



PROJECT TARA CAJAMARCA: CREATING THE LARGEST FARMER-OWNED TARA BUSINESSES IN PERU

Project Tara Cajamarca, and the agri-business it created, the Asociación de Productores de Tara San Marcos Cajamarca (APT), represent the culmination of several years of development work in Peru's Northern Andes. The project led to the creation of a multi-million dollar, nation-wide agricultural boom in the tara, and is being hailed as one of the region's most successful development and poverty alleviation projects. The project's notable results include:

- Creating a **US\$23 million** region-wide **industry** (only accounts for impact in the Region of Cajamarca)
- Increasing average household income for **6,000 local farmers** in San Marcos Province from **\$.85 to \$5.88 per day** (600%)
- Indirectly increased the average household income of tens of thousands of small tara farmers throughout the Region of Cajamarca and every other tara producing region of Peru

Additionally, the agri-business, Asociación de Productores de Tara de San Marcos Cajamarca that I-DEV created with local indigenous farmers in 2006 has:

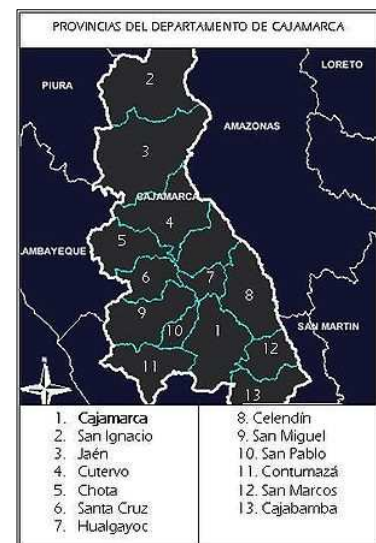
- Generated approximately **\$1 million in income per year** for its 191 small farmer-shareholders
- **Increased average annual income from tara by 350%**
- Secured a **long-term contract** with the 3rd largest processor of tara in Peru as their **exclusive supplier of tara for the entire northern** half of the country
- Grown to be the **largest & most successful supplier of unprocessed tara in Peru**

THE NORTHERN HIGHLANDS OF PERU: AN OVERVIEW

The rural highland Region of Cajamarca, Peru is located in the Andes mountain ranges at approximately 3,100 meters above sea level. The region benefits from temperate climates and fertile green hills, making agriculture a natural source of livelihood. Most of the region's 1.4 million people (INEI 2005) rely on subsistence farming and cultivate a range of crops that grow naturally in the region, including potatoes, wheat, maize, barley, rice, and sugar cane.

Despite the region's abundant natural resources, these provinces are among the poorest in Peru and South America overall. Villages in these regions typically consist of only a few hundred farmer families. Most of these villages are very isolated and do not have paved roads, hospitals, electricity, running water, or paying jobs. There are few businesses, and capital for investment in even the most basic infrastructure is extremely limited.

Average annual income for families in these areas is less than US\$800 per year, and almost 80% of the population is considered below the poverty line with 12% falling below the extreme poverty line (INEI 2005)¹. The region has a literacy rate of approximately 75%, but only 15% of students go on to college (INEI 1993). Further, Cajamarca has one of the highest teenage pregnancy



¹ The World Bank defines extreme poverty as living on less than \$1.25 per day, adjusted for purchasing power parity.



rates of 19% and highest levels of alcoholism at 8% in South America (Gobierno Regional Cajamarca 2003 & INEI 2005).

In sharp contrast, the northern highlands of Peru- Cajamarca in particular- are also home to Latin America’s most valuable mines, the largest of which is the U.S. owned gold mine Minera Yanacocha. While the mining industry has created jobs and a middle class in the region’s capital city, these benefits have not been realized by the small villages in the rest of Cajamarca, who have been left almost completely out of the development process.

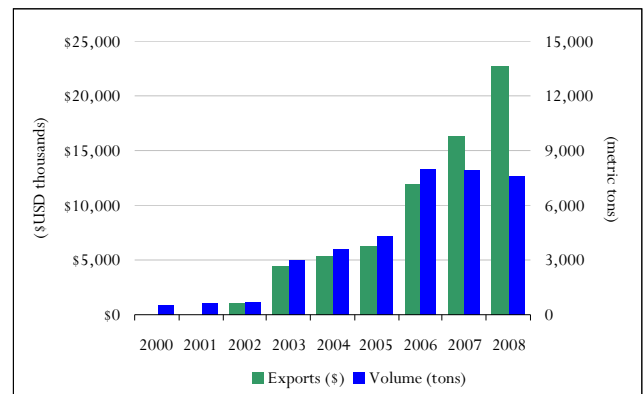
TARA: A NATURAL RESOURCE BECOMES A SUSTAINABLE MULTI-MILLION DOLLAR INDUSTRY

Tara is one of the most abundant resources in the northern highlands of Peru. It is a native tree species only found in the Andes that grows in small, naturally occurring forests throughout the region, and produces a pea pod like fruit (see right). Historically, tara trees have had little economic value and were not cultivated. Farmers collected tara pods that fell to the ground and sold them in the weekly local market to supplement their income from other activities. A small amount of tara was bought by intermediaries in local markets and then sold to markets within Peru for small-scale, local medicinal purposes. In 2001, the total national tara market was approximately \$2 million (ProInversión).



Through Project Tara Cajamarca, I-DEV and NGO partners (Asociación Civil Tierra, Autre Terre and GTZ) helped develop the region’s tara production capabilities, allowing local farmers’ to improve quality, quantity and consistency of the tara they

produce. Today, both tara shell and tara seeds are processed and are used in the foods, pharmaceuticals, leather and pet-food industries. The shells of tara pods are primarily used as a tannin to dye leather and the seeds are used as a natural gelatin substitute in dressings, ice cream, mayonnaise, toothpaste, jams, candies, dehydrated foods, cosmetics, paints, pet-foods and paper. The increased international demand for tara has created a \$23 million industry, largely based in the northern highlands of Peru (see right).



PROJECT TARA CAJAMARCA: CREATING SUSTAINABLE, LOCALLY-OWNED INDUSTRY

Project Tara Cajamarca was an eight-year long project aimed at improving the standards of living for communities in the Peruvian highlands by empowering farmers to create sustainable, locally-owned tara businesses. The Project was launched in 2001 by Asociación Civil Tierra (ACT), a Peruvian non-governmental organization. Over eight years, the project has encompassed two primary phases: Agricultural Development and Business Development.

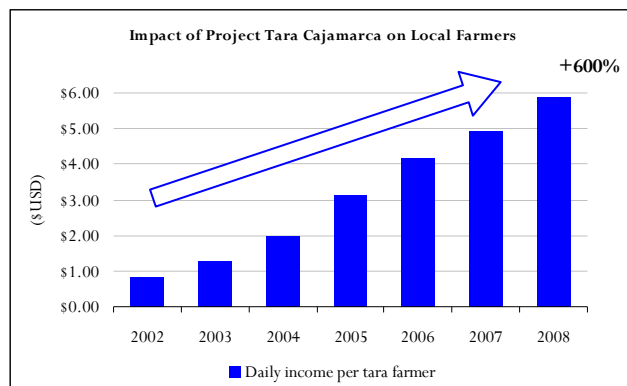
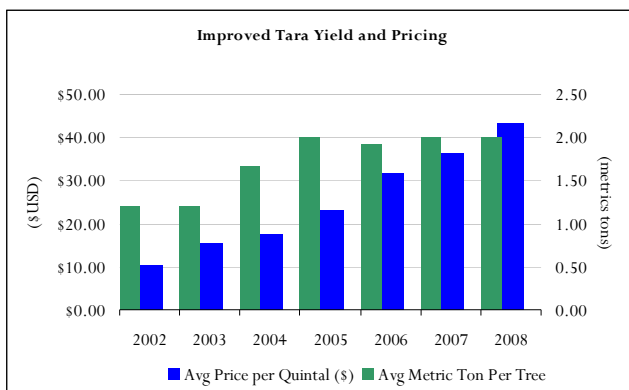


PHASE 1: TARA AGRICULTURAL DEVELOPMENT

Autre Terre, a Belgian-based NGO, recognized the untapped potential of tara, an abundant, naturally occurring resource that had already begun to generate small quantities of secondary income for farmers in the northern highlands of Peru. Autre Terre created ACT, their locally based subsidiary, and between 2001 and 2005, the organization, in conjunction with I-DEV’s Founding Partners worked with local farmers to develop optimal tara cultivation techniques and maximize tree yield and quality.

This process included controlled greenhouse and in-the-field agricultural studies, and organized the local tara farmers that live in and around San Marcos Province in Cajamarca. The studies tested all cultivation variables, including pruning methodology, frequency of fertilization, chemical makeup of fertilizer, seed quality and tree spacing, and ultimately increased the yield per tree by 45%. As tara was initially used as a dyeing agent, pod samples were examined for the highest tannin count. Seeds from the highest producing plants were kept in a seed bank, and sold to local tara farmers and other NGOs working with tara around Peru. After three years of observing tara production, an optimal cultivation methodology was devised. These techniques were published in a handbook and disseminated to farmers throughout the Cajamarca region. The increases in the quality and quantity of tara made the product competitive as a natural alternative to synthetic dyeing agents on the international market, catalyzing a boom in the tara industry that quickly spread throughout Perú.

Phase 1 of Project Tara Cajamarca significantly increased demand for tara, made tara competitive in the international market and also created a new livelihood for local farmers. In four years, tara tree yields doubled from 1.2 metric tons/tree to 2.0 metric tons/tree (see below), and the average daily income per farmer increased over 270% from US\$0.85 to US\$3.15 (see below). The number of farmers who actively cultivated tara grew from several hundred to 6,000 in San Marcos, and many thousands more through the Cajamarca region.



PHASE 2: BUSINESS DEVELOPMENT

After increasing the quality and quantity of tara production in the region to support international demand, the next step was to retain the value created by manufacturing tara within the rural regions of Cajamarca. International demand had increased so much that a flood of new players, including new processors, exporters and mayoristas, or whole-sale distributors, entered the tara market, and profited from buying, processing, and selling tara. As the tara industry heated up and profitability increased, the farmers, at the lowest rung of the market, were largely left on the sidelines. Mayoristas, middle-men, and large processors and exporters were notorious for



employing dishonest practices, such as using faulty scales to weigh tara or offering unfair prices. Although incomes to tara farmers had increased substantially as a result of the increased yield and pricing following the first phase of Project Tara Cajamarca, tara farmers still had little power to negotiate better terms and conditions for their product. As a result, the majority of the new wealth that was created from the tara industry was kept by larger, more powerful, agri-businesses in Lima. In an effort to balance the distribution of earnings, ACT initiated its “Precio y Peso Justo” Program (Just Prices and Weight) to ensure fair payment and just measuring practices for farmers. The program succeeded in increasing the average price per quintal from USD\$0.85 to USD\$3.15.

The Tara Processing Mill: Shifting Value Creation to Local Farmers

In 2003, ACT received funding to build a small processing mill in the region. ACT operated the mill as a nonprofit enterprise, which produced semi-processed tara, that was then sold to mills and intermediaries in Lima who would further process the product and export it to markets in the U.S., Europe, and Southeast Asia. In late 2004, I-DEV piloted a project to transition the nonprofit mill into a profitable business, owned and operated by a trained and organized group of local tara farmers. The goal of this project was to permanently shift value creation from intermediaries in Lima to rural areas of Cajamarca, allowing a significant portion of the value-added by processing and exporting tara to stay in the local communities. Furthermore, the project trained a group of local farmers to manage the mill as a profitable business.

However, 2005 was a pivotal point for the tara industry. Following the trend set by “Precio y Peso Justo,” price per quintales for tara increased dramatically. The price was pushed up further due to predatory pricing practices pursued by several well-funded major international exporters in Lima, who, in an effort to eliminate the competition actually bought raw tara at a loss. These increases clearly had a direct short-term benefit for the farmers, but they put a strain on the key working capital requirements of the processing mill. The mill required US\$200,000 to purchase a raw tara and fund minimal operating expenses. After a lengthy search, funding for the mill could not be secured and ACT’s mill ceased operations.

By the middle of 2006 the landscape of the tara industry had changed dramatically. Nearly half of the businesses in the market, from middle men to agri-business exporters had gone under, and ACT had stopped production at its tara mill all together. The barriers to entry and rules of the game had been established: any company or organization looking to compete at any level in the tara market needed to be well-capitalized with at least \$500,000 of secure working capital on hand.

Asociación de Productores de Tara (APT): Sustainability and Empowering Local Farmers

Recognizing the opportunity that had been created, as well as their precarious situation in the increasingly competitive tara market, a group of driven tara farmers, the same group that I-DEV had trained to run ACT’s tara mill, asked I-DEV to help them build a sustainable, locally owned tara business that would be large enough and powerful enough to negotiate on even terms with the biggest companies in the market. Beginning in 2006, I-DEV helped these farmers create the Asociación de Productores de Tara (APT), a nonprofit, yet profit-oriented, farmers’ association.

I-DEV trained APT management, and built upon the Asociación’s already existing supply chain structure to implement quality and operational control mechanisms. I-DEV helped devise the structure of Small Farmers Associations (SFAs), which serve as the primary mechanism through which APT manages its 191 farmers. The

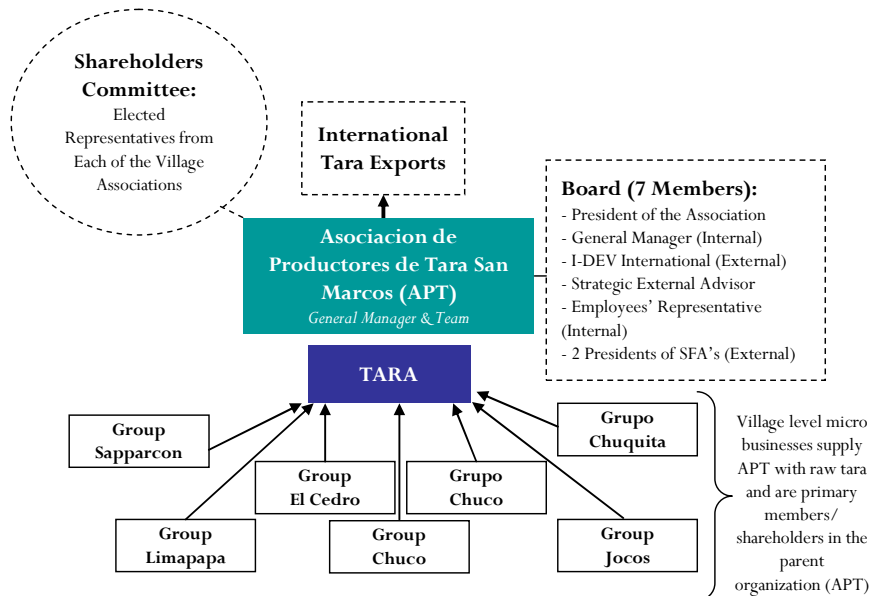


SFAs were designed as micro-businesses. Each SFA manages its own financial accounts, establishes its own operational structure, elects its own management team and sets its own production targets. The SFAs and their farmer members are responsible for initial quality control, harvesting, storing, and shipping tara to APT. Once a shipment from an SFA is received by APT at the central warehouse, APT conducts a second quality control test, and deposits an advance into the SFAs’ bank accounts.

The system of village based micro-associations adapts aspects of the savings group model from micro-finance and was designed to capitalize on the social aspects of Peruvian society. It relies on horizontal peer pressure, versus top-down, vertical pressure. Once an individual farmer sells his or her tara to the local SFA, the responsibility and accountability for quality shifts from the individual to the entire local association, which is comprised of family, friends and neighbors – the people they live with and see on a daily basis. For example, if an Associated Farmer supplies its local SFA with poor quality tara, the association, not its individual members, is responsible for all product shipped to the plant. The association is only paid for the amount of usable tara shipped. The SFA and all of its members cover the loss, which means that the family, friends and neighbors make less per kilo of tara. It is much more difficult for a farmer to cheat people close to him or her, especially in small, tight knit communities, than it is to cheat a large manufacturing facility or NGO with no personal ties or affiliation. This system based on horizontal pressure and interdependence is crucial to ultimate sustainability and increases awareness and accountability among farmers.

Ultimately, APT is owned by each individual farmer, who is represented on APT’s General Assembly (the Peruvian non-profit equivalent to a shareholders committee) through their elected SFA representative. (See the organizational chart below.) Each SFA representative is given one vote on APT’s General Assembly. Additionally, APT has a Board of Directors consisting of elected members of APT’s General Assembly, APT management, and strategic external advisors, including I-DEV. The local farmers have learned to govern their organization and its management through APT’s General Assembly and Board of Directors, a critical step in long-term sustainability and creating active participants in their own future.

Asociación de Productores de Tara: Organizational Structure





In addition to helping APT develop the management strategy and operational structure, I-DEV helped APT establish a strategic relationship with a U.S. based food ingredients distributor. In 2007, APT won a 5-year contract with the U.S. corporation for 100% of all the raw tara that APT could supply. The agreement also included a vendor financing working capital loan of up to \$500,000 from the U.S. distributor to APT. The agreement helped the U.S. distributor gain a reliable and secure source of high quality tara and enabled the distributor to dramatically increase its market share in the tara industry.

CONCLUSION

The Asociación de Productores de Tara stands today as the leading tara producer in Peru and is an excellent example of truly sustainable development. This social enterprise, a profit-oriented non-profit farmers' association produces 1,200 metric tons of the highest quality tara annually (which accounts for 55% of the total tara market in the Province of Cajamarca) and is generating more than a million dollars a year for its small farmer members. In just over 2 years, APT has been able to achieve its primary goal of leveling the balance of power, and has earned the tara farmers a spot at the negotiating table as a respected equal along side the large multi-national agri-businesses that have controlled the tara industry. The APT model has been hailed by industry leaders as one of the most successful in the country and APT's Director has been invited to be the key note speaker at industry conferences around the country.

Furthermore, APT's success, and its organizational and operational structures serve as a perfect example of a highly scalable, truly sustainable model for empowering local community members at the base of the pyramid. It is a model that I-DEV will continue to adapt and employ on development projects around the world.