UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO)

Project number:	XX/SRL/XXXXX
Project title:	Enhancing the compliance and productive capacities and competitiveness of the cinnamon value chain in Sri Lanka.
Relationship to integrated programme:	Not applicable
Thematic area code[1]:	Trade Capacity Building (TCB) , DD13, Quality and compliance infrastructure
Estimated starting date:	01 May 2012
Duration:	3 years
Project site:	All cinnamon growing areas, particularly Galle, Matara, Kalutara, Ratnapura, Badulla, and Hambantota.
Government Co-ordinating agency:	Ministry of Industries and Commerce, Ministry of Agriculture and Ministry of Minor Crops Export Promotion
Counterpart:	The Spice Council of Sri Lanka (TSC)
Executing agency/ cooperating agency:	UNIDO
Project Inputs:	
- Grand Total:	US$1,530,000 (excluding UNIDO support costs)

Component	Total value	Donor
Component 1: *Competency and skills development in food safety and hygiene*	705,600*	STDF
Component 2: *Institutional training infrastructure (land and construction)*	450,000**	Government
Component 3: *GMP certification of cinnamon processing Units*	125,000***	UNIDO
Component 4: *Value addition and mechanisation*	250,000	Not available
Component 5: *National Pure Ceylon Cinnamon Conformity Mark (PCC)*	75,000***	UNIDO
*including the 12 percent UNIDO support costs **the value of the land and the costs of the construction for the training centre *** UNIDO contribution from the Trade trust fund		
- Counterpart inputs:	In-kind contribution	

[1] The UNIDO theme codes are: Energy and Environment (EAE), Poverty Reduction through Productive Activities (PRP) and Trade Capacity Building (TCB)

Brief description:

The Spice Council (TSC), representing all key stakeholders in the cinnamon industry, bears a strong opinion that the country's cinnamon trades in the world market, especially the European and North American markets are gradually diminishing due to the cheaper substitute of cassia (Cinnamomum cassia) from the Far East. Sri Lanka has lost about 50 percent of the global trade for cinnamon during the past 10 years, despite having 90percent share of the international markets for the **true cinnamon** (*Cinnamomum Zeylanicum* Blume). In other words, for each year during this decade, Sri Lanka has lost five percent of its global trade for cinnamon. Ironically, Sri Lanka is dominating a rapidly shrinking market.

The enterprises engaged in the cinnamon industry believe the main reasons for this loss of competitiveness is the low price competitiveness (compare to cassia) and the inability to supply demanded scales due to the cinnamon not meeting the necessary buyer product specifications and food and hygienic standards (SPS). Several other factors like human resource availability, applied skills, training infrastructure, etc. are also affecting and straining the value chain.

The analysis showed that the cinnamon export industry value chain is facing three core issues:(i) scarcity and skills migration of cinnamon peelers; (ii) lack of an institutionalized system to assure market conformity standards; and (iii) weak Research and Development (R&D) technology and limited access to processing technologies, which act as bottlenecks for the industry's competitiveness and growth. The effects being consequent and branched up to result in (i) insufficient volumes reaching the end market; (ii) the inability to meet the quality and standards of high-end and European and North American markets; and (iii) under developed and inappropriate technology for product development, packaging, production improvement.

To initiate the development of solutions for these complex issues in the value chain, TSC embarked on a mission of establishing an institutional training delivery mechanism and a national framework for training people involved in the cinnamon industry. The idea was developed and reinforced based on the lessons learned from the implementation of different related development projects in the sector.

TSC had constructive deliberations with UNIDO with the aim of establishing synergies with ongoing UNIDO projects in the field of food safety training and certification. These discussions resulted in an agreement to establish a partnership between TSC and UNIDO in the implementation of this proposed project.

TSC and UNIDO lodged a proposal to request a project preparatory grant from the Standard and Trade Development Facility (STDF) in Geneva in late 2010. STDF accepted this proposal and provided a grant to conduct an in-depth value chain analysis and develop a project framework for funding; this document presents this project proposal.

The proposed project's overall objectives at a higher level are to support the cinnamon industry stakeholders to enhance the competitiveness of their value chain and reinforce the industry as a market leader at the global trade and restrain the market deprivation, which is a major concern currently. Furthermore, the project will attempt to support the weak value added segment by increasing the share of the value added cinnamon from Sri Lanka at the world trade. The direct impact or immediate objectives of it will be to support the industry to increase the volume supplied to the export markets and upgrade the quality and food safety compliance (SPS) to meet the conformity requirements of European and North American markets and high-end markets. Simultaneously, the project will facilitate to improve appropriate technology used in the cinnamon industry value chain and contribute to value addition.

The project's planned outcomes are embedded in five components of activities. In terms of structure and process, these components will be stand alone project interventions. However, the results of implementing these project components have definite dependencies and synergies.

The first outcome aims to strengthen the training capacity on food safety and hygiene, along the cinnamon value chain, while the second outcome expects to construct the needed training infrastructure to establish the training function. The third outcome of the project intends to enhance the compliance capacities of substandard cinnamon processing units through a certification process according to the national and international standards, while the fourth outcome envisages enabling the cinnamon processors to take up initiatives in applying upgraded technologies in their businesses. The final outcome of the intervention will improve the image of the cinnamon exports from Sri Lanka in the export markets by launching the Pure Ceylon Cinnamon mark.

Approved:

	Signature:	Date:	Name and title:
On behalf of			
Ministry of Industries and Commerce:			
On behalf of The Spice Council:			
On behalf of UNIDO:			

ABBREVIATIONS

CAA	-	Consumer Affairs Authority
CBO	-	Community Based Organization
CCA	-	Ceylon Cinnamon Association
CCC	-	Ceylon Chamber of Commerce
CinCA	-	Cinnamon Cultivators Association
DEA	-	Department of Export Agriculture
EBT	-	Enterprise Based Training
EDB	-	Export Development Board of Sri Lanka
FAO	-	Food and Agricultural Organization
GAP	-	Good Agricultural Practices
GMP	-	Good Manufacturing Practices
GIZ	-	German Technical Cooperation (formally GTZ)
HACCP	-	Hazard Analysis Critical Control Point
HS	-	Harmonized Commodity Description and Coding System
IFRC	-	International Federation for Red Cross and Red Crescent Societies
Ind-Expo	-	Ind-Expo Certification (Pvt) Ltd
ISO	-	Organization for International Standards
ITI	-	Industrial Technology Institute
MOH	-	Ministry of Health
M&E	-	Monitoring and evaluation
NAITA	-	National Apprentice and Industrial Training Authority
NIPM	-	National Institute for Plantation Management
NQS	-	National Quarantine Service
NSC	-	National Seed Council
OECD	-	Organisation for Economic Co-operation and Development
PMSME	-	Promotion of Micro, Small, and Medium Enterprises
ProCom	-	Project Coordinating Committee
PSC	-	Project Steering Committee
PSP	-	Private Sector Promotion Project
ROP	-	Registrar of Pesticides
R&D	-	Research and Development
SCPPC	-	Seed Certification and Plant Protection Center
SLAB	-	Sri Lanka Accreditation Board
SLSI	-	Sri Lanka Institute of Standards
SPS	-	Sanitary and Phyto-sanitary Standards
STDF	-	Standard and Trade Development Facility
TBT	-	Technical Barriers for Trade
TCI		Competitiveness Initiative
ToR	-	Terms of Reference
TSC	-	The Spice Council
TVEC	-	Tertiary and Vocational Education Commission

UNIDO	-	United Nations Industrial Development Organization
USAID	-	United States Agency for International Development
VCP	-	Value Chain Component Project.
VEGA	-	Volunteers for Economic Growth Alliance
VTA	-	Vocational Training Authority

MEASUREMENTS AND UNITS

1acre	-	0.4 ha
Ha	-	Hectare
LKR	-	Sri Lanka Rupee
US$	-	United State Dollar
Ppm	-	Parts per million (mg/kg)
T	-	Tons (x 1,000 kg)
US$1.00	-	LKR 112.00

CONTENTS

A. CONTEXT

1. Sri Lanka/Ceylon Cinnamon Value Chain

1.1. Cinnamon Value Chain

Following the standard approach of the value chain analysis framework, the activities related to the cinnamon industry (for a competitive advantage[2]) are categorized into the two categories of primary and support activities. The primary activities of the value chain are concerned with the production and supplies from raw materials to end-markets and consumers whilst the support activities include input supplies, services, standards and conformity (Figure 1).

Like most agro-value based chains, the primary activities of the cinnamon value chain are carried out by the private sector firms or entrepreneurs, categorized into small, medium and large. Micro scale processing units are mainly found amongst producers (growers) at the bottom of the cinnamon value chain.

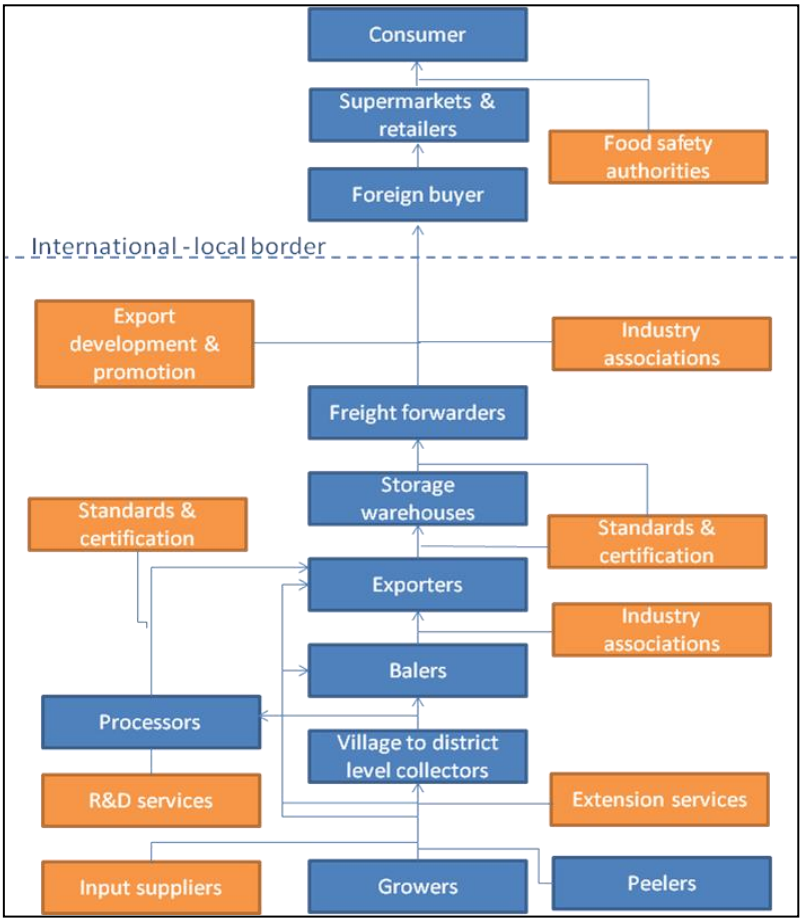

Figure 1: Structure of the cinnamon export industry value chain

There are no confirmed population statistics on both the producers and peelers, with the expectation of an estimated figure of 30,000 peelers in 2010. It is estimated, but not verified, that there are over 70,000 small-holder cinnamon producers (with an average extent of 0.5ha) and they are the majority of the growers while only 5 percent to 10 percent are the considerably large plantations (with an extent of 8ha to 20ha)[3,4.] The majority of producers (about 90 percent) do not cultivate cinnamon as

[2] The competitive advantage or competitiveness of a value chain, according to Michel Porter (1985) pursue through (a) cost advantage; and (b) differentiation. The cost advantage is pursued by cost reduction on individual value chain activities or by reconfiguring the chain. The differentiation advantage of a value chain achieved through by either changing its individual activities or reconfiguring the chain. Often differentiation results trade-offs between cost and differentiation.

[3] Source: Economic Research Report No. 18, DEA (2003)

fulltime engagement; most of these growers are part-time engaged in other professions as their main livelihood and hire personnel to manage their crop-holdings. As a result of their part-time engagement, these holders lack the proper knowledge and strong commitment to manage their holdings properly[5]. Alternatively, some producers (third generation of cinnamon cultivating) demonstrate strong commitment to their plantations and have extensive experience and hands-on knowledge about the crop.

1.2. Production Base (Cultivation)

The Ceylon Cinnamon (*Cinnamomum Zeylanicum* Blume), belonging to the Lauraceae family, usually grows up to a height of 5 to 6 metres (but pruning is carried out to maintain a desired height) and blooms white small flowers with a unique fragrance and produces small, green coloured fruits. However, only its bark leaves, and wood (after peeling) are the economically viable parts. Only a few producers are using the plant's roots to extract camphor-rich, pharmaceutically valuable oils[6].

Seven types (cultivars) of commercially valuable cinnamon are found in Sri Lanka; which are differentiated primarily based on their aromatic (pungency of bark and petiole), textual (of bark), and structural (of leaves) attributes[7].

Apart from these types, DEA[8] has introduced two new varieties of cinnamon, namely Sri Gamunu and Sri Wijaya; which give more harvest (about 50percent) and result in a high quality produce for oil extraction.

According to DEA, as of 2009, the total cultivated land extent of cinnamon is 29,415ha, where Galle District is the main cinnamon cultivation area with 41 percent of share in the total cultivated extent, followed by Matara and Ratnapura Districts with 21 percent and 14 percent of shares respectively. The remaining 25 percent of the cultivated land are mainly in Hambantota, Badulla, Kalutara

1.3. Cinnamon Trade and Exports

The Ceylon Cinnamon, which is also known as true cinnamon or queen of spices (herein further referred to as cinnamon) is the oldest plantation crop in Sri Lanka and one of the oldest export trades in the world. In the Old Testament of the Holy Bible, cinnamon is mentioned as a special offering of incense on the altar in Jerusalem Temples, as an important component of the temple service[9]. Cinnamon was a highly prized commodity amongst the ancient cultures, where they regarded it as a gift fit for monarchs and deities. It was too expensive to be commonly used on funeral pyres in Rome, but Emperor Nero is said to have burned a year's worth of the city's supply at the funeral for his wife Poppaea Sabina in A.D. 65[10].

Continuing the tradition, in modern times as well, spices, including cinnamon have been a major export trade for Sri Lanka. However they are considered to be non-traditional export crops (the traditional export crops in Sri Lanka are tea, rubber, and coconut).

According to the export statistics for the past three years, the turnover from spices and essential oil exports constitutes an average of 57 percent (with an average annual turnover of US$155.7million)[11] the total export value of the non-traditional crops. Amongst the spices, cinnamon is the single largest

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[4] However, during the information survey, it was informed that there has an initiative been taken by DEA to register the cinnamon producers.

[5] Reference: Key person interviews with Dr IR Ferdinand, Owner, an estate in Tihagoda, Mr Chandana de Silva, Owner of Attadiya Estate (Pvt) Ltd, Mr Munasianghe, Manager, Batuhena Estate (Pvt) Ltd, and Mr Wijith De Zoysa Jayathilake, Managing Director, Dasanayake Walawe Plantation (Pvt) Ltd on 31st March 2011 and 6th April 2011

[6] Reference: Faculty of Agriculture, University of Peradeniya of Sri Lanka, Agronomy of Cinnamon, time unknown, Peradeniya,

[7] Reference: DEA, Technical Bulletin No. 5, 1996

[8] R&D was carried out and introduced by the Cinnamon Research Center, Palolpitiya, Tihagoda.

[9] Reference: Toussaint-Samat 2009, p. 437

[10] Reference: Encyclopaedia Britannica. 2008. Toussaint-Samat 2009, p. 437f.

[11] Source: Central Bank of Sri Lanka and Sri Lanka Customs, 2010

non-traditional export crop. Table 1 shows that during the past three years the share of cinnamon on an average has been just above 55 percent (with an average turnover of US$79.89million).

Table 1: Export turnover performance of cinnamon against all spices and essential oils

	Annual export turnover (US$, in millions)					
	2008		2009		2010	
	Value	percent	Value	percent	Value	percent
Cinnamon (without essential oils)	82.7	55percent	74.18	64percent	82.79	46percent
All spices (without essential oils)	151.46		115.11		178.73	

(Data Source: Central Bank of Sri Lanka/ Department of Customs of Sri Lanka, 2010)

During the recent years, in terms of value (turnover), the country's cinnamon export trades have shown a steady growth with a rate over US$4million per year.

Despite this increasing trend in the annual turnover from cinnamon exports, for the past five years, the annual export volumes of cinnamon remained almost constant at an average of 12,336 tons[12]. Hence, these figures indicate a trend of increasing unit farm gate price of cinnamon on average it increases at a rate of 16percent per year (US$0.67).

Furthermore, these statistics indicate that during this time period, there has been a growing trend of increase in cost of production and demand for cinnamon at the international markets (hence, the increased export turnover). Between 2005 to 2009, the average price for 1kg of cinnamon was US$4.32. Although Sri Lanka enjoys the increased export turnover from cinnamon, the trend of high price for this commodity is affecting the industries competitiveness at the markets.

Sri Lanka is exporting cinnamon to over seventy countries, spreading across almost all continents (Table 2). From the global market perspective, of the true cinnamon trade, Sri Lanka holds a dominating position with a 90percent market share, where the captive markets are placed in the South and Central American countries. The other two countries that export true cinnamon to world markets are Seychelles and Madagascar (collectively, with only a 10percent market share).

Table 2: Cinnamon export markets by regions and countries

Market region	Countries
Europe	United Kingdom (UK), Italy, Germany*, Spain, Netherlands, Switzerland, France, Poland, Belgium, Sweden, Austria, Denmark, Norway, Czech Republic, Portugal, Ireland, Swaziland, Greece, Cyprus, Finland
Middle East	Lebanon, United Arab Emirates (UAE), Kuwait, Saudi Arab, Qatar, Israel, Egypt, Bahrain, Morocco, Jordan, Turkey, Oman
North America	United State of America (USA)*, Canada
South Asia	India*, Bangladesh, Maldives, Pakistan, Nepal
South and Central America	Mexico*, Colombia*, Peru*, Elsalvador, Guatemala, Bolivia, Argentina, Honduras, Ecuador, Chile, Nicaragua, Costa Rica, Guatemala, Panama
South-East Asia	Japan*, Singapore, South Korea, China, Hong-Kong, Philippines, Cambodia, Brunei, Malaysia, Taiwan
Others	Australia*, Nigeria, Latvia, Botswana, South Africa, Mauritius Islands, Zimbabwe, and un-specified

* Main country of export to

(Data source: Sri Lanka Customs Department, 2010)

[12] The calculations were made on the data made available by EDB on 07/ 04/ 2011.

Out of the Latin American countries, Mexico is the major cinnamon importer, and in terms of total average annual export volume, it bears a market share of almost 50 percent (Figure 2). Particularly, between 2008 and 2010, Mexico has imported a total of 16,893t from Sri Lanka, with an average of 5,631t per year[13]. The total value of the exports to Mexico during this time period was about US$121million, at an average of about US$40million per year.

(Data source: Sri Lanka Customs Department, 2010)

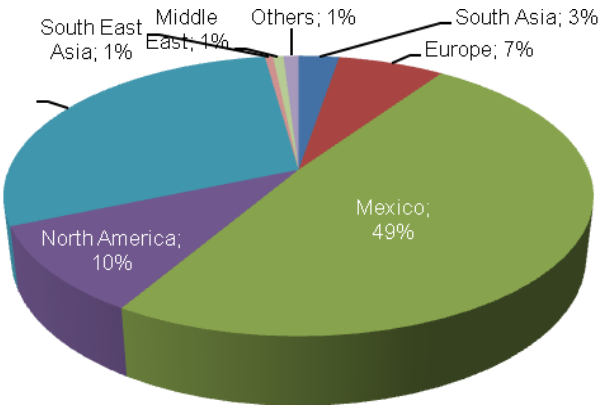


Figure 2: Cinnamon export market share by average import volumes (from 2008 to 2010)

The main export market form for cinnamon is in bulk with a share of 65percent of the total cinnamon exports, while the share of value added cinnamon products (such as cut cinnamon, oil forms, oleoresins, powdered forms, tablets, etc) is only 35percent[14]. There are 12 different (according to the designated HS codes) products being exported as bulk forms.

2. Results of the Value Chain Analysis

2.1. Human resource development

DEA's on-going training scheme (five-day sessions) for cinnamon farmers, farmer groups or Community Based Organizations (CBOs), who are interested in learning recommended hygienic method of cinnamon peeling, was started 10 years ago, trains 1,000 people per year[15]. The training is delivered by experience cinnamon peelers. According to their records, DEA has trained 10,000 people, but only 30 percent joined the industry. The reasons for this high fall out are because of (a) social stigma; and (b) the occupation is not attractive for the modern generation[16]. Apart from this, since recently, DEA has launched a project with the support of the Government's treasury, to construct a training center in their research sub-station at Tihagoda (Matara disctrict). The construction works of this training center started and on-going. This training center is designed to train 40 to 45 people on GAP and GMP standards based cinnamon cultivation and primary processing practices.

Giving due recognition and appreciation on these initiatives, but through the fact finding missions, the following prerequisites for an institutionalized and standardized training delivery system, were found not included.

- The training program and the provider are not registered and accredited at TVEC.

[13] Calculations were made by using data forwarded by Ceylon Chamber of Commerce (as of 12/ 02/ 2010); which were based on Sri Lanka Customs Department's statistics
[14] Source: Personal communication with TSC/ EDB, 2011
[15] Reference: http://www.exportagridept.gov.lk
[16] Source: Personal communication with Mr JK Lindara, Assistant Director, Kurunegal (formally, he was attached DEA office in Galle)

- The training content, curricular, and materials were not designed according to a participatory approach involving the industry stakeholders.
- Incorporation of GAP and GMP standards and relevant training manuals are not available and do not follow international best practices.
- Demand analysis on the training provision and post-training assessments are not performed.
- Trainings and qualifications are not defined and do not offer a personal certification scheme.
- The apprentice based training methodology is not adhered and industry training phase is not included.
- A training-of-trainers methodology is missing in bringing up master trainers (peelers) for delivering the training.

Apart from the above institutional & technical gaps, the following capacity gaps were also concluded in this existing training delivery system.

Table 3: Cinnamon training demand, outputs and gaps

Criterion	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013	Notes
Total land extent (in ha)	29,415	29,698	29,982	30,265	30,548	1
Land extent at harvesting (in ha)	29,132	29,132	29,415	29,415	29,698	2
Total production volume (in t)	15,000	15,000	15,146	15,146	15,292	
Availablity of peelers including the new comers (number of people)	30,000	30,300	30,600	30,900	31,200	3 & 4
Demand for peelers (number of people)	65,852	66,486	67,120	67,754	68,389	5
Labour defecit (number of people)	35,852	36,186	36,520	36,854	37,189	
Output of the trainig delivery/ on-going & proposed (number of people)	0	500	500	500	500	6
Gap between the demand & delivery output (number of people)	35,852	35,686	36,020	36,354	36,689	
Required trainig capacity (number of physical units)	359	357	360	364	367	
Cost or loss for the producers due to lack of peelers (in LKR)	45,710,812	46,136,951	46,563,089	46,989,227	47,415,366	7
The above in US$	*408,132*	*411,937*	*415,742*	*419,547*	*423,351*	
Pausible contribution from indsutry, if for 1 training facility (in LKR)	1,828,432	1,845,478	1,862,524	1,879,569	1,896,615	
The above in US$	*16,325*	*16,477*	*16,630*	*16,782*	*16,934*	
Industry contribution share (LKR/ ha)	63	63	63	64	64	
The above in US$	*0.56*	*0.57*	*0.57*	*0.57*	*0.57*	
Pausible contribution from indsutry, if for 2 training facilities (in LKR)	3,656,865	3,690,956	3,725,047	3,759,138	3,793,229	
The above in US$	*32,651*	*32,955*	*33,259*	*33,564*	*33,868*	
Industry contribution share (LKR/ ha)	126	127	127	128	128	
The above in US$	*1.12*	*1.13*	*1.13*	*1.14*	*1.14*	

(Data source: Personal communications with DEA. See footnotes in above sections)

Through the on-going production expansion scheme, DEA pursue an annual target of 700acres new lands to be cultivated with cinnamon[17] which creates a demand and of an average of 300 new peelers to be trained. Table 3 above highlights the training demand unitl to 2013, which proves the training supply and demand gap of trained peelers.

The industry is facing a significant cumulative deficit (Figure 3), and if this situation is not addressed, by 2013, the deficit will be just over 37,000, which is about 3 percent increase for a two years period of time.

[17] Source: Personal communications with Mr NKA Rupasinghe, Deputy Director (Technical), DEA and Mr JK Lindara, Assistant Director (formerly in-charge for Galle District), DEA (11th May 2011)

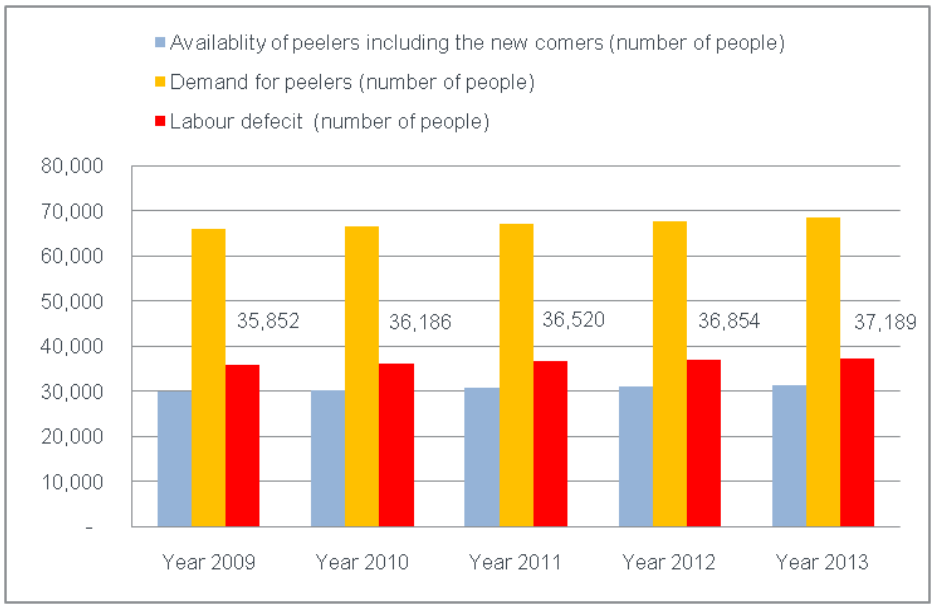


Figure 3: Cumulative estimated workforce deficit reflection and projection

According to the above tabulate estimated data, it is clear that the demand is vast, but the existing capacity is obviously inadequate to fulfill the training demand of the industry. And this is merely rendering the basic skills training, without addressing the specific and compulsory skills development needs, which are demanded by the food hygiene and safety standards and conformity requirements of the trade.

Existing Training Setting and Demand

In the country's technical and vocational education and training, both the private and public sector service providers perform an important part. Department of Technical Education and Training and Vocational Training Authority (VTA) are the leading public sector training providers. However all these institutions do not offer agriculture related training or education.

Meanwhile, the agricultural or agriculture related training is primarily provided by the Agricultural Schools, under the Agriculture Department. Apart from these agricultural schools, Aquinas College of Higher Studies, a non-profit organization, also provides agriculture training. These institutions target school leavers, usually completing GCE Advanced Level, who seek a carrier in the agriculture sector (mainly as managers, supervisors, instructors, and extension workers). However, the current services mainly satisfy the training needs of the tea, coconut, and rubber plantation industries and only rarely focus on the needs of the cinnamon industry.

The DEA is the only provider who offers Cinnamon sector relevant training courses. However, the offered service is not sufficiently catering the industry's demand because of several structural and functional limitations. Therefore, there is no proper training institution for cinnamon.

The results of a rapid survey, which was carried out in 2011, revealed that 95 percent (of 18 respondents) have been trained by informal learning, mainly from their parents. Although there is a limited understanding of GAP, the majority of 56 percent the respondents demonstrated a good understanding about GMP. Which leaves a 44 percent gap to be addressed.

A lack of proper and sufficient training on cinnamon production and processing was identified by the survey findings. Hence, there is a strong and urgent need of a well defined training delivery mechanism. Furthermore, 95percent of the survey respondents confirmed that the level of the available training is basic; therefore, a demand for the training delivery mechanism to include advanced level of skills development was implied.

2.2. Research and Development and technology integration

Since the 1960ies, the Industrial Technology Institute (ITI) has been the pioneer in providing R&D inputs by e.g. by offering specialized services for chemical analysis. However recently, they are working on medicinal characteristics based product development venture. In parallel to this exercise, TSC, in collaboration with the Ministry of Health and University of Perdeniya's Faculty of Medicine implementing a project to extract anti-diabetic characteristics of cinnamon. However, it was evident that there is limited coordination and dialogue between the ITI, Peradeniya University and the industry[18].

This leads to a deficiency in bringing products and/or services of the private sector, universities and technology providers together and therefore is a key issue for the development of a market oriented R&D agenda for the sector.

ITI has realized this bottleneck and is willing to associate with the other industry stakeholders to establish a sound R&D agenda. In this respect, ITI[19] will share the capabilities in chemical testing (fractionation, isolation, and identification), and furthermore, they will extend the technical capacity by sourcing resources through the collaborating international research institutions. However, a key issue is formulated by the ITI was the funding for implementing R&D projects.

In an assessment carried out by UNIDO (2011) on the supply and demand of the processing technologies in the sector different initiatives were identified. Aside form developing good practices & techniques (e.g. drying, sulfating) there is no processing technology in place for improving the peeling process by moving into a mechanization of the peeling process (UNIDO report 2011).

2.3. Production, Processing and Compliance with Standards

The findings of a rapid survey that was conducted with the participation of three producers, who represented both the certified (ISO, HACCAP, and GMP) and uncertified categories of operations, to perform a comparative assessment on their productivity, revealed that there is a clear impact of certified and streamlined way of operation on the productivity.

According to the figure below, certified estate level operators perform at least double as productive as uncertified operators.

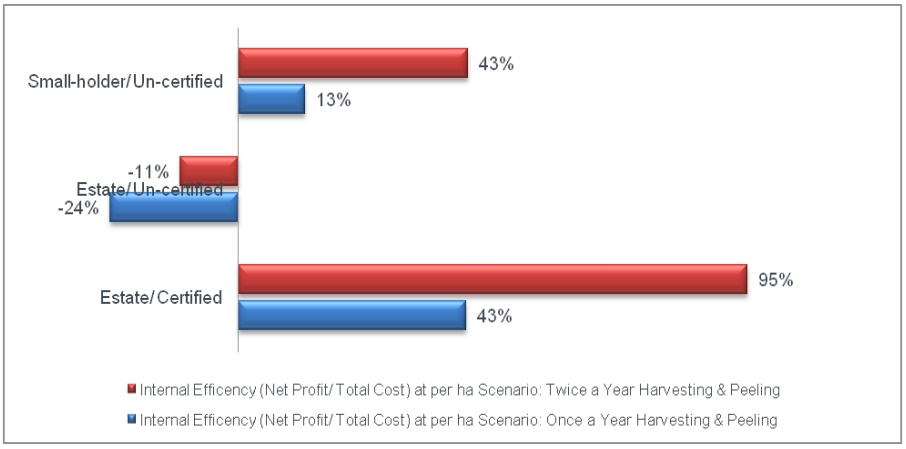


Figure 3: Comparison of the productivity between certified and un-certified operators

Figure 3 shows that certified production system and methods, appropriately coached and trained skilled workforce in an environment with a standard work ambient are having significant impact on the productivity. The appropriate use of the available technology would also be a complimenting factor to

[18] Source: Interviews with personnel at ITI and cinnamon sector stakeholders (7th April 2011)
[19] Reference: Key person interviews with Dr GAS Premakumara, Head of Division and Mr KR Dayananda, Senior Research Officer of Herbal Technology Division of ITI on 7th April 2011

this productivity performance. The contrasting features of the certified, estate operator to the rest of the surveyed operators, are listed below;

Workforce

- Commitment of workers affecting output volume
- Flexible and adaptive to changing output requirement
- A production line with workers bearing needed knowledge reassure quality and standards conformity
- An ability to remunerate workers according to their competencies and outputs
- Permanent workforce

System and methods

- Systematic technical approach and application of know-how
- Compliance with standards
- Organized monitoring and control

Infrastructure

- Standard and conducive work environment

Technology

- Appropriate use of existing technology

Of assessing the above list, it is evident that the key factors are related to human resource development and system management. While proper awareness, coaching, and training of workers on the production line, have been one of the main aspects to the higher productivity of the certified producer. The other aspect has been the codified and standardized system management and quality control, conforming to the industry and market defined requirements.

Hence, for a higher productivity, the industry needs a systematic and integrated approach, combining skills development, upgrading of production infrastructure, and standardizing production and processing.

A major concern raised by producers and exporters alike, virtually there is no dividend for GMP, HACCP, and ISO certified cinnamon products, as non-certified products, most often are sub-standard, channel through the same supply chain, without any price or credibility difference. Due to these circumstances numerous entrepreneurs expressed their frustration, and sometimes drop their certified protocols and procedures to the non-certified status.

In the cinnamon industry, the existing authorities for implementing standards and enforcing the due legislations to assure the conformity are the Sri Lanka Institute of Standards (SLSI) and the DEA.

The SLSI is the National Standards Body of Sri Lanka, established under the Bureau of Ceylon Standards Act No.38 of 1964. This Act was repealed and replaced by the Sri Lanka Standards Institution Act No. 6 of 1984. The Institution now functions under the Ministry of Science and Technology and is governed by the Minister in terms of the above Act.

SLSI in collaboration with ITI defined and established specifications for grades and other quality parameters, including food hygiene. Sri Lanka Standard 81:2010 UDC664.56 provides specification for Ceylon Cinnamon, and in section 5, 6, and 7 of this article specify the commercial grades, requirements (quality and hygiene), and packaging in handling cinnamon for export markets. The specifications of Ceylon Cinnamon are harmonized with ISO specifications (international standards) for cinnamon (article number ISO6539).

Promotion of Export Agriculture, Act No. 46 of 1992, paragraph 5, renders powers to DEA for registering cinnamon primary processors (producers), dealers (collectors), buyers (exporters), and processors. This Act also makes provisions for DEA to require maintenance of records and information about the crop at all levels of the supply chain, including cultivation or processing, buying, packaging, and exporting. Furthermore, it renders power to DEA to access and inspect appropriateness on handling of cinnamon through the different stages of the supply chain, i.e. lands,

buildings, and transport means for the purpose of processing or storing, and transporting for assessing the suitability.

Preliminary work has been done for launching of the Ceylon Cinnamon brand of quality and excellence. This initiative was lead by the EDB in collaboration with the TSC. The industry foresees this brand launching would give its value chain a competitive advantage at the export markets over the competitors. At the same time, both the exporters and producers are demanding a sound institutional and legislative framework and a mechanism an effective implementation of the brand. In this endeavour, the poor coordination between EDB and DEA will be a drawback, particularly in view of the Promotion of Export Agriculture, Act No. 46 of 1992, where unless carefully define the ownership of brand and inspection and enforcement for conformity, this branding strategy might cause a legal complication and a conflict amongst the authorities over the implementation of this scheme.

Therefore, there is a necessity for facilitating building up a coordination mechanism amongst the relevant stakeholders and support them to develop an appropriate institutional and legislative framework for implementing an effective quality and standards conformity scheme for Ceylon Cinnamon brand and codify supply channels.

3. Links with National Development Strategies and Policies (Coherence)

EDB's export strategy 2011 to 2015, supports interventions, which promote value addition through technology advancement, workforce development, and production process upgrading.

Furthermore, EDB's continued effort for upgrading the cinnamon primary processing related infrastructure to GMP level, from the successful completion of the Dassanayake Wallawe GMP factory, another 20 small-holder plantations were selected to provide financial and technical assistance for a similar upgrading. The completion of these primary processing centers would require a skilled workforce to meet the skills requirements. The training facility that is proposed by this project will train that required workforce.

The on-going project of DEA for constructing a training facility, in Tihagoda, for cinnamon peelers will be complementary with this proposed project; because the demand for skillful people to carry out peeling, according to GMP, is high (as discussed earlier). Hence, there could be a synergy between these two endeavors. In the mean time at regional policy level, the proposed project will adhere with the Southern Vocational and Technical Training Plan that is implemented by TVEC, Southern Provincial Council, Ruhunu Economic Development Agency (REDA), and the chambers of Matara and Hambantota.

The initiative for codifying supply chain transactions through a brand promotion (Pure Ceylon Cinnamon) would be another complementary and interactive joint venture for the proposed project or vice versa. The brand promotion strategy, jointly designed by TSC, EDB, and USAID, will be implemented in coordination and collaboration with the other relevant authorities and service providers like DEA, SLSI, ITI, and private certification and inspection agents. However, to make this strategy effectively operational, a sound coordination mechanism shall be facilitated and initiated under this project.

B. REASONS AND RELEVANCE FOR ASSISTANCE

1. Reasons for UNIDO Assistance

TSC embarked on this mission of establishing an institutional training delivery mechanism and a national framework for training people for the cinnamon industry, based on a comprehensive consultation process with all related stakeholders of the industry. The idea was tested against and reinforced based on the lessons learned from the implementation of different related development projects in the sector.

TSC had constructive deliberations 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. These discussions resulted in an agreement to establish a partnership between TSC and UNIDO in the implementation of this proposed action or project.

UNIDO has been active in Sri Lanka since the late 1980s, providing technical support in TBT and SPS related areas; in specific, UNIDO achieved the following 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 Ind-expo 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.

Building up on this understanding, TSC and UNIDO started to work closely with all the related stakeholders before and during this project preparation phase to ensure the design of the most feasible model for establishing a national training capacity and building on the existing capacities and experiences UNIDO and TSC created in the country. Special attention was 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 Ind-expo which is currently one of the success stories in terms of sustainability and credibility.

To support TSC for assessing the feasibility and designing a project for this mission, UNIDO has contracted a national expert/ technical analyst and provided the necessary resources under the ongoing UNIDO projects assuring a successful implementation of this design phase. Furthermore, UNIDO has expressed their interest to raise additional resources for an effective implementation of the proposed project.

2. Relevance for the STDF

The cinnamon industry value chain has been restricted in meeting up the quality and standards of high-end and European and North American markets due to sourcing enough supplies of cinnamon with accepted food and hygiene standards, up to the SPS requirements of these markets. These markets generates and having a potential to generate a considerable amount of export earning to the country, usually at a rate of US$12 to US$15 for a 1kg of high quality (Alba and C5 Special) grades. Hence, removing this bottleneck would make a significant economic impact on this industry value chain. Furthermore, the insufficient volumes reaching the end markets, also affects the value chain in reaping its full potential; and making it more difficult to effectively reaching the European and North American markets. Hence, the proposed is project based on the this broader perspective of addressing SPS issues in a broader strategy of enhancing the industry value chain for accessing economically more rewarding export markets.

As a part of this broader strategy, the project intends in building up training capacity along the cinnamon value chain, while assuring the participation of growers (including smallholders and farmers), private sector operators, and public sector personnel, on food safety and hygiene with a focus of meeting SPS requirements in export markets. This feature of the proposed intervention perfectly fits with the Standards and Trade Development Facility's (STDF's) current thematic and capacity needs focus.

The other thematic and capacity need alignment of this project is the intention of enhancing the ccompliance capacities of the value chain's processing capabilities through certification according to national and international standards. A specific focus will be given in this intent in developing and implementing SPS standards and assuring the application of GAP and GMP including HACCP, particularly with upstream value chain actors.

The special feature of this proposed project is its cross-cutting interest in policy, regulatory, and strategic strengthening of the national endeavor of the Pure Ceylon Cinnamon branding initiative. This aspect of the project made itself to relate with the current STDF capacity needs of legal and regulatory framework for SPS management and SPS policy and strategy development.

The project's focus on the national mark promotion and expediting the R&D capabilities of the industry, adds value to the whole affair. In these ambitions, the project would also be playing a role a catalyst in harmonizing institutions and setting common agendas. The project is structured in such a way, it gives a structural agility for accommodating and adjusting into other, but with similar interest organizations including donors, provides the opportunities of taking over individual project components. The key outcome of the project, viz. the developed training function could be replicated by others.

C. THE PROJECT

1. Objective of the Project

The higher level impact or overall objectives of the proposed project is to support the cinnamon industry stakeholders to enhance the competitiveness of their value chain with the counterpart TSC and reinforce them to face the stiff competition at the global trade and restrained the market deprivation, which is at the moment is a major concern. Furthermore, the project will attempt to support their weak value added segment by increasing the share of the value added cinnamon from Sri Lanka at the world trade.

The direct impact or immediate objectives of the proposed project will be support the industry to enhance quality and food safety compliance (SPS) and to meet with the conformity requirements of European and North American markets and high-end markets. Simultaneously, the project will facilitate to improve appropriate technology and value addition applied in the cinnamon industry value chain.

2. The UNIDO Approach

The key feature of UNIDO cooperation in Sri Lanka is the Integrated Programme (IP). Under the Programme, three important projects are currently under way:

a. Support for sustainable livelihood recovery among the conflict-affected population in the north and eastern regions through improved agricultural productivity and community-based entrepreneurship.
b. Establishing sustainable, economical and secure local resource based renewable energy backed community development centres with ICTs for post-conflict and remote rural areas of Sri Lanka.
c. Support for sustainable livelihood recovery among the conflict-affected people in the north and eastern regions.

The UNIDO approach will follow the following main principles under the points a. and b. above:

- EDB's export strategy for the coming five years (from 2011 to 2015) will form the main framework reference for the intervention, however, in-depth assessments (technical feasibility) will take place prior to implementing the interventions to ensure that any intervention will be technically sound, feasible and comply with the international best practices.

- Focus will be given on the capacity building part for the EDB's and the cinnamon (of the spice sector) industry's initiative of launching PCC mark, where considerations will be given to ensure that this strategy receives the needed capacity building and framework development to effectively implement at different levels of the cinnamon supply chain.

- Through its strategic partnership, UNIDO will collaborate and coordinate closely with different international organizations, mainly FAO, with a global agenda of advocating quality, standards,

and accreditation. Especially, the longstanding strategic alliance with STDF of WTO will be the key collaboration, which UNIDO will utilize in bringing technical and financial assistance into the implementation of specific project component of SPS capacity building.

- UNIDO will take into consideration the ongoing UNIDO activities in the country as well as other interventions by other donors/organisations to ensure close coordination and synergy and avoid duplication and conflict. Considerations will be given also to the ongoing intervention of DEA in building a training center for cinnamon on the southern part of the country to ensure synergies and coordination.

- UNIDO will transfer its knowledge and experience gained from similar interventions and adopt the good practices and the success stories involved.

- UNIDO will utilize the existing locally available capacities through using the services of existing R&D institutions, consulting firms, technical centers, and think tanks and universities. Furthermore, UNIDO will seek partnership with GIZ on implementing the civil works component of the intervention.

- The strong base of the collaboration with TSC will bring the much needed private sector (of their PPP venture) involvement to assure the industry focus, ownership, and sustainability.

UNIDO will strongly rely on the existing PPP of TSC to assure the political, institutional, and resource supports will be coordinated and converges well into the project implementation stream. This strategic cooperation would be vital in preventing political and administrative bottlenecks in facilitating needed policy and regulatory interventions and sourcing some part of the capital resources, which would imperative for the project internal and external efficacy.

The role of TSC will be the crucial factor in ensuring effective and smooth implementation of the project. TSC is the apex body of the spice sector in coordinating and acting as the principal advocate in nationally and internationally. Furthermore, their active presence and real stake will reassure the sustainability of the project outcomes.

3. Target Beneficiaries

There are three core issues, which branch out impede the industry's growth. These issues are the immediate effects of the factors causing problems to the competitiveness and sustainability of the industry. Therefore, the proposed action will focus on these core issues as strategic entry points to see immediate results or changes. Hence, in this section, an assessment is made to see who is affected by these issues and what would be change that the proposed action should be focusing to bring out the benefits for these stakeholders. These assessments are made according to the identified core issues.

Core issue 1: Scarcity and evermore diminishing skilled workforce		
Stakeholder	**Affect**	**Change (benefit)**
Producers	• Only 25percent of the lands being harvested twice a year, while 65percent and 10percent are harvested once a year and not at all in a year, respectively. Hence, 42.5percent lose • High labour cost because of 33percent to 50percent harvest sharing • Irregular harvesting, sometimes up to four years; consequently, some plantations lose entire crop stand • Sub-standard primary processing leads to another 5percent production loss[20] • Although some plantations obtained GMP/	• Harvesting becomes regular and able to harvest twice a year. • Reduced labour cost and improved quality better profit margins • The producers have the ability to do the processing according to the standards.

[20] Reference: Key person interview with Dr IR Ferdinand, a producer in Tihagoda, on 31st March 2011

	HACCP/ ISO certificates, due to no workers, had to abandon the practice. Hence, 5percent production loss and waste of capital investment	
Peelers	• Social stigma and consequent social costs • Harsh and uncomfortable working environment and conditions • Poor knowledge about the trade • Livelihood insecurity • Less chance for women to join the profession • No proper training to new comers • Mismanagement of household income • Alcoholism	• Positively changed social outlook on the peeling as a profession and consequent improvement on the household • Worker friendly environment for working (factories instead of "peeling sheds" • Standardized and institutionalized training to result National level recognition for the skills (NVQ[21]) • Livelihood security through qualified employment • Possibility of equal and equitable participation of female
Exporters	• Reduced profit margins, down to 3percent to 5percent • Annually losing a 5percent market share in the world trade due less price competitiveness, especially in USA and European markets • Annually loose LKR2.2million (US$19,643) due to low quality and standards.	• Increased profit margins • increase the world market share erosion

Core issue 2: Lack of market conformity standards in place on the supply chain		
Stakeholder	**Affect**	**Change (benefit)**
Exporters	• 70percent - 75percent volumes have to be re-processed because of the sub-standard supplies • Not being able to supply produce to quality and standards expectations of the export markets and hence, losing the markets (e.g. lost markets in Europe and USA because of this issue)	• Codifies supply chain will channel produce that conform to the quality and standards. Hence, mitigating high waste and cost. • Build up supply capacity to cater any export markets' requirements (including USA and Europe) in terms of quality and volume.
Balers	• 40percent business lose due to sub-standard produce	• Reduce the lose by codified supply chain regulate the grades and hygienic conditions of the supplies
Producers of GMP/ HACCP/ ISO certification	• Opportunity cost because of there is no price differentiation between the quality and sub-standard produce	• Zero the opportunity cost by codifying the supply chain.
Collectors (dealers)	• Un-codified supplies allow unhealthy competition, build up business mafia, and adulteration of produce to get more money, etc. take place	• Bring back the norms and ethics of the trade • Decent trade supports sustainable growth of the trade

Core issue 3: Weak R&D technology and lack of demand responsiveness		
Stakeholder	**Affect**	**Change (benefit)**
Processors/ exporters	• Losing opportunities to enter into high-end markets and to increase the rate of return • Value leaching from the value chain	• Capability to access high-end market will be enhanced. • Mitigating the value leaching from the industry will enhance the inward investment capacity.
R&D services	• Low profit margins of the enterprises recede funds channeling into R&D • Less innovation	• Increase R&D funding • Enhanced innovation

[21] National Vocational Qualification

4. RBM Code and Thematic Area Code

TCB – Trade Capacity Building, DD13 (Quality and compliance infrastructure)

Thematic area code is [1]

5. Expected Outcomes

The project's planned outcomes are embedded in five components of activities. In terms of structure and process, these components will be standalone project interventions. The structural arrangement of the project components and the descriptions of the outcomes are presented below.

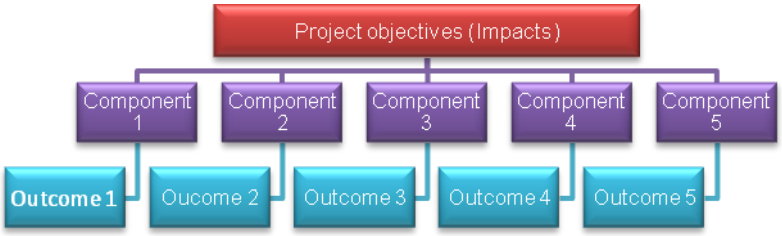


Figure 4: Structural arrangement of the project outcomes and outputs

Component 1: Competency and skills development in food safety and hygiene
Outcome 1: Capacity to deliver food hygiene and safety training strengthened along the cinnamon value chain (Institutions, producers, growers and workforce)
Training capacity on food safety and hygiene strengthened along the cinnamon value chain. By end of 2014, the project targets to train up to 600 people, who later expected to be gainfully employed in the industry. Changing the social outlook of the cinnamon peeling is also a target of this outcome; resulting from this social change, it is expected to see youths and more people taking up cinnamon peeling as a profession for gainful and dignified vocation, at the end of the project period. An improvement of 30percent in the workforce's Knowledge and practices on food safety and hygiene in production and processing is expected by end of 2014. Furthermore, it is expected to see cinnamon growers are sponsoring their workers to get trained on GAP and GMP based cinnamon production and processing.

Component 2: Institutional training infrastructure (land and construction)
Outcome 2: **Infrastructure of the training centre Developed**
The result expected from this outcome is construction of the training infrastructure for establishing the training function. Land is already provided by the TSC and a financial contribution for the construction by the Government has been communicated by the relevant Ministry. Annex 6 includes the letter on the purchase of land as well as the letter on the possible financial contribution from the Government.

Component 3: GMP certification of cinnamon processing units
Outcome 3: Compliance capacities of the cinnamon processors enhanced through certification according to national and international standards
In this outcome, the project intends to achieve enhancing the compliance capacities of substandard cinnamon processing units through certification according to the national and international standards. It is expected to see the number of cinnamon processors obtaining GMP or ISO or HACCP certification to be increased at end of 2014, while the number of cinnamon processers supplying produce to exporters, who trade with European and North American buyers, to be increased at the end of the project period.

Component 4: Value addition and mechanization
Outcome 4: Processors take initiatives in applying upgraded technologies in their businesses
Making processors to take up initiatives in applying upgraded technologies in their businesses is the expected result through this outcome. In accomplishing this expectation, it is anticipated to increase the number of processors, who include technology upgrading as a part of their capital investment or cost, by 2014. Furthermore, it is also expected to increase the number of processors employing

professionals or technical experts to develop applied new technologies in their operations, at the end of the project term.

Component 5: National Pure Ceylon Cinnamon Conformity Mark (PCC)
Outcome 5: The image and branding of the cinnamon exports from Sri Lanka improved in the export markets through launching the PCC certification mark
Improving the image of the cinnamon exports from Sri Lanka the export markets by launching the PCC mark is the results expectation from this outcome.

By end of 2015, it is expected to see the business share of cinnamon under the PCC mark to be increased in the export trading, and at the same time to see that the off-shore buyers would developing a satisfactory opinion about the cinnamon supplied under the mark. Furthermore, an increase of the exports to European and North American markets to be increased, by end of 2014 would be the other accomplishment like to see under this outcome.

6. Outputs and Activities

The outputs of the project have been set aligning with the respective outcomes, as presented below. However, at this stage of the project planning, the corresponding activities are not identified; which would be attained during the inception phase of the project, once it is being granted the implementation.

Outcome 1: Capacity to deliver food hygiene and safety training strengthened along the cinnamon value chain (Institutions, producers, growers and workforce)	
Output	**Responsibility**
1.1 Institutional set up, gender mainstreaming and legal framework of the training centre developed.	UNIDO + TSC/ STDF
1.2 Food safety and hygiene Training qualifications / courses, resource materials, and personnel qualification schemes developed	UNIDO + TSC/ STDF +FAO
1.3 Trainers are trained and competent to deliver the food hygiene and safety trainings.	UNIDO + TSC/ STDF
1.4 Food safety and hygiene Training qualifications/courses piloted at all levels of the value chain	UNIDO + TSC/ STDF
1.5 Food safety and hygiene Training qualifications/courses accredited under TVEC and NVQ levels obtained	UNIDO + TSC/ STDF
1.6 Promotional campaign implemented along the supply chain	UNIDO + TSC/ STDF
1.7 Food safety and hygiene Training qualifications/courses well integrated (as a requirement) as part the national Pure Ceylon Cinnamon mark (PCC)	UNIDO + TSC/ STDF
Outcome 2: Infrastructure of the training function developed	
Output	**Responsibility**
2.1 Design drawings and tender documents prepared	UNIDO + TSC/ Government
2.2 Building constructed through civil works constructions	UNIDO + TSC/ Government
Outcome 3: Compliance capacities of the cinnamon processing units enhanced through certification according to national and international standards	
Output	**Responsibility**
3.1 Cinnamon processors achieved GMP certification as a part of the national Pure Ceylon Cinnamon mark	UNIDO + TSC + EDB + DEA
3.2 Cinnamon processing techniques improved to GMP standard requirements	UNIDO + TSC + DEA
Outcome 4: Processors take initiatives in applying upgraded technologies in their businesses	
Output	**Responsibility**
4.1 Linkages between R&D institutions (technical centres and universities) and private sector (processors) strengthened for joint initiatives in R&D and technology upgrade in the sector	UNIDO + TSC/ donor TBI
4.2 Capacity of local equipment producers upgraded to enhance the capacity of the design and production of technology / processing solutions to the sector	UNIDO + TSC/ donor TBI
4.3 Improved processing technologies introduced, promoted, and disseminated	UNIDO + TSC/ donor TBI
Outcome 5: The image and branding of the cinnamon exports from Sri Lanka improved in the export markets through launching the PCC certification mark	

Output	Responsibility
5.1 The national PCC mark supported in its design and pilot stage with the training qualifications and GMP certification as key elements of the mark	UNIDO + TSC + EDB + DEA +FAO
5.2 Promotional campaign to launch PCC mark throughout the value chain.	UNIDO + TSC + EDB + DEA

Note: TBI is meant as "to be identified"

Although the project activities are not articulated, inputs corresponding to the expected outputs are given in Annex 1 and 3. These details also provide ballpark figures (Annex 3) and are linked to the project budget.

7. Timeline of the Activities

Annex 2 provides a detailed timeline. However since the activities are to be articulated during the inception phase of the project implementation (once the implementation grants are received), the activity plan is also elaborated and scheduled during that period.

8. Risks

The variables affect the project process and pose negative deviation of the expected results at all key levels, reckoned as risks, and would be dealt through a risk mitigation plan. Amongst these risks, there would be conditions that may be beyond the project control, even from the onset; and such situations would be exempted from a risk management plan. The risks on the project are considered at each level of its results, viz. objectives (impacts), outcomes, and outputs.

At the impact (objective) level, falling short of the expectations from the Pure Ceylon Cinnamon brand strategy in the export markets, in general, would pose a negative impact on the cinnamon trade. This would be a backfired strategy of an attempt to achieve competitiveness through the value chain differentiation. Therefore, the proposed project will closely liaise and cooperate with the stakeholders of this brand marketing venture and establish a two-way communication, feedback channel to learn and adapt the project steering processes. However, the other two contextual, macro scale issues, would be beyond the project control: (a) the global recession would become worse and affect world trading; and (b) the policy of EU and USA on Sri Lanka would become worse and trade embargos will be put up against the country.
The risk of the producers not adopting the food safety certification (GMP/ HACCP/ ISO) would pose a great risk for the project in achieving the desired objective. In such a scenario, the resulting skilled workforce would lose the job market that they are trained for. The greater the impact of this risk can be, however, the market forces make it inevitable, in the near future, to acquire food standards certificates for exporting cinnamon. On the other hand, the project will foster the idea of codifying quality and standards conformity and enforcement of the adherence to them, in the cinnamon supply chain operations and make it mandatory. The project, through an act of parliament, will seek policy advocacy from the relevant line ministries for enabling a necessary legal framework for making operational these mandatory conditions.

At both the output and activity levels, the risks would pose because of (a) procured human resource; and (b) applied project governance.

The procurement or recruitment of suitable and qualified personnel for management or technical advisory or specialized service requirements is of utmost importance in delivering the project on time, budget, quality, and with results[22]. Therefore, the project will exert extra effort to source the right people for the project by adopting a systematic and comprehensive appraisal routine in all personnel recruitments or procurements.

[22] Reference: Handbook of International Project Management Institute, 2006

The project governance will also be a thoroughly followed up management obligation; unless this is fulfilled, there would be a great risk that the project will fail to achieve the desired results. Hence, the project dealing with affairs internally or externally, the principle of Good Governance will be adhered to very strongly. Particularly the project aspects of transparency, accountability, efficiency, and participatory will be kept in check.

The propensity of the society, to change their outlook on the cinnamon peelers, depends a great deal on the effectiveness of the training outcome. This also could be the very reason for failing the public awareness and promotion campaign to the project expectations. To prevent something like this taking place, the project will be culturally sensitive, well informed about the history and common backgrounds of the targeting communities, and be simple and adequately expressed.

The demand for a higher level of collaboration amongst the stakeholders, poses a risk of conflicts and disputes, due to their conflicting mandates, various interests, organizational cultures and expectations. Therefore, the project will assure a conflict sensitive project management style in delivery.

The other failing factor would be a high drop-out rate of the training function. To prevent this taking place, the project will assure (as stated before) the recruitment of competent and qualified staff for conducting the training. Furthermore, inclusion of a counselling mechanism to guide the trainees through the course will be carried out to tackle the issue of high rates of drop-outs.

However, the issues due to natural disasters and public commotions would be considered as unpreventable; and in such events, the project would consider the situation as a contingency and take the necessary steps to mitigate or rectify.

D. PROJECT IMPLEMENTATION & MANAGEMENT

1. Implementing/Supervising Organization

UNIDO has been requested by the applicant, viz. TSC for taking the role of implementing, supervising and assuring the project outcomes. This cooperation has been symbolized by a letter (Annex 4) from TSC to UNIDO, rendering their consent to this project implementation arrangement. UNIDO have also initiated the discussions with FAO on establishing joint coordination and cooperation in the area of development sector-specific qualifications as well as the support to the Pure Ceylon Cinnamon Mark as a Geographical Indication (GI) initiative.

An Inception Phase of 3 months will be conducted to establish a baseline, formulate the detailed work plan and to verify the logical framework. During the Inception Phase the following scope and objectives will take place:

- Development of a detailed activity plan which includes, progress evaluation, risk assessment, gender and participatory processes
- Validation of the logical framework and establishment of a baseline for the impact indicators.
- Establishment of a Monitoring and Evaluation system according to result-based reporting
- Validation of the approaches and concepts proposed in the project document taking into consideration the latest developments in the country and the applicant’s suggestions.
- Validation of the budget and adjustment to the same as necessary.
- Elaboration of a detailed work plan
- Establishment of the Steering Committee and project management structure
- Sensitization and awareness building of stakeholders and partners to secure their active involvement.

The results and outcomes of the inception phase will be presented and discussed at the first Steering Committee meeting for approval and endorsement. FAO will be invited to participate during the Committee meeting to discuss on areas related to the scope of their interventions.

2. Project Management Structure

The management of the project will be considered at three levels, i.e. (a) strategic; (b) national coordination; and (c) operational.

The strategic level of management would be policy governance, bearing a political level coordination amongst the key stakeholders of the project. The contribution from the institutions concerned at this level to the project implementation will be vital. Political level decisions, supporting legislative and policy advocacy bearing significance on framework conditions for the project implementation would be the main feature of this vital contribution. The authorized representatives of these institutions will be forming a project steering committee (PSC). The members of this committee will be: (i) Ministry of Industry and Commerce; (ii) UNIDO, Vienna; (iii) STDF, Geneva; and (iv) TSC. On a needs basis, PSC could invite representatives from other relevant ministries such as Ministry of Agriculture, Ministry of Minor Export Crops, Ministry of Health, and National Planning Department, subordinated to the Ministry of Finance. Furthermore, PSC would invite personnel from the National coordination level for their sittings. Annually, PSC will meet, but on a quarterly basis, they will review the progress of the project through reporting from the National coordination level. PSC will be looking at impact level or objective level and outcome level changes of the project. The ToR for PSC will be articulated and finalized during the inception phase of the project.

At the coordination level, the National level management of project will take place, giving main focus on institutional level coordination and communication and quality assurance of the project. The appointed representatives from the institutions having bearings, at this level, will form a project coordination committee (ProCom). The members of ProCom would be: (i) UNIDO, Colombo; (ii) TSC; (iii) DEA; (iv) EDB; and (v) ITI.. On a needs basis, as observers, ProCom could invite representatives from other institutions, which would be relevant for the project. ProCom will be meeting on a quarterly basis, but on a monthly basis would be maintaining formal communication through receiving monthly progress reviews.

The operational management will be carried out by a project management team, headed by UNIDO project manager (Vienna based) and a National Project Coordinator. Two categories of staff would comprise this management team; which are (i) technical; and (ii) finance & administrative. The project management team will be fully responsible for managing the project, and they will carry out all tasks relevant to activity management, personnel management, logistic management, financial management, communication management, monitoring, and contingency management. The management team will closely coordinate and liaise with ProCom, while maintaining regular communications at all levels of the project results achievements. The job descriptions for the project team will be articulated and finalized during the onset of the inception phase.

3. Public-Private Cooperation

TSC being a PPP venture naturally will be bringing both the public and private sectors involvement with regard to the proposed project. Even though, the applicant, viz. TSC has made all possible measures to ensure that sufficiently, stakeholders of both these sectors participate, from the project feasibility phase to the final point of compiling the project proposal. Similar participation and coordination will be maintained, but in a more structural manner; sharing the responsibilities of accomplishing project outcomes and outputs and supporting steering tasks as well.

The Ministry of Industry and Commerce (the line ministry for the project), Ministry of Agriculture (a coordinating ministry of the project), and Ministry of Minor Crop Development (a coordinating ministry of the project), have issued their formal endorsement to reconfirm the already established cooperation and to beacon the future cooperation. These formal letters are attached in Annex 5.

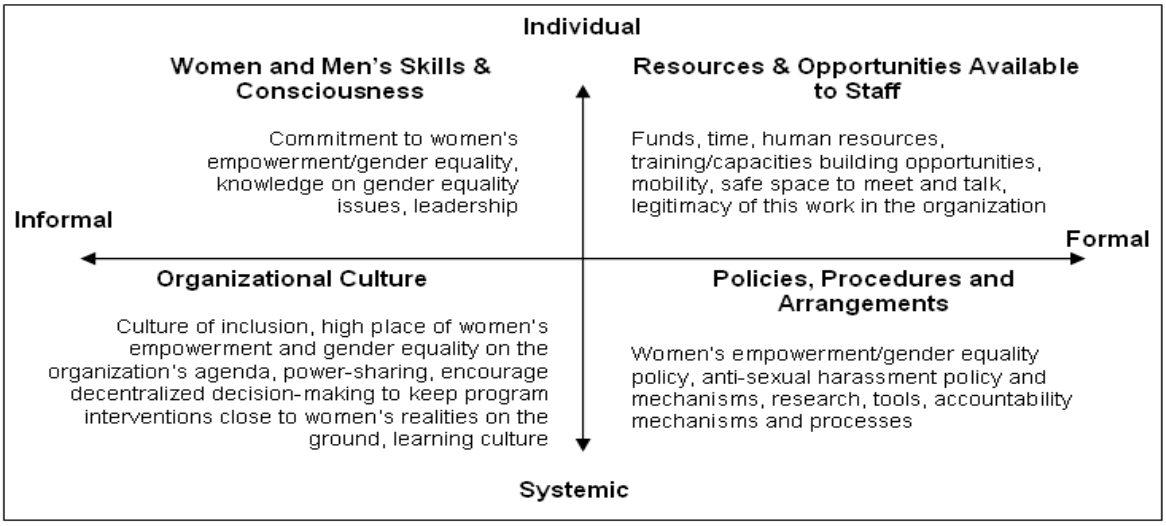
4. Gender Mainstreaming

UNIDO recognizes that gender equality and the empowerment of women has a significant positive impact on sustained economic growth and sustainable industrial development, which are drivers of poverty reduction and social integration.

The project benefits support institutions in which both men and women staff will gain through improving their skills and knowledge of modern technologies and industrial information. All required efforts will be made by the project to enrol as much as possible women in its planned training activities, both at management and technical levels, and encourage them to participate in all relevant project and decision-making activities.

Following the recommendations of the final report "Gender Equality and Women's Empowerment", action learning program sponsored by UNDG and supported by UNDG task Team on Gender Equality, UNICEF and UN Women; as it can be observed in the next figure from the above mentioned final report, there are some capabilities and cultural attributes needed in order to be an effective agent of change for an organization.

Figure 5: What are we trying to change within organizations? *Gender Equality and Women's empowerment,* Final Report 2011



Special care will be given in all the institutional setups as shown above. A gender specialist will be recruited under component 1 during the inception phase to address in further detail the topic of gender mainstreaming.

E. INPUTS

1. Counterpart Inputs (Ownership and Stakeholder Commitment)

TSC will act as the main counterpart for the project. However, TSC will build partnerships with UNIDO and STDF in close coordination with the industry stakeholders, i.e. DEA, EDB, SLSI, ITI, etc. Through this coordination, TSC will bring the needed institutional environment for facilitating the institutional level support for the project. This is an integral part of the project for its effectiveness and sustainability.

Special relationship with two line ministries, viz. Ministry of Industry and Commerce and Ministry of Minor Export Crops will be maintained, especially in view of policy advocacy.

TSC will add value to the project through bringing experience and industry specific knowledge and wisdom. This is indeed valuable, in a perspective of replication and lessons learned for UNIDO.

Apart from these non-tangible inputs, TSC will also bring capital investment to the project. As an initiative to the project, TSC will acquire lands for establishing the proposed training facility and developing a cinnamon plantation to earn income to make this facility, financially self-sufficient. In addition, TSC have mobilised the resources needed from the Government for the constriction of the training facility.

Furthermore TSC is expected to provide the following:

a. TSC will ensure to cover 50percent of the time needed for the role as Focal Point to follow up on the implementation and progress.
b. TSC will ensure to cover 25percent of the time needed to follow up on steering committee related matters.
c. TSC will provide 5 technical experts to establish a technical working group.
d. TSC will provide the premises for project related meetings.

2. UNIDO Inputs

UNIDO will provide inputs not only in terms of the project budget that will be made available for implementing this project, but also in terms of UNIDO experience, know-how, and expertise, facilities and staff time, in general terms.

F. BUDGET

Budget Summary

Project Component 1	**Cost (US$)**
Fully funded by STDF as per Implementation Assignment	630,000
12percent Support cost	**75,600**
Total	**705,600**

Project component 2	**Cost (US$)**
In-kind contribution from counterpart and Government	450,000
Total	**450,000**

Project component 3 and 5	**Cost (US$)**
UNIDO contribution from the Trade trust fund	125,000 75,000
Total	**200,000**

Project component 4	**Cost (US$)**
NA: Fund raising by counterpart initiated	250,000
Total	**250,000**

Annex 3 provides a detailed budget per component.

G. EXPECTED END-OF-PROJECT SITUATION AND SUSTAINABILITY OF PROJECT RESULTS

As per the results envisaged through Component 1 of the project, the end of the project situation would be that there will be a training capacity of systematically training, at least, 300 people per year

on processing cinnamon, conforming, at least, to GMP standards. The image on the cinnamon processing has changed as such youths and more people take up the cinnamon peeling as a profession for gainful and dignified vocation. Satisfied by seeing the training success, cinnamon growers sponsor their workers to be trained through this training function for developing skills on GAP and GMP based cinnamon production and processing.

Aptly defined corporate and management plan for the training function and its already established legal status gives a well recognized institutional outlook. Properly structured and standardized training delivery mechanism includes the essentials of a professionally competent training service provider; such as occupational competency standards for personnel qualification scheme, training curricular, syllabus, and manuals, and CBT and RPL evaluation schemes in operation. And the training will be conducted by qualified and accredited trainers. The training scope will encompass all the critical stages of the supply chain.

The registration of the training function as an institution with TVEC and subsequent accreditation under NVQ framework, give a good recognition to the trainees in the job market, upon successfully completing the training. As a result of the smartly twined strategies of the training development and PCC branding initiative, this skilled training would be a mandatory requirement of awarding the mark.

On top of these successes, with the commitment of TSC and effectively implemented growth strategies, sufficient financial resources can be raised for the training capacity to self sustain and secure a gradual growth. With the growing capacities, this training function, subsequently, will become a well established training institute in the industry, which bears national, as well as international recognition, would generate opportunities of replicating it in other districts and places.

H. MONITORING, REPORTING, AND EVALUATION

1. Reporting

The first three months of the project implementation (inception phase) will be used for refining and elaborating and further defining project log frame, the activity plan, and detailing out the budget to match the time and situational demands of the project. This will be carried out in consultation with the project stakeholders including STDF, TSC, UNIDO, and other counterparts. The outcome of this inception work will be captured and communicated through an inception report.

The project will adopt two types of reporting, i.e. (a) operational or process level; and (b) results level progress reporting. Operational level reporting will be carried out through monthly, quarterly, and annual progress reporting.

Reporting on the results will be carried out according to the project logical framework and following RBM principles. In the inception phase of the project implementation, elaborating on the monitoring mechanism will also be addressed. In the reporting on the results, the project will establish baseline database and through structured and systematic manner will collect and compile information to report.

2. Monitoring and Evaluation

The monitoring framework for the project is outlined in its logical framework. At first, this broad framework will be elaborated and refined during the inception phase of the project. A participatory process will be adopted with all project stakeholders in elaborating and actualizing this M&E plan.

Following the elaboration of the M&E plan, tools and methods of data collection, processing, analysing, and interpreting will be detailed out. Tools such as questionnaires and structured surveys will be used in collecting data. Baseline data will be established for the performance indicators, which have been defined in the project logical framework and benchmarking will be carried out to see the changes caused by the project at different results levels.

An expert will be contracted for the project to carry out these basic monitoring tasks. This person will collect, comply, update, and administer the project database and duly report to the project management.

The project evaluation will be carried out according to both STDF and UNIDO evaluation procedures and guidelines with at least one mid-term evaluation and a project completion final evaluation. In addition, a 6 monthly self evaluation will be carried out in order to report the project progress to the STDF working Group meetings (every 6 months). UNIDO and STDF will consider close coordination in implementing the different project evaluations.

I. PRIOR OBLIGATIONS AND PREREQUISITES

Even though, TSC does not hold any prior obligations on the proposed project implementation, as a token of commitment, initiated to acquire a land for establishing the proposed training facility and another block of land, but with an extent of, at least, 4.05ha (10acres). The latter land is for developing a cinnamon plantation for the training purposes, as well as for income generation source for the training facility.

J. LEGAL CONTEXT

The Government of the Democratic Socialist Republic of Sri Lanka agrees to apply to the present project, mutatis mutandis, the provisions of the Standard Basic Assistance Agreement between the United Nations Development Programme and the Government, signed and entered into force on 20 March 1990.

ANNEXES

Annex 1: Project Logical Framework

RBM Code (Main)	Results Chain (Intervention Logic)	Indicators	Sources of Verification (Project Monitoring Mechanism)	Risk/ Assumptions
Higher Level Impact (Overall Objectives)	1.1 Competitiveness of the Sri Lanka cinnamon industry value chain enhanced to face the stiff competition at the global trade and restrain the market deprivation 1.2 The domestic production capacity of the value added cinnamon increased to expand its market share in the world trade	• Ceylon Cinnamon share in the world trading has improved in comparison to the previous trading years • Value added products share of Sri Lanka cinnamon industry value chain has increased against the trades from other value added product exporting countries *Baseline and target: Will be decided during the inception period*	• World trade statistics available at FAO • Statistics at EDB • Internet research into WTO web site	• The economic and political conditions in the domestic and global context, affecting the attribution gap of achieving this expected result would be favourable.
Direct Impact (Immediate Objectives)	1.1 Volume supplied to the export markets has increased and upgraded to meet up with the food safety and hygiene (SPS) conformity requirements and quality parameters of European and North American markets & high-end markets 1.2 Appropriate technology applied in the cinnamon industry value chain has improved and contributing to do value addition	• Rejection percentages / values due to SPS compliance reduced. • No. of firms adopting capital generating technology applications *Baseline and target: Will be decided during the inception period*	• Statistics at Sri Lanka Custom's Department • Statistics at EDB • Statistics at SLSI • Baseline surveys	• Global recession would not become worse and affect the world trading • The policy of EU and USA on Sri Lanka would not become worse and no trade embargo will be put up against •
Outcome 1	Component 1: *Competency and skills development in food safety and hygiene* Capacity to deliver food hygiene and safety training strengthened along the cinnamon value chain (Institutions, producers, growers and workforce)	• No. of staff / females / new comers qualified and trained in the value chain. • Drop in the percentages of social impact (People leaving the sector). • No. of accredited training qualifications / modules made available to the sector. *Baseline and target: Will be decided during the inception period*	• Tracer studies • Monthly, bi-annual, and annual progress reports • Social impact survey with a baseline to see attitudinal changes • Supply chain based survey on quality and standards conformity of workforce, with a baseline	• Social attitude for changes would favour the image building of the cinnamon peeling • Cinnamon growers, traders, and other stakeholders show interest to enrol or sponsor employees or non-employees to enrol for training.

RBM Code (Main)	Results Chain (Intervention Logic)	Indicators	Sources of Verification (Project Monitoring Mechanism)	Risk/ Assumptions
Output 1.1	1.1. Institutional set up, gender mainstreaming and legal framework of the training centre developed.	• Corporate and management /business plan for the training function produced • The training function formally incorporated. *Baseline and target: Will be decided during the inception period*	• Article of Association and Memorandum of Articles • Certificate of incorporation and public notices	• All stakeholders concerned reach consensus and agreement. • The incorporation process takes place without any unwanted bureaucratic delays.
Output 1.2	1.2. Food safety and hygiene Training qualifications / courses, resource materials, and personnel qualification schemes developed	• No. of training qualifications / schemes developed and receive accreditation *Baseline and target: Will be decided during the inception period*	• Monthly, bi-annual, annual progress reports • Mid-term and end of project evaluation mission reports	• Training consultant delivers according to ToR. • All relevant stakeholders represent and participate at the consultative and validation sessions.
Output 1.3	1.3. Trainers are trained and competent to deliver the food hygiene and safety trainings.	• No. of trainers qualified and made available as local trainers. • Percentages of turn over of trainers *Baseline and target: Will be decided during the inception period*	• Training register • Monthly, bi-annual, annual progress reports • Mid-term and end of project evaluation mission reports	• Suitable candidates applied for the trainer position and follow the TOT course.
Output 1.4	1.4. Food safety and hygiene Training qualifications/courses piloted at all levels of the value chain	• No. of training session implemented in the value chain. • Percentage of the Trainee satisfaction index *Baseline and target: Will be decided during the inception period*	• Training register • Monthly, bi-annual, annual progress reports • Mid-term and end of project evaluation mission reports	• People show interest in enrolling for the courses • The drop outs rate of the trainees would not exceed 30percent
Output 1.5	1.5. Food safety and hygiene Training qualifications/courses accredited under TVEC and NVQ levels obtained	• No. of qualifications accredited by TVEC. *Baseline and target: Will be decided during the inception period*	• Monthly, bi-annual, annual progress reports • Mid-term and end of project evaluation mission reports	• Registration and accreditation process takes place without any unwanted bureaucratic delays.

RBM Code (Main)	Results Chain (Intervention Logic)	Indicators	Sources of Verification (Project Monitoring Mechanism)	Risk/ Assumptions
Output 1.6	1.6. Promotional campaign implemented along the supply chain	• No. of awareness session / activity implemented. • No. of value chain members reached	• Monthly, bi-annual, annual progress reports • Mid-term and end of project evaluation mission reports	Not applicable
Output 1.7	1.7. Food safety and hygiene Training qualifications/courses well integrated (as a requirement) as part the national Pure Ceylon Cinnamon mark (PCC)	• No. of qualifications become as key and mandatory requirements in the PCC mark *Baseline and target: Will be decided during the inception period*	• Monthly, bi-annual, annual progress reports • Mid-term and end of project evaluation mission reports	• Consensus of all relevant stakeholders about the criteria for awarding the mark reached and maintained throughout the process.
Outcome 2	Component 2: *Institutional training infrastructure (Land and Construction)* Infrastructure of the training centre Developed	• A training centre in place by end of 2014 at the latest and training activities take place as planned *Baseline and target: Will be decided during the inception period*	• Monthly, bi-annual, annual progress reports • Mid-term and end of project evaluation mission reports	• A suitable land available without any legal complication for constructing buildings. • The contracted civil works contractor complete and handover buildings on time and budget.
Output 2.1	2.1. Design drawings and tender documents prepared	• All documents in place and as per the TOR *Baseline and target: Will be decided during the inception period*	• Monthly, bi-annual, annual progress reports • Mid-term and end of project evaluation mission reports	• Selection and contracting of the consultants take place without any undue delays.
Output 2.2	2.2. Building constructed through civil works constructions	• Building in place and ready for use *Baseline and target: Will be decided during the inception period*	• Reports of receipt by the government and TSC of the building	• No undue work delays because of civil commotions or natural disasters. • Civil work contractor mobilized smoothly, without any delay.

RBM Code (Main)	Results Chain (Intervention Logic)	Indicators	Sources of Verification (Project Monitoring Mechanism)	Risk/ Assumptions
Outcome 3	Component 3: *GMP certification of Cinnamon processing Units* Compliance capacities of the cinnamon processors enhanced through certification according to national and international standards	• Number of cinnamon processors obtained GMP or ISO or HACCP certification has increased at end of 2015 *Baseline and target: Will be decided during the inception period*	• Baseline survey databases and updates • EDB and DEA statistics • List of clients of certification bodies • Monthly, bi-annual, annual progress reports	• No defaults in certification practices. • Availability of skilled workforce to comply the demand
Output 3.1	3.1. Cinnamon processors achieved GMP certification as a part of the national Pure Ceylon Cinnamon mark.	• Number of certified processors increased • Number of processors obtained the PPC brand logo *Baseline and target: Will be decided during the inception period*	• Baseline survey databases and updates • EDB and DEA statistics • List of clients of certification bodies • Monthly, bi-annual, annual progress reports	• Brand awarding scheme and mechanism will be developed and in action.
Output 3.2	3.2. Cinnamon processing techniques improved to GMP standard requirements	• Number of cinnamon processors upgraded techniques and applied for GMP certification *Baseline and target: Will be decided during the inception period*	• EDB and DEA statistics • Monthly, bi-annual, annual progress reports • Mid-term and end of project evaluation mission reports	• Interest and willingness of the processors to obtain technology and value addition •
Outcome 4	Component 4: Value addition and mechanisation Processors take initiatives in applying upgraded technologies in their businesses	• Number of processors, who include technology upgrading as a part of their capital investment or cost, • Number of processors employ professionals or technical experts to developed applied new technologies in their operations *Baseline and target: Will be decided during the inception period*	• Baseline survey databases and updates • DEA statistics • Monthly, bi-annual, annual progress reports • Mid-term and end of project evaluation mission reports	• Attitude of processors to adapt to and accept change will be positive. • Introduced technologies will be comprehensible for the processors. • Enough capital with the processors to invest on new technology. • Processors inclination to reach value added markets.

RBM Code (Main)	Results Chain (Intervention Logic)	Indicators	Sources of Verification (Project Monitoring Mechanism)	Risk/ Assumptions
Output 4.1	4.1. Linkages between R&D institutions (technical centres and universities) and private sector (processors) strengthened for joint initiatives in R&D and technology upgrade in the sector	• Number of R&D institutions developed agendas of technology improvement for cinnamon, • Number of events between the R&D institutions and the private sector firms held discussions or demonstrations on technology improvement agendas • Number of cases, which the R&D institutions and the private sector reach agreements or understanding of implementing R&D agendas for technology improvement *Baseline and target: Will be decided during the inception period*	• Events reports, minutes of meetings • MoUs or memos between R&D institutions and private sector firms • Case studies • Annual reports of R&D institutes • Baseline survey databases and updates • Opinion survey results • DEA and ITI statistics • Monthly, bi-annual, annual progress reports • Mid-term and end of project evaluation mission reports	• Attitude of processors to adapt to and accept change will be positive. • Introduced technologies will be comprehensible for the processors. • Enough capital with the processors to invest on new technology. • Processors inclination to reach value added markets.
Output 4.2	4.2. Capacity of local equipment producers upgraded to enhance the capacity of the design and production of technology / processing solutions to the sector	• Number of producers exposed to or received technical assistance on improved technologies • Number of producers establish or strengthen linkages with local cinnamon processors for supplying improved equipments *Baseline and target: Will be decided during the inception period*	• Event reports • Case studies • Baseline survey databases and updates • Opinion survey results • Monthly, bi-annual, annual progress reports • Mid-term and end of project evaluation mission reports	• Attitude of producers to adapt to and accept change will be positive. • Introduced technologies will be comprehensible for the producers. • Enough capital with the producers to invest on new technology.
Output 4.3	4.3. Improved processing technologies introduced, promoted, and disseminated	• Number of processing techniques introduced to the processors • Number of promotional and information dissemination events *Baseline and target: Will be decided during the inception period*	• Baseline survey databases and updates • Opinion survey results • DEA statistics • Monthly, bi-annual, annual progress reports • Mid-term and end of project evaluation mission reports	• Attitude of processors to adapt to and accept change will be positive. • Introduced technologies will be comprehensible for the processors.

RBM Code (Main)	Results Chain (Intervention Logic)	Indicators	Sources of Verification (Project Monitoring Mechanism)	Risk/ Assumptions
Outcome 5	Component 5: *National Pure Ceylon Cinnamon Conformity Mark (PCC)* The image and branding of the cinnamon exports from Sri Lanka improved in the export markets through launching the PCC certification mark	• No. of exporters receive certification against the PCC mark • Level of recognition of the PCC mark at international level *Baseline and target: Will be decided during the inception period*	• Statistics at Sri Lanka Custom's Department • Statistics at EDB • Opinion surveys at trade fairs or online • Monthly, bi-annual, annual progress reports	• Global recession would not become worse and affect the world trading • The policy of EU and USA on Sri Lanka would not become worse and no trade embargos will put up against the country
Output 5.1	5.1. The national PCC mark supported in its design and pilot stage with the training qualifications and GMP certification as key elements of the mark	• No. of training qualifications integrated in the PCC mark • Level of GMP integration in the PCC mark *Baseline and target: Will be decided during the inception period*	• Monthly, bi-annual, annual progress reports • Mid-term and end of project evaluation mission reports	• No undue administrative delays take place. • Interest and willingness of all key stakeholders.
Output 5.2	5.2. Promotional campaign to launch PCC mark throughout the value chain.	• Number of national level promotional events held • Number of international level promotional events held • Awareness levels of participants at national and international level events *Baseline and target: Will be decided during the inception period*	• Event reports • EDB's reports and data • Opinion surveys • Monthly, bi-annual, annual progress reports • Mid-term and end of project evaluation mission reports	• Global recession would not become worse and affect the world trading • A positive interest of exporters remained in entering to European and North American markets.

Annex 2: Detailed Timeline

Outcome	2012				2013				2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		
INCEPTION PHASE																
1. Capacity to deliver food hygiene and safety training strengthened along the cinnamon value chain (Institutions, producers, growers and workforce)																
Output 1.1 Institutional set up, gender mainstreaming and legal framework of the training centre developed.																
Output 1.2 Food safety and hygiene training qualifications / courses, resource materials, and personnel qualification schemes developed																
Output 1.3 Trainers are trained and competent to deliver the food hygiene and safety trainings.																
Output 1.4 Food safety and hygiene Training qualifications/courses piloted at all levels of the value chain																
Output 1.5 Food safety and hygiene Training qualifications/courses accredited under TVEC and NVQ levels obtained																
Output 1.6 Promotional campaign implemented along the supply chain																
Output 1.7 Food safety and hygiene Training qualifications/courses well integrated (as a requirement) as part the national Pure Ceylon Cinnamon mark (PCC)																
2. Infrastructure of the training function developed																
Output 2.1 Design drawings and tender documents prepared																
Output 2.2 Building constructed through civil works constructions																
3. Compliance capacities of the cinnamon processors enhanced through certification according to national and international standards																
Output 3.1 Cinnamon processors achieved GMP certification as a part of the national Pure Ceylon Cinnamon mark.																

Outcome	2012				2013				2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		
Output 3.2 Cinnamon processing techniques improved to GMP standard requirements																
4. Processors take initiatives in applying upgraded technologies in their businesses																
Output 4. Linkages between R&D institutions (technical centres and universities) and private sector (processors) strengthened for joint initiatives in R&D and technology upgrade in the sector																
Output 4.2 Capacity of local equipment producers upgraded to enhance the capacity of the design and production of technology / processing solutions to the sector																
Output 4.3 Improved processing technologies introduced, promoted, and disseminated																
5. The image and branding of the cinnamon exports from Sri Lanka improved in the export markets through launching the PCC certification mark																
Output 5.1 The national PCC mark supported in its design and pilot stage with the training qualifications and GMP certification as key elements of the mark																
Output 5.2 Promotional campaign to launch PCC mark throughout the value chain.																

Annex 3: Detailed Budget

Component 1: Competency and skills development in food safety and hygiene	Input		Contribution
Output	**Budget Line**	**Detail**	**STDF**
Institutional set up, gender mainstreaming and legal framework of the training centre developed	11-00	International consultant to draft/ update framework	14,000
	17-00	National consultant to assist drafting/ updating framework	8,400
	16-00	Int. Staff travel to assist consultants	7,600
	51-00	Mics Expenses	6,000
		Subtotal	*36,000*
Food safety and hygiene Training qualifications / courses, resource materials, and personnel qualification schemes developed	17-00	National consultant/s to develop a scheme & materials (incl. support needed for FAO interventions)	16,800
	30-00	In-service training (incl. support needed for FAO interventions)	21,000
	16-00	Int. Project staff travel (incl. support needed for FAO interventions)	3,800
	51-00	Mics Expenses	6,000
		Subtotal	*47,600*
Trainers are trained and competent to deliver the food hygiene and safety trainings.	30-00	In-service training/Study tours	81,000
	17-00	National consultant/s to assist TOT	14,200
	15-00	Project staff travel	3,800
	51-00	Mics Expenses	21,200
		Subtotal	*120,200*
Food safety and hygiene Training qualifications/courses piloted at all levels of the value chain	51-00	Mics Expenses	16,600
	30-00	In-service training	96,000
	17-00	National consultant/s to assist monitoring & qua	28,200
	15-00	Project staff travel	13,600
		Subtotal	*154,400*
Food safety and hygiene Training qualifications/courses accredited under TVEC and NVQ levels obtained	17-00	National consultant/s to develop skills standards	25,200
	30-00	In-service training	12,000
	15-00	Project staff travel	3,800
		Subtotal	*41,000*
Promotional campaign implemented along the supply chain	11-00	International consultant to assess & develop a promotional	14,000
	21-00	Sub-contracts service provider to produce & broadcast	50,000
	15-00	Project staff travel	7,600
	51-00	Mics Expenses	12,000
		Subtotal	*83,600*

Food safety and hygiene Training qualifications/courses well integrated (as a requirement) as part the national Pure Ceylon Cinnamon mark (PCC)	11-00	International consultant to assess & develop a promotional	42,000
	17-00	National consultant to assist in strategy formulation (incl. support needed for FAO interventions)	8,400
	30-00	In service training (incl. support needed for FAO interventions)	61,000
	21-00	Sub-contracts	20,000
	16-00	Int. Staff travel to assist consultants (incl. support needed for FAO interventions)	3,800
	15-00	Project staff travel (incl. support needed for FAO interventions)	12,000
		Subtotal	*147,200*
		Total (excl. Psc)	**630,000**
		12 percent project support cost	**75,600**
		Total (incl. Psc)	**705,600**

Notes: * The input costs are taken as ball-park figures, which will be actualized during the inception phase of the project implementation

Component 2: Institutional training infrastructure (Land and Construction)	**Input**	**Contribution (USD)**
		TSC and Government
The land and construction will be directly handled by Government/TSC without UNIDO involvement in financial matters		
	Total (excl. Psc)	**450,000**

Notes: * The input costs are taken as ball-park figures, which will be actualized during the inception phase of the project implementation

Component 3: GMP certification of Cinnamon processing units	**Input**		**Contribution**
Output	Budget Line	Detail	**UNIDO**
Cinnamon processing centres achieved GMP certification as a part of the national Pure Ceylon Cinnamon mark	11-00	International consultant assist developing criteria	7,000
	17-00	National consultant/s to assist developing & implementing criteria & backstopping consultants	20,000
	33-00	Study tours/In-service training	30,000
	45-00	Quality testing equipments	5,000
	51-00	Mics Expenses	5,000
	21-00	Contract service provider	3,000
	15-00	Staff travel	5,000
		Subtotal	*75,000*

Cinnamon processing techniques improved to GMP standard requirements	17-00	National consultant/s to assist adopting/ adapting production	10,000
	30-00	Study tours/In-service training	18,000
	45-00	Quality testing equipments	6,000
	21-00	Contract service provider	8,000
	15-00	Project staff travel	3,000
	51-00	Mics Expenses	5,000
		Subtotal	*50,000*
		Total (excl. Psc)	**125,000**

Notes: * The input costs are taken as ball-park figures, which will be actualized during the inception phase of the project implementation

Component 4: Value addition and mechanization	**Input**		**Contribution**
			Other External Source
Output	**Budget Line**	**Detail**	
Linkages between R&D institutions (technical centres and universities) and private sector (processors) strengthened for joint initiatives in R&D and technology upgrade in the sector	17-00	National consultant to assist in linkage building	26,000
	51-00	Seminars/ workshops	24,000
	30-00	Study tours/In-service training	1,600
	16-00	Int. Staff travel to assist consultant	3,200
		Subtotal	*54,800*
Capacity of local equipment producers upgraded to enhance the capacity of the design and production of technology / processing solutions to the sector	11-00	International technical expert	12,000
	17-00	National consultant to assist in technology transfer	15,000
	45-00	Equipment	25,000
	51-00	Seminars/ workshops	24,000
	30-00	Study tours/In-service training	10,200
	15-00	Project staff travel	2,400
		Subtotal	*88,600*
Improved processing technologies introduced, promoted, and disseminated	11-00	International consultant to advise on technology	7,500
	17-00	National consultant to assist in technology transfer	19,500
	45-00	Equipment	25,000
	51-00	Seminars/ workshops	32,000
	30-00	Study tours/In-service training	10,200
	21-00	Contract a service provider	10,000
	15-00	Project staff travel	2,400
		Subtotal	*106,600*

		Total (excl. Psc)	**250,000**

Notes: * The input costs are taken as ball-park figures, which will be actualized during the inception phase of the project implementation

Component 5: National Pure Ceylon Cinnamon Conformity Mark (PCC)	**Input**		**Contribution**
Output	**Budget Line**	**Detail**	**Other External Source**
The national PCC mark supported in its design and pilot stage with the training qualifications and GMP certification as key elements of the mark	11-00	International consultant assist in developing criteria	7,000
	15-00	Project staff travel	2,000
	17-00	National consultant to assist in developing & implementing criteria	5,000
	30-00	In-service training/study tours	5,000
	45-00	Equipments	6,000
	51-00	Mics expenses	5,000
		Subtotal	*30,000*
Promotional campaign to launch PCC mark throughout the value chain.	15-00	Project staff travel	4,000
	17-00	National consultant/s to assist in developing scheme	5,000
	30-00	Study tours/In-service training	16,000
	45-00	Equipments	5,000
	51-00	Mics expenses	5,000
		Subtotal	*35,000*
		Total (excl. Psc)	**75,000**

Notes: * The input costs are taken as ball-park figures, which will be actualized during the inception phase of the project implementation

Annex 4: Letter from the Applicant to UNIDO

The Spice Council
Spices, Flavours, Fragrance & Beyond
1, 1/1, Anderson Road,
Colombo 5.
Tel: 011 – 7635025, E-mail: spicecouncil@dialognet.lk, info@srilankanspices.com

OUR REF: 44/2011

26th July 2011

Ms. Kenza Le Mentec
Economic Affairs Officer
Standard and Trade Development Facility (STDF)
Agriculture and Commodities Division
World Trade Organization
Rue de Lausanne, 154
CH 1211 Geneva 21
Switzerland.

Dear Madam,

PROJECT ON "FOOD SAFETY & QUALITY AND RELATED INSTITUTIONAL CAPACITY BUILDING FOR THE CINNAMON SECTOR IN SRI LANKA"

We appreciate the assistance and guidance given by WTO/STDF to have a successful project designed on "Food Safety & Quality and related institutional capacity building for the cinnamon sector in Sri Lanka". It is an utmost important to address the issues of quality, productivity and the sanitary standards of cinnamon as it is highly important in the International Spices Trade.

We are pleased to notice that the project preparatory phase is successfully progressing and would like propose to WTO/STDF to have United Nations Industrial Development Organization (UNIDO) as the executing partner of this project during the implementation phase in order to have a successful project implemented addressing a national interest of Sri Lanka.

Thank you

Yours Faithfully

D. A. PERERA
CHAIRMAN
THE SPICE COUNCIL

Cc. Dr. Lalith Gunathilake
Director
Trade Capacity Building Branch
United Nations Industrial Development Organization
Room D – 13 – 51
P. O. Box 300
A – 1400, Vienna, Austria.

Annex 5: Endorsement Letters from the Ministries

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அமைச்சு
Ministry
2435248

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பிரதான அலுவலகம்
General Office
2327554
2392149
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தொலைநகல்
Fax
2390885

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தொலைநகல்
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ලේකම්
செயலாளர்
Secretary
2436123
2436124

කර්මාන්ත හා වාණිජ කටයුතු අමාත්‍යාංශය
கைத்தொழில் மற்றும் வணிக அமைச்சு
MINISTRY OF INDUSTRY AND COMMERCE

සැ. පෙ. 570, 73/1, ගාල්ල පාර, කොළඹ 03, ශ්‍රී ලංකාව
த.பெ. இல. 570, 73/1, காலி வீதி, கொழும்பு 03, இலங்கை
P. O. Box 570, 73/1, Galle Road, Colombo 03, Sri Lanka

විද්‍යුත් තැපෑල
மின்னஞ்சல்
e – mail
Secretarymid
@gmail.com

මගේ අංකය
எனது இல.
My No.
113/Sec 1/5/1

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date
10th Aug. 2011

Mr. D.A. Perera
Chairman
The Spice Council
1, 1/1, Anderson Road
Colombo 05.

Dear Sir,

Project to Establish a "National Cinnamon Training Academy"

Reference to your letter dated 29th July 2011 on the above subject.

We are aware that the Spice Council of Sri Lanka in collaboration with the Standard and Trade Development Facility (STDF) of World Trade Organization (WTO) and United Nations Industrial Development Organization (UNIDO) has initiated a project to establish a National Cinnamon Training Academy in Sri Lanka. It is a long felt need in the sector and would address the issues of quality, productivity and the health & safety standards of the cinnamon products and workers as it is highly important in the international spices trade.

This ministry was involved in this project from its inception and would like to place on record the extension of its support and cooperation for the implementation of same.

Yours faithfully,

Tilak Collure
Secretary

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80/5 ගෝවිජන මන්දිරය
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බත්තරමුල්ල
இல. 80/5 கோவிஜனமந்திரய
ராஜமல்வத்த,
No.80/5, "Govijana Mandiraya"
Rajamalwatta Mawatha,
Battaramulla.

නිවස /வதிவிடம்/Residence
"ගුරු ගෙදර" කපුහේන පාර,
උල්ගල්බඩ, කළුතර, ශ්‍රී ලංකාව.
"குருகெதர" கப்புஹேன வீதி,
உக்கல்தொட,களுத்துறை, இலங்கை.
"Guru Gedara", Kapuhena Road,
Uggalboda, Kalutara North, Sri Lanka

රෙජිනෝල්ඩ් කුරේ (පා.ම.)
ரெஜினோல்ட் குரே
REGINALD COORAY (M.P.)
සුළු අපනයන භෝග ප්‍රවර්ධන අමාත්‍ය
சிறு ஏற்றுமதிப் பயிர் ஊக்குவிப்பு அமைச்சர்
MINISTER OF MINOR EXPORT CROPS PROMOTION

දුරකථන/ தொலைபேசி /Telephone

ගරු අමාත්‍යතුමා
கௌரவ அமைச்சர்
Hon. Minister
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+94 112868921

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செயலாளர்
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මගේ අංකය
எனது இல.
My No

ඔබේ අංකය
உமது இல.
Your No

දිනය
திகதி
Date
22nd August 2011

Ms. Kenza Le Mentec
Economic Affairs Officer
Standard and Trade Development Facility (STDF)
Agriculture and Commodities Division
World Trade Organization
Rue de Lausanne, 154
Ch 1211 Geneva 21,
Switzerland.

Dear Ms Kenza Le Mentec

Establishment of the Cinnamon Training Academy

We are happy to note that Spice Council of Sri Lanka in collaboration with Standard and Trade Development facility (STDF) of World Trade Organization (WTO) and United Nations Industrial Development Organization (UNIDO) has initiated a project to establish a "Cinnamon Training Academy" in Sri Lanka to address the issues of quality, productivity and the sanitary standards of cinnamon as if highly important in the International Spices Trade.

This is to inform you that as the Minister of Minor Export Crop Promotion and my Ministry will extend our fullest cooperation and assistant to this project as it will provide immense support to the Cinnamon sector development.

Thanking you

Yours Sincerely,

Reginald Cooray
Minister of Minor Export Crops Promotion
No. 80/05, a, Govijana Mandiraya
Rajamalwatta Avenue
Battaramulla.

Reginald Cooray
Minister of Minor Export Crop Promotion

Cc: Dr. Lalith Gunathilake,
Director, Trade Capacity building branch
United Nations Industrial Development Organization
Room D – 13 – 51, P.O. Box 300
A – 1400, Vienna, Austria.

Mr. D. A. Perera
Chairman
THE SPICE COUNCIL

මහින්ද යාපා අබේවර්ධන
மஹிந்த யாப்பா அபேவர்தன
Mahinda Yapa Abeywardena
කෘෂිකර්ම අමාත්‍ය
கமத்தொழில் அமைச்சர்
Minister of Agriculture

"අපි වවමු රට නගමු"
"நாம் பயிரிடுவோம் நாட்டைக் கட்டியெழுப்புவோம்"
"Let us Cultivate and uplift the Nation"

මගේ අංකය / எனது இல. / My No. } Ad:Sec (AD) Development
ඔබේ අංකය / உமது இல. / Your No. }
දිනය / திகதி / Date } 22.07.2011

United Nations Industrial Development Organization
Standard and Trade Development Facility (STDF) of WTO

Establishment of National Cinnamon Training Academy

I am happy to note that the Spice Council of Sri Lanka in collaboration with United Nations Industrial Development Organization and Standard and Trade Development facility of WTO, has initiated a project to establish National Cinnamon Training Academy in Sri Lanka.

This is to inform you that as the Minister of Agriculture, I will extend my fullest support to the project, as it will provide immense support to the sector development.

Mahinda Yapa Abeywardena
Minister of Agriculture

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කෘෂිකර්ම අමාත්‍යාංශය,
"ගොවිජන මැදිරිය", 80/5, රජමල්වත්ත පටුමග, බත්තරමුල්ල.
දුරකථන / தொலைபேசி / Telephone
011-2887412

அலுவலகம்:
கமத்தொழில் அமைச்சு,
"கொவிஜன மந்திரய", 80/5, ராஜமல்வத்த ஒழுங்கை, பத்தரமுல்லை.
ෆැක්ස් / பெக்ஸ் / Fax
011-2868915

Office:
Ministry of Agriculture,
"Govijana Mandiraya", 80/5, Rajamalwatte Avenue, Battaramulla.
ඊ මේල් / மெயில் / E-Mail
mahindayapaabeywardena@gmail.com

Annex 6: Purchase of land and possible financial contributions for construction

The Spice Council
Spices, Flavours, Fragrance & Beyond
1, 1/1, Off Dikmans Road,
Colombo 05
Tel/Fax : 011-7635025 E-mail: spicecouncil@dialognet.lk, tsc@dialognet.lk

December 22, 2011

Our ref: TSC/233/2011

Mrs Roshini Gunaratne
National Project Co-ordinator
UNIDO, Indexpo Certification (Pvt) Ltd
Apt. 20, 1st Floor,
Galle Face Court 2,
Colombo 3.

Dear Ms. Roshini ,

Purchase land for establishment of Cinnamon Training Academy

As you aware, we have purchased a land of 1 acre 3 roods 20 perches totaling 300 perches. This land was virtually gifted to the Cinnamon Training Academy (Pvt) Ltd by a cinnamon estate owner. We paid him a token Rs 1,125,000.00 at the time of writing the purchase deed. This land is adjoining the model as a GMP, HACCP model cinnamon factory.

This land is situated in Kosgoda, the main cinnamon producing district of Galle. There is easy access to this land from the Colombo – Galle road and very close to the Kosgoda Railway Station. The current valuation is estimated at over Rs. 12 million and number of cinnamon growers and exporters have invested in the Cinnamon Training Academy (Pvt) Ltd and It has Rs 3 million in available for this project.

Thank you
Yours Faithfully

The Spice Council
Sarada De Silva
Chairman

යෞවන කටයුතු හා නිපුණතා සංවර්ධන අමාත්‍යාංශය

இளைஞர் அலுவல்கள் மற்றும் திறன்கள் அபிவிருத்தி அமைச்சு

MINISTRY OF YOUTH AFFAIRS & SKILLS DEVELOPMENT

My No: 4-1/2/3/2 (d)

11.11.2011

Director General

Department of National Planning

Establishment of a Cinnamon Training Academy

As per the directions of Hon.Dullas Alahapperuma, Minister of Youth Affairs and Skills Development, a special meeting was held on 09.11.2011 with the participation of Ministry officials, Director General, Tertiary and Vocational Education Commission, Chairman and officials of the Spice Council.

At this meeting following matters have been discussed;

1. Present situation and prevailing issues of the Industry
2. Development of NVQ standards and curricula for the spice trade. eg: cinnamon peelers, cinnamon technicians etc
3. Possible involvement of establishing a Cinnamon Training Academy

It is observed that cinnamon is one of the major exports for earning the foreign exchange to this country. Hence, it is necessary to increase the value addition of the final export items relating to the cinnamon products. In this context, skilled manpower is a critical factor to increase the value addition, reduce the cost of production, and to enhance the efficiency of the industry of the cinnamon items.

According to the mandate given by this Ministry, NVQ standard and curriculum development relating to the cinnamon peelers, cinnamon technicians and other relevant trades could be done by this Ministry with due assistance of the industry.

In the above discussion, the officials of Spice Council requested to establish a Cinnamon Training Academy in Southern province by investing Rs.25 million from the Government of Sri Lanka. Considering the importance of establishing the training academy, there is a possibility of initiating Public-private partnership(PPP) method for this purpose. At present Export Cess tax by the Government on cinnamon items is Rs.3/= per kg.Therefore, this cess income could be utilised to develop the cinnamon industry and improve the value addition of the export related cinnamon products.

"Nipunatha Piyasa" 354 / 2, Elvitigala Mawatha, Colombo 05.

Web Site : http://www.youthskillsmin.gov.lk e-mail : info@youthskillsmin.gov.lk

Minister 011 - 2596772 | Secretary 011 - 2587801 | Fax 011 - 2597804 | Office 011 - 2597877

Considering the above facts, Public-Private Partnership method could be initiated for this purpose by promoting company to hold the majority of shares for the Government side and management of the institution could be handed over to the private share holders. According to the information provided by the Spice Council they have already purchased a land for this purpose. Therefore, Government could contribute by investing Rs.25 million to construct the buildings as the Government portion for the public-private partnership.

As such, you are kindly requested to discuss this proposal with the Director General of Public Enterprise and the officials of the Spice Council to seek the possibility of establishing Cinnamon Training Academy through the public and private partnership mode as this venture will significantly improve the industry position thereby contribute for the national economy.

S.S.Hewapathirana
Secretary
Ministry of Youth Affairs and Skills Development

Cc: (i) Director General, Department of Public Enterprise –for kind information & necessary action pl.

(ii) Chairman, the Spice Council

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ஜனாதிபதி அலுவலகம்
PRESIDENTIAL SECRETARIAT

My No. Cos/2/6/1

October 04, 2011

Dr. P B Jayasundera
Secretary
Ministry of Finance and Planning

Establishment of a Cinnamon Training Academy

Forwarded herewith for your special attention is a letter dated September 26, 2011 sent by Mr. Sarada de Silva, Chairman of The Spice Council, enclosing a detailed project proposal to construct a training center to train cinnamon peelers/technicians in the Southern Province which will change the social outlook on cinnamon peeling among other direct and indirect benefits.

Thus, you are kindly requested to pay your attention to these proposals and take necessary action accordingly please.

Sgd./ Gamini S. Senarath
Chief of Staff to the President
for Secretary to the President

Deepa Liyanage
Senior Assistant Secretary to the President

Copy to: Mr. Sarada de Silva
Chairman,
The Spice Council,
11/1, Anderson Road
Colombo 05.

-for your information please.