

Organic tea production in Kerala, India

GENERAL INFORMATION	
<i>Sources of information of the practice</i>	Sustainet, Sustainable Agriculture Information Networks, cooperative project of the German Council for Sustainable Development. Result of the workshop on Evaluation of project experiences through local partners (self-evaluation) and assessment of each project's Scaling-up potential , held in India. Section on "Potentials and opportunities for scaling-up" written by Felix zu Knyphausen.
<i>Relevant contacts</i>	Project Secretariat, GTZ, Dag-Hammarskjöld-Weg 1-5, Postfach 5180 D, 65726 Eschborn, Germany Project Manager, Helga Stamm-Berg, Tel +49(0)6196791476 Email: Helga.Stamm-Berg@gtz.de
<i>Useful links</i>	www.sustainet.org ; Peermade Development Society www.pdspeermade.org
INFORMATION ABOUT THE PROGRAMME OR PROJECT PROMOTING THE PRACTICE (IF APPLICABLE)	
<i>Programme or project</i>	Linking farmers with markets
<i>Time frame</i>	1998 - ongoing
<i>Donor</i>	European Union, Naturland (German NGO), Equal Exchange (British NGO), Verein Familien Partner Kerala (Austria)
<i>Implementer of the programme or project</i>	<u>Local NGO</u> : Peermade Development Society (PDS)
LOCATION OF THE PRACTICE	
<i>Region</i>	Asia
<i>Country</i>	India
<i>Province, Districts, Villages</i>	District of Idukki, State of Kerala
<i>Climatic zone</i>	Humid
<i>Other descriptive information</i>	-
INFORMATION ABOUT THE PRACTICE	
<i>Practice category</i>	Fair conditions of employment Community empowerment
<i>Practice type</i>	Institutional practice for ensuring fair conditions of employment Institutional practice for empowering rural people
<i>Sector</i>	Crop production system management
<i>Institutions fostering the practice</i>	<u>Local NGO</u> : Peermade Development Society (PDS)
<i>Beneficiaries of the practice</i>	Small-scale tea producers and their communities
<i>Users of the practice</i>	Small-scale tea producers
<i>Natural resource used or accessed (if applicable)</i>	Land, tea plants
BRIEF DESCRIPTION OF THE PRACTICE	
<i>Background/problem statement</i>	Farming is a highly seasonal business, governed by the annual cycle of monsoon and dry, summer and winter; particular crops mature and are harvested at the same time. The market cannot absorb these sudden surges in supply, and therefore, prices plummet. Farmers are forced to sell at a loss, or must watch their crops rot in piles or unharvested in the fields. Tea is no exception to this iron rule, as fresh tea leaves are perishable and must be processed immediately after harvest, or they become worthless.

	<p>In the district of Idukki, in the state of Kerala, the market for tea was controlled by big plantation owners and private factories. Peermade Development Society (PDS), has helped the farmers establishing of a consortium that runs its own tea factory, producing organic tea for the European market.</p>
<i>Approach followed</i>	<p>In 1998, PDS conducted a series of participatory appraisals through self-help groups that were previously established to run saving schemes and help the members to undertake heavy work in their farm. The group members discussed the problems they faced in small-scale tea farming and discussed ways to overcome them. The ideas of switching to organic tea production, forming a consortium and building their own factory came out of these discussions.</p> <p>The farmers established a consortium; an umbrella federation of 51 separate village-level groups, composed of nearly 1200 members, who farm a total area of nearly 800 hectares. PDS helped in obtaining a loan from local banks to build the factory (one-third of the cost was covered by the Donors), which is now owned jointly by PDS and the farmer consortium. The factory was opened in November 2003, it serves nearly 1200 smallholder tea growers, but has the ability to serve more than 10,000 farmers in the district.</p> <p>An important step of the process of linking organic farmers to the market was to comply with international organic quality standards and get the organic certification. PDS arranged for the farmers to be certified by an internationally accredited agency, Skal International, and they also obtained a Fair Trade certification through the Fair Trade Labeling Organization. The Factory spends Rs 85,000 (€15,000) a year just on quality control. The quality of the product is ensured through an internal control system headed by a manager stationed at the tea factory and six inspectors posted locally in the district. The inspectors are responsible for advising farmers in all activities and provide training in various subjects, including: i) bookkeeping, ii) standards required for organic farming, iii) organic and biodynamic farming practices, iv) different aspects of tea cultivation, v) the use of botanical pesticides and bio-control agents, vi) pest and disease surveillance, vii) application of organic manure and vermicompost, and viii) good harvesting and post-harvest practices.</p> <p>Every year more and more farmers in Idukki are converting to organic farming. By 2010, the consortium is expecting to make all 10,000 small-scale tea growing farmers in the district organic.</p>
<i>Innovative elements</i>	<p>The factory was the first venture of its kind in India involving a group of organic farmers. It implements a closed purchase system: it takes tea only from registered organic farmers who are members of the consortium. It guarantees the farmers a price 30–70% above the open market rates (the actual level depends on the season). This ensures a regular supply of quality green leaves from the farmers. The factory then sells the finished tea through Fair Trade channels.</p>
<i>Impacts on natural resource base</i>	<p><u>Actual:</u> Reduced environmental impact</p>
<i>Impacts on livelihood of the practice users</i>	<p><u>Actual:</u> The farmers get an assured price for their crops irrespective of the season. In the past 1½ years (2004-2005), the farmers have earned about Rs 15,000,000 (nearly €300,000) from the sale of green leaves. Farmers are better organized and are learning to cooperate to the benefit of the entire community. They now have the strength to compete in the market independently.</p>
<i>Other impacts</i>	<p><u>Actual:</u> One of the requirements for Fair Trade certification is that part of the profit must be used to improve the socio-economic situation of the growers, their families and the community. The consortium thus earmarks 0.50 Euros from every kilogram sold for development projects in the community. These projects include educating children, creating public utilities such as drinking</p>

	<p>water, providing services such as medical care, and installing computers for use in education and community welfare.</p> <p><u>Expected:</u> Improved health and education services for the communities</p>
<i>General success factors</i>	<ul style="list-style-type: none"> • Organic market: The organic market in India is growing. This provides increasing opportunities for marketing on both a local and national level. It is then easier for small factories like the PDS Tea Factory to penetrate these markets • Visible effects on farm level: Farmers in the project area were convinced to shift to organic production by the decreasing incidents of pests and diseases on organic fields and a simultaneous reduction in the cost of inputs. The improved health situation of farmers and their families who converted to organic was another strong argument for many to adopt this practice. Furthermore, the yield became more stable throughout the year and bushes did not dry out in the dry season anymore. The higher and more consistent quality fetches higher and more stable prices. • Education: A high literacy rate amongst the target group was an important fostering factor for the practice. It benefited the dissemination of information and was essential in the introduction of record keeping on farm level. • Price of PDS tea: PDS tea is not expensive compared to other teas so market access is not a problem of price competition. • Village organisations: Village level institutions like village development councils and self help groups were already in place from a former project. This made the initial work of PDS easier but was not a prerequisite. • PDS experience: PDS has a lot of experience in organic farming. It managed to obtain Organic and Fair Trade group certifications and to cover the expenses by including the costs in the sale price of the final produce. • Others: Presence of trees and vegetation provided material to make compost.
<i>Technology success factors</i>	-
<i>Institutional success factors</i>	Farmer's capacity for adoption of the technology Regulation
<i>Problems remaining to be resolved</i>	<p><u>Domestic market:</u> There is no ready market for organic produce in India. The domestic market needs to be established.</p> <p><u>Competition from the private factories:</u> The private factories may raise the prices they offer to the Idukki farmers in order to compete with the organic factory for the supply of fresh leaves.</p> <p><u>Conversion costs:</u> The farmers need 3 years to convert their land and become certified as organic. During this period, their produce cannot be sold as organic. The farmers' yields also decline for a couple of years before they recover as a result of the improved organic practices. The farmer risks losing income during this transition period.</p> <p><u>Cost of monitoring and technical support:</u> Continuous monitoring and technical support are required to maintain the quality of the product.</p> <p><u>Distance to factory:</u> The target area is limited to a radius of a one-hour drive to the factory. This is because for best processing results, the harvested leaves must be delivered to the factory ideally within one hour.</p> <p><u>High fixed costs:</u> The factory's overheads are still high and need to be reduced. The largest items of overhead are interest, fuel, power and certification. Because of the high fixed costs, the factory is still not able to pay the price to the farmers that they would like. The interest that the factory has to pay will decrease over the next years with the amortisation of loans. The cost of fuel could be reduced by 30% if the</p>

	<p>factory switches to solid fuel like pellets and solar energy. However, new investments would have to be made, which cannot be carried out at the present time.</p> <p><u>Difficulties to find officials for the consortium:</u> Not many farmers want to take responsibilities within the consortium because these positions are not paid and require extra time.</p> <p><u>Control costs:</u> The external and internal control systems require a total of 10 staff fully dedicated to the PDS Factory and the consortium farmers, which involves high costs.</p> <p><u>Lack of brand characteristics:</u> Kerala is not known for any specific tea characteristics and cannot act as a brand like other tea regions in India (e.g. Darjeeling or Assam). Its tea is most suitable for “normal” tea bag production.</p>
<p><i>Keywords</i></p>	<p>Agriculture, biological control, capacity building, certification, commercial farming, commodity markets, community development, crop production, crops, economic development, empowerment, environmental management, farm management, farmers associations, income generation, international trade, labour and employment, marketing, organic agriculture, organic production, participatory approaches, processing, production, quality control, working conditions</p>
<p><i>Potentials and Opportunities for Up-scaling</i></p>	<p>Any farmer who is willing to convert to organic and lives within a certain radius of the factory is a potential participant.</p> <p><u>Potentials and Opportunities</u></p> <p>a) Capacity: The factory has a processing capacity of 800,000 to 1,000,000 kg of tea per annum. At the moment it is running at 450,000 to 500,000 kg i.e. at 50% factory utilisation. The factory is therefore not a bottleneck and would become more efficient and profitable with higher utilisation.</p> <p>b) Interest in the project: There is a strong interest in the project by non-consortium farmers in the project area and many farmers have expressed that they would like to join the consortium.</p> <p><u>Constraining Factors</u></p> <p>a) Market access: The international market is very competitive and access can only be achieved through fair trade channels. The problem is that the organic tea market is in the hands of large organic producers who have the power to push small producers off the market. A small factory like PDS would encounter problems in supplying large supermarket chains.</p> <p>b) Awareness: There was only very limited awareness of farmers for marketing issues. In the past most farmers concentrated on growing a good crop and protecting it from diseases. Little thought was spent on issues of processing and marketing. To link farmers to markets an understanding of these issues has to be created and developed.</p> <p>c) Certification: Certification for the international market is very expensive and due to lower standards unnecessary for the Indian market where most of the produce is sold. However there is no Indian certification system that satisfies the needs for the national market at an affordable price.</p> <p>d) Investment: Finding the required capital for investment was one of the major difficulties experienced by PDS. To start or replicate this project high investments are necessary. Even PDS, which is an established and well-known NGO under the patronage of the catholic diocese, had difficulties to take out the required loans. Other, smaller NGOs might have even bigger problems doing so. This also implies that the NGO has to be willing to take an entrepreneurial risk.</p> <p>Sourcing money from donors can be difficult as well. Most donor organisations will only provide large donations to organisations that they</p>

know and trust. These organisations have to build a reputation over the years and develop a relationship with the donors. These sources of funding would be unavailable to farmer's cooperatives.

Additionally banks as well as donors require organisations to contribute a certain percentage of the investments from their own capital. This might be prohibitive for organisations like farmers cooperatives that have little capital when planning to set up expensive processing facilities like tea factories. However, for other processing facilities, e.g. for vegetables, investments might be significantly less.

- e) **Setting up a factory:** Starting a company in India can be a long and bureaucratic process which can easily take up to one year. To set up a company one needs experience and contacts with the right people and institutions. PDS had both from setting up a spice processing facility. However, if the practice is to be replicated this might become an insurmountable hurdle. A farmer cooperative, for example, might have great difficulties in going through this process by itself.
- f) **Business skills:** NGOs often lack the necessary business skills to set up a factory or processing enterprise. In the case of PDS the priests had to write the business plan, which was a difficult process despite the consultancy of professionals.
- g) **Replicating the project elsewhere:** Lack of willingness or know how: Many NGOs are uninterested or unwilling to engage in business and would rather concentrate on ecological or social issues, neglecting the economic dimensions of agricultural development. Other NGOs are willing to engage in business but don't have the monetary and managerial resources or know how to start marketing projects.

Existing Scaling up Strategies

- a) **Certification:** PDS had all the farmers of the consortium and the tea factory certified. This is a prerequisite to access international markets.
- b) **Factory utilisation:** The factory tries to establish a market for the existing consortium members first and will then increase the area covered by the project i.e. accept new members.
- c) **Training:** PDS is training NGOs and farmers from other areas on issues related to organic agriculture. To do so PDS invites representatives from different organisations to advertise their training in newspapers. So far, the training has concentrated on issues of organic farming since PDS believes that first farmers have to be organised and convert to organic agriculture before market linkages can be established.
- d) **Stepwise handing-over of responsibilities:** Over the years the consortium will take on more and more responsibilities. First it was only the collecting of leaves, then the consortium handled the payments to the farmers, then it started measuring the coarseness of the leaves (a critical process in the determination of the quality and therefore the price). With every step the PDS staff will withdraw, to the point where the consortium will run the factory by itself.

Further Scaling up:

- a) **Workshops:** PDS intends to organise workshops with other NGOs interested in the experiences made by PDS in the process of linking farmers to markets.
- b) **Awareness creation:** As mentioned above farmers need to have an understanding of markets and for the potential of cooperation. A regularly issued information letter could be introduced that informs farmers, consortium members and non-members alike, about important issues affecting the farming community in Iddukki and Kerala. Due to a high literacy rate in Kerala, print media is a good way of disseminating information. There could be a small subscription fee that would pay for a writer/editor to compile the texts.

Another option would be to issue a brochure to farmers and consumers to inform this target group about markets of organic products and issues related to food and organic agriculture. PDS is convinced that there are

many potential customers who do not know where to get these products since supermarkets do not supply organic products. The brochure could create a larger market and help tie consumers to organic farming. This brochure or magazine could be issued not only by PDS but by several NGOs from Kerala who have an interest in organic agriculture. PDS will find out whether there are any NGOs who would be interested to participate in this project.

PDS also believes that radio and TV is a suitable medium to reach farmers in Kerala. PDS will try to convince governmental broadcast stations to include programmes on organic farming and food related issues which will reach a large target group of conventional farmers and create awareness for other farming methods and the potential of cooperation.

- c) **Organic outlets:** PDS wants to investigate whether it would be possible to join with other organisations which promote organic farming and to open organic shops with a wide range of products from different parts of India.
- d) **NGO-guaranteed certification:** The products sold in the above mentioned shops would not have to be certified according to international standards. If a number of NGOs could agree on certain criteria it would be possible to introduce a “declaration model” where the compliance with the standard is guaranteed by the NGOs. The label could for example read “Organic production guaranteed by PDS” or “...guaranteed by the association of organic-promoting NGOs”. It is believed that with a good marketing strategy such a trust-based certification system could establish itself throughout India and might even have a competitive advantage over privately certified products due to the emphasis on social aspects and rural development that such a label would imply. The participating NGOs would furthermore benefit from each others experience and their local knowledge of producers and markets.
- e) **Inputs:** External inputs cannot be avoided in tea production. PDS is investigating ways of how to internalise the production of biological pesticides into the project.

Additional notes

PDS is trying to penetrate local markets more heavily than before. International markets can provide higher returns but require significantly more marketing expertise.

There used to be many small tea-processing factories like PDS in India but most closed down due to a lack of marketing expertise. Sri Lanka has proven that it is possible to stay in the market even with small factories if the quality of the produce is high and the adequate marketing expertise is available. This is what PDS wants to achieve.