Provision of Assistance**

During the programme,

- 124 complete sets of tool kits were distributed among the affected cinnamon peelers to commence their livelihood. The activity was helpful to recover the peeler shortage up to some extent and to increase the foreign income.
- Distributed 25 newly developed Cinnamon Processing Chairs among cinnamon producers.
- A programme was carried out to analyze the soil condition of the area with the support of the CIC Agribusiness Ltd. and identified that it was necessary to apply soil enhancer as a treatment for the affected soil before the planting of new cinnamon. TSC distributed soil enhancer among 226 Tsunami affected cinnamon growers in the area.

## **2. US MARKET DEVELOPMENT PROGRAMME FOR ‘CEYLON SPICES’ IN MARCH 2006**

A delegation representing the Spice Council (TSC) of Sri Lanka traveled to New York March 2006 on a market expansion initiative aimed at the US market for ‘Ceylon Spices’ and Ceylon Cinnamon, in particular. TSC initiative was supported by the United States Agency for International Development (USAID) through its Competitiveness Program (TCP). The TSC delegation members had meetings with spice brokers, importers, agents, grinders and processors in New York City and New Jersey to explore ways to expand business linkages and opportunities.

The group travelled from New York to Los Angeles and attended the Natural Products Expo West in Anaheim, where they got an exposure to the new developments in the natural food products sector and established linkages with US spice companies.

The TSC market expansion mission is part of the Spice Council’s vision to elevate the global awareness of Sri Lankan spices and to re-establish “Ceylon Spices” as a recognized brand in the world market. It is anticipated that the TSC market development effort will lead to higher exports of Ceylon Spices, Ceylon Cinnamon and other Sri Lankan spice products to the U. S. market.

In view of the success of the first market development program, a second marketing tour to the east coast of U.S.A organized in October 2006. A group of five selected members of The Spice Council visited Baltimore, New York and New Jersey areas to attend a trade fair and meet with potential U.S. partners.

### **3. U.S. FOOD WRITERS VISIT TO SRI LANKA IN FEBRUARY 2007**

The Spice Council, Tourism Cluster and The Competitiveness Program of USAID organized a “Culinary Tour” to Sri Lanka for a group of U.S. based food industry professionals including chefs, journalists, gourmet food magazine writers and importers in February 2007. The visit was organized to give them an overall exposure to the Sri Lankan spice industry, cuisine and cultural practices to promote Sri Lanka’s spices and tourism in the west.

In return the food writers have published articles in their respective journals and two of the chefs have organized events in the U.S. to promote ‘Ceylon Spices’ among the U.S. consumers as well as to promote the image of Sri Lanka as a destination for food enthusiasts to visit.

### **4. MATALE NATURAL SPICE (PVT) LTD. - 2006**

Matale Natural Spice (Pvt) Ltd. is a project initiated by the Spice Council to develop a spice producing village in Kaikawala, Matale to produce high quality Ceylon Spices mainly, pepper and cloves.

Objective of the project was to develop the village linking small-scale spice growers through a centralized processing facility to manufacture spices according to Good Agricultural Practices (GAP) and Good Manufacturing Practices (GMP). It was intended to upgrade the livelihood of Small-scale spice growers from subsistence level of production to economically viable, sustainable and export market oriented production and strengthening of backward and forward linkages through the collectivizing of Small-scale spice growers, through the implementation of the project.

The Competitiveness Programme (TCP) of United States Agency for International Development (USAID) part funded the project and The Spice Council and farmers contributed to the funding of the project by acquiring the land and by managing the project. A Model Spice Processing and Training Center was constructed and a modern spice dryer with a capacity to dry 450 kg, was installed for the use of the farmers.

The project provided facilities such as Drying and processing Facilities, Training on organizational management, Training on quality control and assurance, financial management and business plan development, Development of Standard Operational Practices (SOP) for production and processing, Conducting Awareness and Training on SOPs and Market promotion activities in order to develop the processing and marketing sectors of spice industry.



## **Projects Implemented With German Technical Corporation (GTZ)**

### **1. ESTABLISHMENT OF 15 MODEL GOOD MANUFACTURING PRACTICES (GMP) PROCESSING CENTERS - 2005**

TSC initiated a project to establish 15 Model GMP Cinnamon Processing Centers with the funding assistance of German Technical Cooperation (GTZ) and growers/state owners, in view to reach these high profitable markets it is necessary to educate the people involved in the industry and revise the production strategy.

Promotion of Micro Small and Medium Enterprises Development (PMSME) Project of German Technical Cooperation (GTZ) funded up to 50% of the project cost which is Rs. 15 million. Growers/Estate owners have to bare the balance 50%.

It was aimed to uplift the quality of Ceylon Cinnamon and the GMP Centers to be models for the other cinnamon producers as well as for the other spices in the country.

### **2. GTZ-VALUE CHAIN PROMOTION COMPONENT – 2006**

The Spice Council completed the value chains of Cinnamon and Pepper with the assistance of GTZ-Value Chain Promotion Component.

TSC also developed and published the Good Agricultural Practice (GAP) and Good Manufacturing Practice (GMP) manuals for cinnamon and Good Agricultural Practice manual for Pepper, with the support of GTZ –VCP and SGS Lanka (Pvt) Ltd.

## **Projects Implemented With Sri Lanka Export Development Board (SLEDB)**

### **1. CERTIFICATION MARK REGISTRATION PROGRAM FOR CEYLON CINNAMON**

The Spice Council (TSC) prepared a proposal to register a Certification mark for Ceylon Cinnamon first and subsequently for other spices. TSC made a request to the government through the National Council for Economic Development (NCED) Export Cluster NCED for Rs. 50 million for this programme.

Ceylon Cinnamon trade mark has been crated already and it is scheduled to be launched in Sri Lanka. Sri Lanka Export Development Board holds the ownership of the Ceylon Cinnamon Trade Mark. TSC provided technical assistance for the development and evaluation procedures of trade mark.

The promotional programs for Ceylon Cinnamon Trade Mark will be held at Anuga Trade Fair 2011 in order to promote the trade mark in international arena.

## **2. GMP CINNAMON PROCESSING CENTER IN KOSGODA ESTABLISHED IN AUGUST 2005**

The Spice Council initiated a project to upgrade cinnamon processing which is still being done under traditional methods on the floor as it has been done for centuries. Under this project a Good Manufacturing Practice (GMP) Cinnamon Processing Center was opened on August 12, 2005 at Dassanayake Walauwa Cinnamon Plantation, Nape, Kosgoda.

This is the first of its kind in Sri Lanka and a project approved and supported by the National Council for Economic Development (NCED) Export Cluster. Total cost of the project was over Rs. 3 Million excluding the value of land. As a proposal of the NCED in the 2005 National Budget it was partially funded by the Sri Lanka Export Development Board to a value of Rs. 1 Million. This was also assisted by the USAID and GTZ.

Now the center a fully functional and the center have obtained ISO 22000; 2005, ISO 9001: 2000 and HACCP food safety standards.

Training programs are conducted by the center to educate the stakeholders of cinnamon industry on GMP practices of cinnamon processing and the processing techniques used to comply with ISO food safety standards.

## **3. ESTABLISHMENT OF 20 GMP CINNAMON PROCESSING CENTERS – COMMENCED IN 2009**

The Spice Council initiated another project to establish 20 GMP Cinnamon Processing Centers in Southern Province with part funding assistance of Sri Lanka Export Development Board (SLEDB). It has been already establish 10 GMP Centers with the financial assistance of SLEDB and the other centers are in the final phase of construction.

## **Projects Implemented With Department of Commerce of Sri Lanka and Codex Alimentarius**

### **CINNAMON – SULPHUR DIOXIDE ISSUE**

The Spice Council along with Department of Commerce, Department of Export Agriculture and Industrial Technology Institute (ITI) has worked on the proposal to establish a limit of 150 ppm Sulphur Dioxide (SO<sub>2</sub>) at Codex Alimentarius.

Along with ITI, we have developed technologies to reduce SO<sub>2</sub> in Cinnamon to below 150 ppm.

## **ANNEX II**

### **Background – GMP Processing Centres**

**Good Manufacturing Practices (GMP)** are minimum commonsense sanitary and processing requirements, which should be applied by to all food processing industries/organization. GMP generally relate to good house keeping practices concerning food safety and quality. Cinnamon Processing Centre has made good manufacturing practices to achieve high level of cinnamon bark safety and consistent quality product through GMP, whereby achieve total consumer satisfaction.

GMP according to food and drug administration is divided into four areas.

1. General Provision
2. Building and Facilities
3. Equipment
4. Production and Processing Control

Under the general provision it is emphasized about the personnel disease control and personnel hygiene and cleanliness about the workers. Under the area of **Building and Facilities**, it concerns about the plant construction and design, plant environment, sanitary operations of the plant and sanitary facilities provided for workers. Control of contamination and handling of glasses and equipments according to the good manufacturing processes are discussed under the area of equipment handling. Processing of Cinnamon Bark, Handling of Cinnamon Storage and Shipping and Control of contamination are considered under the area of **Production and Process Control**. This GMP upgrading practices have contributed to reduce the contamination possibilities of moulds and anaerobic bacteria and possible situation to develop aflatoxins inside the products. The upgrading of traditional cinnamon peeling huts into GMP Cinnamon Processing Centres has resulted increase of income for rural cinnamon growers and reduction of rejection of cinnamon exports.

## **Annex III:**

### **The Spice Council**

The Spice Council (TSC), is an initiative of the Spice Cluster of United States Agency for International Development (USAID) funded “The Competitiveness Initiative” (TCI), as a private and public sector collaboration. It is also the result of a recommendation of the Task Force for Spices and Allied Products Sector, under the Ministry of Enterprise Development. The Spice Council comprises of all key industry private and public sector stakeholders. TSC was founded in December 2003 as a not-for profit organization Registered under the Registrar of Companies Act No. 17 1982, Section 15 (1). The organization stated its activities in February 2004.

The organization’s objectives are:

- To ensure the ability of all Sri Lankan Spices and Allied Products Industry segments to compete effectively and profitably in the spices and allied products markets at home and abroad.
- To serve as the central forum for consensus building among Producers, Exporters, Processors, Dealers and others involved in Spices and Allied Products and to promote high standards of business conduct.
- To engage in and promote Scientific Research in the Sri Lankan Spices and Allied Products Industry
- To conduct training and development programs at industry level
- To be the unifying force in working with the Government to ensure that Spices and Allied Products Industry interests are considered.
- To carry out the mission and objectives of the Council with the help of democratically developed policy
- To initiate annual policy making through recommendations generated by the Council’s Program Committees:
  - Production Development
  - Research & Development
  - Market Development
  - Government Affairs & Administration
  - Finance
  - Workforce Development & Training
  - Membership Development
  - To refine and approve the committee recommendations and adopt same

TSC has formed the following five policies and budget committees in the following fields to carry out its activities:

- Research and Development (all products)
- Market Development (All Products)
- Government Affairs and Administration
- Finance
- Workforce Development and Training

The key areas of activities currently the organization is engaged are:

- Policy Advocacy, coordination among stakeholders
- Setting up of industry standards for spices and allied products
- Establishment of endorsement schemes
- Collectivising of farmers
- Introduction of high yielding varieties of planting material
- Working on brand marketing of Sri Lanka (Ceylon) spices
- Seeking protection using Geographical Indications under the TRIPS agreement for spices.
- Organizing the small producers and setting up five spice model processing centres in Matale, Kandy, Kegalle, Galle and Matara districts

TSC is managed by a Board of Management representing different stakeholders from the public and private sector. The present office bearers of the Board are presented in Appendix II.

**Contact information of the organization is:**

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