

Executive Summary

Why did we decide to examine this issue?

Tea Board of India was established in 1954 under section 4 of the Tea Act, 1953 as a statutory body under the Ministry of Commerce and Industry (MOC&I). The functions of Tea Board can be grouped into regulatory, developmental, research, marketing and promotional activities. We conducted a Performance Audit of Tea Board in view of the following:

- **Declining productivity of tea in India,**
- **Comparative decline in the prices of Indian tea,**
- **Increased cost of production for Indian tea, and**
- **Decline in India's production and export share.**

What were our audit objectives?

In order to assess the performance of Tea Board, we framed the following audit objectives:

1. Whether Tea Board performed its **regulatory role** effectively;
2. Whether **developmental activities** undertaken by Tea Board had an impact on **enhancing productivity of tea** in India;
3. Whether **developmental activities** undertaken by Tea Board had an impact on **improving quality of tea** in India;
4. Whether **developmental activities** undertaken by Tea Board had an impact on **reducing cost of production** of tea in India;
5. Whether **research activities** undertaken by Tea Board or financed by Tea Board were effective in delivering results for effective tea development;
6. Whether adequate and effective steps were undertaken for **marketing and promotion** of Indian Tea to improve its position in world as well as domestic market; and
7. Whether an **effective financial management** and **internal control mechanism** existed in Tea Board.

What did our Performance Audit reveal?

Regulatory role

The Tea Board has failed to discharge even its basic regulatory role effectively. More than 80 *per cent* of small growers in India continued to remain outside the ambit of regulations by the Tea Board. The system of inspection for regulating the activities of various stakeholders was weak and non-transparent. The Board was not able to ensure submission of business information by stakeholders so as to exercise effective control on their activities.

(Chapter 3)

Enhancing productivity

The increasing trend of commercially unproductive bushes which constituted 57 per cent of total bushes at the end of 2008 is a serious threat to the tea industry and unless appropriate and timely interventions are made for

	<p>arresting this trend, there could be serious implications on productivity of tea. Efforts by Tea Board to increase productivity by replantation of commercially unproductive bushes were grossly inadequate and ineffective both in terms of area covered as well financial support provided. The targets for replanting/replacement planting were set very low. The backlog for replanting up to 2008 would take 149 years to clear at the present pace of implementation.</p> <p style="text-align: right;">(Chapter 4)</p>
<p>Improving Quality</p>	<p>Indian tea realised prices lower than the tea of other countries. This was due to its inferior quality and adverse product mix. The production of orthodox tea fell substantially below the targets set despite a subsidy scheme being in place for more than five years.</p> <p style="text-align: right;">(Chapter 5)</p>
<p>Reducing Cost</p>	<p>India has the highest cost of production among major tea-producing countries of the world. Tea Board failed to identify areas of cost reduction to ensure long-term sustainability for the tea industry. It undertook no major initiatives to improve labour productivity by way of training or incentivisation.</p> <p style="text-align: right;">(Chapter 6)</p>
<p>Research</p>	<p>Research activities were not fruitful as neither any deliverables were transferred for the use of the tea industry nor were any patents filed. The Tea Board failed to adequately support research activities by not providing sufficient funds, or adequate number of staff, nor in ensuring completion of research projects. No controls were put in place to evaluate and monitor research activities undertaken by external entities supported by Tea Board.</p> <p style="text-align: right;">(Chapter 7)</p>
<p>Marketing and Promotion</p>	<p>The Export Incentive Scheme for assistance to tea exporters was implemented in an ineffective manner. No benchmarks in terms of quantity of export were defined for exporters to make them eligible for grant of subsidy, nor for assessing the outcome of promotional activities related to the export of tea. As such, Tea Board is not in a position to co-relate the impact of the grant of subsidy to exporters on the quantum of increase in exports.</p> <p style="text-align: right;">(Chapter 8)</p>
<p>Financial management and internal control</p>	<p>Financial management and internal controls in Tea Board were weak. Cess levied by the government was not transferred to the Tea Fund since 2005-06 and rates of cess were revised at varying intervals ranging from nearly three years to more than 14 years. Internal audit was also not commensurate with the extent of activities undertaken by the Board.</p> <p style="text-align: right;">(Chapter 9)</p>

What do we recommend?

- Tea Board may evolve a mechanism to ensure registration of all small tea-growers and ensure that all the stakeholders in tea business furnish requisite and complete information on time which can be used by Tea Board for better regulation under the provisions of Tea Act. Tea Board may plan and conduct regular inspections for exercising effective control and ensuring fair practices in tea.
- The Government needs to take a holistic view of critical situation of declining productivity of tea in India and take major structural and strategic decisions like redesigning of programmes, schemes, delivery mechanisms and much higher financial outlays.
- Tea Board needs to strengthen the monitoring mechanism for implementation of the quality upgradation scheme to ensure the augmentation of processing capabilities of orthodox tea. A mechanism may be devised to analyse the reasons for decline in quality even after payment of subsidy for remedial measures.
- Tea Board needs to adopt an appropriate system of cost studies for identifying areas for cost reduction and effectively address those areas to ensure the long term sustainability.
- Tea Board may provide adequate scientific manpower and other resources for tea research, while ensuring effectiveness in terms of papers published along with Impact Factor of the papers and technology developed/ transferred/ commercialised and patented. Tea Board may evolve an effective mechanism to ensure accountability of the money spent by external research entities.
- Tea Board may fix quantifiable benchmark for increase in exports for exporters to become eligible for any incentive/support and assess the impact/outcome of the support activities. The Board may evaluate the impact and effectiveness of all its marketing and promotion activities on tea promotion in international and domestic markets by fixing appropriate criteria/ benchmarks.
- Tea Board may strengthen internal audit to make it commensurate with the level of activities of the organisation. The Government needs to consider periodical revision of the rates of cess.

What was the response of Ministry of Commerce and Industry and Tea Board to our recommendations?

Ministry of Commerce and Industry and Tea Board accepted most of the recommendations suggested by us. Recognising the criticality of the issues reported in the Performance Audit, Tea Board has submitted details of action already taken and action proposed to be taken on our recommendations. **We are of the view that the response of Tea Board and the action proposed to our recommendations may not be sufficient enough to increase the impact of Tea Board in the areas of regulation, development, research, marketing and promotion unless the Government considers redesigning its programmes, schemes, delivery mechanisms and allocates higher financial outlays to effectively address the problems that plague the tea industry in India.**

Ministry finally intimated us that the suggestions made by us would be taken up in earnest spirit and modifications would be brought in while finalising the Twelfth Five Year Plan subject to the financial outlay.