

UPGRADING IN LOCAL LINKAGES: EXAMINING FRESH FRUITS AND VEGETABLES VALUE CHAIN FROM SMALLHOLDERS TO TOURIST HOTELS IN ZANZIBAR

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ABSTRACT

This study aimed at examining smallholders upgrading in local linkages using evidence from fresh fruits and vegetables value chain from small farmers to tourist hotels in Zanzibar. The study employed a case study strategy of inquiry where, in-depth interviews with the hotel managers, intermediaries and small farmers were engaged in data collection which was later subjected to qualitative analysis and interpretation. The findings show that formal contracts coupled with captive linkages between tourist hotels and small farmers provide greater upgrading opportunities for smallholders. Market and other linkages characterised by informal contracts do not offer any potential for smallholders upgrading as they tend to reduce rewards and increase risks for small farmers with negative ramifications. The strategies and recommendations to strengthen the capabilities of local farmers to access this value chain and link-up with tourist hotels have been provided for further action.

Key words: upgrading, local linkages, value chain, smallholders, Zanzibar

INTRODUCTION

Since mid-1990s, value chain literature has explored how enterprises in developing countries are integrated into global markets (Dolan & Tewari, 2001; Gereffi, 1999). Recently, the literature has also been extended to focus on small farmers' participation in the global value chain. Many of these discussions have been concerned with examining the linkages between global economy and small producers in developing countries and the opportunities they provide for smallholders upgrading. Upgrading is a process where producers improve their skills, knowledge and competence that help them to gain access to global markets and maintain their position in them (PerezAleman, 2012). Studies on upgrading have considered how different forms of linking enterprises in developing countries into global economy facilitate or obstruct the potential for smallholders to acquire capabilities and supporting services required to

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participate in global value chain. However, for the sake of this study and in line with (Gibbon, 2008), it is contended that upgrading should be understood as 'reaching a better deal including balance between reward and risk'. This is due to the fact that for smallholders to participate in a particular value chain and upgrade, there should be a desirable change in their position that increases rewards and/or reduces exposure to risks.

Despite the existence of wide knowledge pertaining to smallholders upgrading in global value chains, little is known as to how local producers upgrade in agriculture-tourism linkages within developing countries. Over the past twenty years a number of pro-poor tourism literature has placed a lot of emphasis on creating and strengthening 'local linkages' between tourism demand for food and local agricultural production to maximise host country's benefits (Torres, 2003). This has been seen as a solution to minimise substantial tourism revenue 'leakages' to the external market to source for goods and services that are also available in the local market (Mshenga, 2010). In spite of this emphasis, agriculture and tourism sectors are still 'poorly' linked to date (Anderson, 2013).

This study therefore claims that in order to understand the persistent 'poor' linkages between tourism and agriculture which are very important sectors in developing countries, it is necessary to examine in depth the precise nature of agro-tourism linkages and what it implies on smallholders upgrading. Therefore, instead of looking at upgrading in global linkages, this study looks at local linkages between smallholders and tourism enterprises within a developing country. Using evidence from horticultural-tourism value chain that links fresh fruits and vegetables (FFV) farmers and tourist hotels, this study considers how smallholders in Zanzibar are linked to the hotels and if these linkages have any potential for upgrading. Studies (Torres & Momsen, 2011) suggest that the greatest area of potential for creating local linkages is provision of fresh fruits and vegetables by local farmers to tourist hotels. Understanding the nature of linkages between FFV farmers and tourist hotels in Zanzibar is also a necessary step to explain smallholders' market access to global economy. This is due to the fact that global FFV market is comparable to those of the tourist hotels' market since they both target the same customer. If small farmers are able to link up with the hotels then they can expand the production for export. Therefore, looking at these local linkages can help conceptualise the global linkages due to the fact that local linkages act as a training ground for establishing smallholders' involvement in the global value chain.

This article is structured as follows. The second section draws together those strands of literature which have bearing on global value chain, linkages and upgrading. The third section describes the methodology used for the study. The fourth section presents the findings and analysis. The fifth section provides the discussion which brings together

the theoretical issues and main empirical results as well as policy discussion. The conclusion is presented in the sixth section which also provides recommendations and areas for further study.

LINKAGES AND UPGRADING

This article is concerned with examining different forms of linkages in local economy and their potentials and barriers for FFV smallholders upgrading and access to the market in tourist hotels in Zanzibar. As pointed out earlier, various studies (Meyer, 2006; Rogerson, 2012) indicate persistent poor agro-tourism linkages. To better conceptualise this debate, we stress that, rather than measuring the implications of local linkages by counting how many local suppliers are 'linked up' to tourism enterprises, one should consider whether the impact of these linkages is increasing or decreasing income and resources. This is because the possibilities for local producers to learn, acquire new capabilities, and upgrade to enhance their competitiveness in supplying goods and services to tourism enterprises are often enhanced by the reward structure spelled out by the nature of the linkages prevailing. Gereffi, Humphrey, and Sturgeon (2005) provide a framework indicating various forms of linkages that lead firms to create with local suppliers using transaction cost analysis and network governance theory. Lead firm has been conceptualised as an organisation holding a powerful position along the value chain to set the terms of chain membership, the related inclusion/exclusion of other actors, and the reallocation of value-adding activities (Gibbon, Bair, & Ponte, 2008). In this study therefore, tourist hotels are conceptualised as lead firms because when they procure fresh produce from local suppliers they act as lead firms. Although the framework by Gereffi *et al.*, (2005) has been criticised for being relatively static with multiple forms of linkages in many sectors, for this article, it remains a useful tool to consider the nature of linkages and basis of lead firm's power within the chain and its consequences for smallholders upgrading.

Gereffi *et al.*, (2005) argue that the nature of linkages is based on three factors. First, there is the complexity of transactions between lead firms and their suppliers; second, the capabilities of these suppliers; and third, the extent to which such transactions can be easily codified into clearly defined rules, norms and standards. This framework generates five distinct forms of linkages. At one extreme are arm's length market linkages, where transactions are simple, suppliers are capable, and codification is easy. As a result, organisation does not imply any distinct power asymmetry between lead firms and their suppliers. Transactions are purely governed by market and price consideration. At the other extreme are hierarchical linkages. These imply very high level of power asymmetry and come when transactions are complex, cannot be easily codified, and supplier capabilities are low. Between these two extremes lie three

distinct network linkages: modular, relational and captive. What is common across all three is that the nature of transactions between firms is considered to be complex. However, where suppliers have low levels of capabilities, captive linkages emerge with power asymmetrically held by lead firms. In contrast, if suppliers have high levels of capabilities and transactions can be easily codified, then modular linkages appear with power more equally distributed between lead firms and suppliers. When product specifications cannot be codified and supplier capabilities are high, relational linkage is expected. This is because tacit knowledge must be exchanged between buyers and sellers, and because highly competent suppliers provide a strong motivation for lead firms to outsource to gain access to complementary competencies. It is from this reason that Neilson and Pritchard (2009) contend that arrangements in relational linkages are dominated by complex interactions and 'mutual dependencies' between suppliers and customers.

Using the framework by Gereffi *et al.*, (2005) to understand how agriculture-tourism linkages are created in developing countries is very important for firms and policy makers because particular forms of local linkages may restrict prospects for local producers to enhance capabilities, acquire new forms of knowledge and thus improve their competitive positions and conditions for profitable survival as claimed by Fold and Larsen (2011) and Kadarusman and Nadvi (2012). Bolwig, Ponte, Toit, Riisgaard, and Halberg (2010) further contend that these categories linkages are used in the identification of upgrading strategies appropriate for small producers and suppliers in developing countries.

In global value chain analysis, the concept of upgrading is used to identify the possibilities for producers to 'move up the value chain', either by shifting to more rewarding functional positions or by making products with more value-added invested in them, and/or providing better returns (Gibbon & Ponte, 2005). According to Gereffi (1999), the upgrading process is examined through the lense of how knowledge and information flow within value chains. In this context however, this article focuses on the broader definition provided by Riisgaard *et al.* (2010) to see upgrading as something that happens to a specific actor (an economic group, organisation or individual) inside the chain; it directly improves the performance or position of this actor, thereby increasing rewards and/or reducing the exposure to risk. Defining upgrading through the lense of reward structures will provide a better understanding on the possibilities of incorporating more farmers into horticultural-tourism value chain in Zanzibar. In addition, we will understand the gains and/or losses if smallholders access the tourist hotels' market, how those that are in the chain maintain their positions, how those that are not in the chain should be included, among others.

Most global value chain scholars prefer using the typology of upgrading developed by Humphrey and Schmitz (2002). However, to best conceptualise upgrading in

agriculture-tourism linkages, we use broader categorisation of upgrading as proposed by Riisgaard *et al.* (2010) which is equally important, and may combine some of the categories of Humphrey and Schmitz, (2002) or even go beyond them. Such categorisation involves the following:

- Process upgrading: improving efficiency or reducing negative externalities; this includes delivery on delivery schedules, invoicing, improving client management, reducing waste, etc.
- Product upgrading: moving into more ‘sophisticated’ products with increased unit value, through complying with buyer requirements for physical quality, certification, food safety standards, traceability, packaging, etc. Alternatively, shifting from producing for high-value markets based on economies of scale could also increase rewards or reduce risks.
- Volume upgrading: increasing the amount of products sold, through increased in yield or area.
- Functional upgrading: acquiring new functions in the value chain, either by performing downstream activities (e.g. grading, processing, bulking up, transporting or advertising) or by engaging in upstream functions such as the provision of services, inputs or finance.
- Functional downgrading: moving one node down the chain (for example, from processing the product to focus back on production because of the low profitability of processing).
- Improving value chain coordination through vertical and horizontal contractualisation. Vertical contractualisation means getting a better deal through closer and longer-term business links with buyers. It involves learning from the buyers interlocking contracts where sales contracts include embedded services from the buyer such as extension, credit, fertiliser, etc. Horizontal contractualisation describes agreements among producers to cooperate over input provision, marketing, certification and crop insurance in order to reduce costs, increase revenues or mitigate individual risks.
- Inter-chain upgrading: applying competences acquired in one value chain to a new chain.

While Vargas (2001) claims that access to a particular value chain is a necessary step for industrial upgrading because it puts firms and economies on potentially dynamic learning curves, Gibbon (2003) argues that the first step in understanding upgrading opportunities available to small scale producers (and others) in a particular value chain is to spell out the reward structures of these chains, and the nature of the roles that currently trigger rewards. Based on this fact, we contend that it is important for scholars to question: Does it pay-off for smallholders to link up with the tourism sector

and upgrade? This may depend on the kind of actors these smallholders play for and changes in horticultural-tourism value chain. According to Riisgaard *et al.* (2010) there are four kinds of actors in any value chain which are: (a) chain actors, who are directly involved in within-chain exchanges of product, typically estates or small producers, processors, exporters, importers and retailers; (b) external actors, who are individuals or organisations that do not directly handle the product but that provide services, expertise and exert influence such as NGOs, financial institutions, government agencies, etc.; (c) expelled actors, who are chain actors who have withdrawn from the value chain due to pressure or coercion; and (d) non-participants/excluded/marginalised actors, those who never participated in the value chain, by choice or for lack of capability.

There are also four kinds of changes in any value chain which are: (a) inclusion of new participants, which refers to the incorporation of actors into an existing or newly created value chain; (b) continued participation under new terms (repositioning), which refers to the alteration of participation for actors already in the chain for example when supermarkets impose quality standards, require conformity to fair trade standards or simply squeeze prices; (c) expulsion of participants, often the result of value chain restructuring, for example when importers concentrate their sourcing on fewer suppliers or increasingly buy processed products, thus squeezing out small producers. Eviction from the chain may also result from the changes in chain-external factors that undermine participants' ability to meet performance requirements; and (d) non-participation, which concerns indirect implications of value-chain activities for local people who are not and never have been part of the chain.

In addition, Bolwig *et al.* (2010) stress that even if people are included in a particular value chain, this may not be on advantageous terms, and analysis should look carefully at the costs and benefits of participation. Exclusion or marginality from a particular chain is not necessarily disadvantageous, because when people lack leverage within a particular economic or social field, they retreat to the margins or externality from its operations may be an advantage. Small farmers opting out of production for a global value chain, for example, and choosing instead to produce for less lucrative but less risky local markets, are in one sense becoming more marginal but may experience relatively more market leverage. Therefore, different forms of local linkages may have different upgrading implications, which in turn are connected to different rewards and involve different levels of risks and performance requirements.

METHODOLOGY

This study follows qualitative research design whereby case study was used as the main strategy of inquiry. Case study design was chosen to increase an understanding of the issues under the study. Although case study research has been frequently criticised for its lack of rigor, suggestions from previous studies (Eisenhardt, 1989; Miles & Huberman, 1994; Yin, 1994) have been followed to ensure the validity of the study. This article draws on secondary evidence and intensive primary interviews undertaken with procurement managers of tourist hotels, intermediaries (consolidators and wholesalers) and farmers dealing with fresh fruits and vegetables. Zanzibar archipelago was purposively selected based on its highest level of tourism activities in Tanzania. To focus the study, interviews were concentrated at Unguja Island where almost 90% of hotels and guest houses are found. In addition, this island receives at least 90% of the Zanzibar's annual tourist arrivals (Zanzibar Commission of Tourism, 2014). The respondents were selected based on the criteria that: a) the FFV farmers must be micro- or small-sized, b) the hotels must be accommodating foreign tourists among others, c) the intermediaries should be dealing with any activity that links micro and small horticultural farmers and tourist hotels like consolidating and packaging as well as wholesaling. In order to make sure the respondents meet the specified criteria, snowball/chain referral sampling was used to trace the respondents. It started with the tourist hotels (downstream) that source from domestic production to intermediaries and then to farmers involved in the chain. This enabled the researchers to trace the chain and identify other horticultural-tourism participants as the chain went further upstream.

Prior to data collection, a list of 237 hotels and guest houses in Zanzibar archipelago was established from the Zanzibar Commission for Tourism. To establish the appropriate sample frame for the respondents that met the criteria stated above, the hotels from this list were screened. The first step was to drop the hotels and guest houses located in Pemba Island which amounted to 30 thus leaving 207 establishments. In the list, establishments were also graded according to 'Star' rating for the purpose of informing international travellers on basic facilities and features that can be expected in such establishments. According to the Official Hotel Guide (published in the US, and followed worldwide) more stars indicate hotels and guest houses of greater quality, luxury, experience and frequently visited by tourists. Therefore, the second step was to consider and select hotels that were categorised between 2 and 5 stars because they have strong linkage with the tourism sector in Zanzibar. The 127 establishments out of 237 were excluded from the sample because 73 hotels and guest houses had no grade and 54 were rated as 1-star establishments leaving out 80 establishments. In addition, the researcher visited two more websites <http://www.zati.org/?wpbdm-category=hotels> for Zanzibar Association of Tourism Investors (ZATI) and http://www.tripadvisor.co.uk/Hotels-g482884-Zanzibar_Zanzibar_Archipelago-

[Hotels.html](#) for trip advisor. The aim was to confirm that the list of 80 hotels obtained from the Zanzibar Commission of Tourism included hotel members of ZATI and hotels that tourists from all over the world are advised to visit for accommodation in Zanzibar by trip advisor. After we had confirmed that ZATI hotel members and those advised by the trip advisor were included in the list, the third step was to contact these 80 hotels through phone calls to find out if they source fresh fruits and vegetable locally. Fifteen (15) hotels were closed due to low season (which is between October and May). The interviews were conducted in April 2014. Procurement managers from five hotels refused to be interviewed, 20 hotels responded positively to the questionnaire, while 40 hotels did not respond after several phone calls. It was very important to go through this procedure in order to make sure that the hotels involved in the interviews provided the right information for the study and that the right chain was being traced. The in-depth face-to-face interviews with 15 identified tourist hotels referred the researcher to 7 interviews with wholesalers, 5 interviews with consolidators and 5 interviews with farmers who fulfilled the above criteria.

Data collected was qualitatively analysed and interpreted. Qualitative data analysis was performed at two levels: within-case analysis and cross-case analysis. Within-case analysis is central to the generation of insights into each case because it helps to deal with the analysis of a large volume of data (Sheu, Yen & Chae, 2006). In this study, within-case analysis involved the description of individual groups in the value chain (i.e. procurement managers, intermediaries and farmers). Such description allowed the unique patterns of each case to emerge before generalised patterns across cases were created. Then the researcher performed cross-case analysis whereby similarities and differences between groups in the value chain were identified and interpreted.

FORMS OF LOCAL LINKAGES AND UPGRADING IN ZANZIBAR

The presentation of different forms of linkages is based on the information obtained from tourist hotels sourcing from the domestic production. Hotels visited differ in terms of size. There are small-scale hotels categorised as 2 to 2.5 stars and whose bed capacity is below 200 with rooms between 10-50, employing between 5 to 49 employees. There are medium-scale hotels categorised as 3 to 3.5 stars and whose bed capacity is between 200-300 with rooms between 51-100, employing between 50 to 100 employees. Lastly, there are large-scale hotels categorised as 4 to 5 stars and whose bed capacity is above 300 with more than 300 rooms, employing more than 100 employees. In these hotels, the kitchen department (in most cases the chef) is responsible for procurement of fresh fruits and vegetables because it is the kitchen that prepares the menu for guests. Hotels are categorised as locally- or foreign-owned. Locally-owned hotels are established, run and managed by local people (Tanzanians) while foreign-owned hotels are established, run and managed by non-Tanzanians. Most

of the locally owned hotels are small-scale while most of the foreign-owned hotels are large-scale. Hotels that participated in this study in Zanzibar are located in Stone town, Nungwi, Kiwengwa and West coast.

Intermediaries (consolidators and wholesalers) who participated in this study are small-scale enterprises whose total investment is between TZS 5 million and 200 million. They are located at Darajani, Mwanakwerekwe and Nungwi. Such intermediaries are either self-owned or group-owned. The majority of them operate as self-owned enterprises, and only few are group-owned. Wholesalers are located at Darajani market. It takes about 10 to 15 minutes from Darajani to Stone town, 45 to 1 hour from Darajani to Nungwi, 1 to 1½ hours from Darajani to Kiwengwa and 30 to 45 minutes from Darajani to West coast. Consolidators are located at Mwanakwerekwe market; this is the consolidation centre for all fresh fruits and vegetables in Zanzibar. It takes about 15 to 20 minutes from Mwanakwerekwe to Darajani. Consolidators are enterprises that order/buy and gather small quantities of fresh produce from different farmers and resale it in large quantities/orders to wholesalers. Wholesalers are enterprises that order/purchase fresh produce in huge amounts from various consolidators and resale it to tourist hotels.

Farmers that were interviewed are micro- and small-scale enterprises whose total investment is up to TZS 5 million, and between TZS 5 million and 200 million respectively. Farms are either family-owned or undeveloped settlement areas. Farmers who participated in this study are located at Donge and Dimani, the majority of whom are found at Dimani and operate farming activities in undeveloped settlement areas. It takes 20 to 30 minutes from Donge and Dimani to Mwanakwerekwe market.

Different sizes of the tourist hotels create linkages with local farmers in different ways as presented below:

Case 1: Small-scale hotels

The linkages illustrated in Figure 1 are valid for 5 small-scale hotels. Four of these hotels are locally-owned and 1 is foreign-owned; 3 of these hotels are located at Stone town and 2 are located at Nungwi. Of these small-scale hotels 1 has been operating in Tanzania for more than 20 years, 1 between 5 to 10 years and the other 3 between 10 to 20 years.

Map 1: Zanzibar – Location of Respondents



Source: Developed from field data, 2014

In Figure 1 below, small hotels link-up with farmers in three forms: market, modular and captive linkages through route (a), (b) and (c), respectively. However, in this case, market linkage is predominant. This entails that business relations between small hotels and local suppliers is market-based characterised by spot buying or repeat transactions.

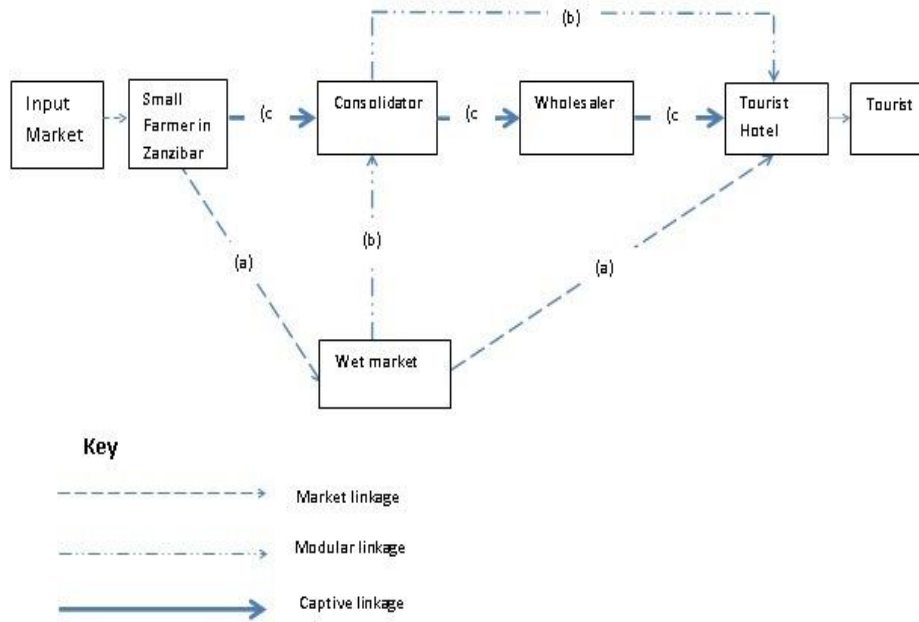


Figure 1: Linkages as created by small-scale hotels

Hotels procure the produce directly from the wet markets where the chef checks the quality before buying. There are two reasons for spot buying provided by the hotels. First, these hotels are located at Stone town which is close to Darajani and Mwanakwereke markets. Second, in the low season (which is from October to May), during which the number of guests is very low the use of contracted suppliers usually increases the cost of operation. Usually, contracted suppliers charge higher price than the market price. In market-based linkages, there are neither costs of switching partners nor any distinct power asymmetry between the hotels and their suppliers. At the wet market, farmers or other suppliers can sell to any buyer and hotels can buy from any seller. The implication of this is that farmers suffer from severe information deficiency and are unable to process all the information available to them. Because of very low information exchange and interaction between hotels and farmers/intermediaries, there is little learning by local suppliers which limits improvement in their farming activities/operations and therefore they cannot upgrade from being spot suppliers to long-term suppliers.

Modular linkages are mostly used during the high season (from June to September) as a buffer approach to market-based procurement strategy. This is because during the high season, the number of guests is high. Hotels contract few consolidators at Mwanakwerekwe market to supply the produce for a short period. The chef checks the quality of the produce before accepting the delivery. Mwanakwerekwe market is preferred by these hotels because its prices are considered to be cheaper than those of Darajani market. This linkage is mostly characterised by verbal or informal agreements, i.e. no documents are involved. If a local supplier had been contracted by the hotel during the previous high season it does not guarantee that he/she would be contacted again in the following season; it will all depend on the earlier experience when working with the hotel. In addition, local suppliers can as well sell to other hotels or markets if need arises, and hotels can source from a specific small number of suppliers to reduce uncertainty of supply, making the switching costs low. In this case, the level of interaction between the hotels and local suppliers is low; and the frequency of trade is low with few numbers of transactions due to informal nature of business. One may as well argue that the informal and verbal agreements do not offer any incentive for consolidators to become committed suppliers to these hotels and thereby motivate farmers to produce for hotels' market.

Some of the small hotels link-up with the wholesalers through captive linkages. This linkage is characterised by long-term relationship where hotels have a very well-established and long-standing business relation with local suppliers. These hotels have been dealing with a limited number of trusted wholesalers (usually one to two) for more than 7 years. The business relationship between these hotels and local suppliers is formalised through written or formal contracts. The formal contract is typically based on price agreement which is usually reviewed yearly. Agreement on other variables such as freshness, quantity, variety, and delivery time of the produce is normally verbal. However, when delivered, the produce is inspected before the hotels accept the delivery. The hotels use this linkage to cut logistical costs such as finding a new partner every day, negotiating and transportation, among others. In addition, these hotels are located at Nungwi which may take 2 to 3 hours return route to Darajani or Mwanakwerekwe market. In this case, hotels deal directly with wholesalers, and the wholesalers deal directly with consolidators who also deal directly with small-scale farmers in Zanzibar. In addition, in this route every chain actor is responsible for checking and observing the quality of the produce and other variables. Unlike market and modular linkages, local suppliers involved in this captive linkage are specialised in serving tourist hotels' market because through formal contracts local suppliers are committed to supply to the hotels. Since wholesalers are captive to the hotels they also capture consolidators who also capture farmers through contracts (although informal) in making sure that they do not lose this profitable customer (the hotel). Due to exchange of information between partners in this chain, local suppliers learn from the

hotels and use the knowledge to improve their operations and farming activities. Therefore, upgrading in terms of e.g. volume and product is very possible due to frequent performance feedback between actors through inspection and checks at each link of the value chain.

Case 2: Medium-scale hotels

The linkages illustrated in Figure 2 are for 4 interviewed medium-scale hotels. Two of these hotels are locally-owned while the other two are foreign-owned. Three of them have been operating in the country between 10 and 20 years and 1 hotel between 5 and 10 years. Two hotels are located at the West Coast: one in Stone town and the other in Nungwi.

Medium hotels link up with farmers in three forms; these are captive linkage which is indicated through (a), (b) and (d); and relational and modular linkages as indicated through (c) and (e), respectively. The linkages in this case are mainly dominated by captive links characterised by long-term business relationship, a situation that has created common understanding between hotels and local suppliers. Unlike the case of small hotels, business relationship between medium hotels and local suppliers is much more formalised into various items. Formal contract is based on more variables (like freshness, variety, delivery time, quantity of the produce among others) other than price and it is reviewed yearly. Hotels have been working with these local suppliers for more than 5 years where suppliers are captive through contracts as in the case of small hotels. In order to enforce and maintain product and process specifications, wholesalers develop closer and long-term relationships with consolidators through formally written contracts. The consolidators do the same with farmers. In this way information exchange is high, not only through inspection but also training, discussions and weekly/monthly performance reviews, which implies high learning for local suppliers especially small farmers. However, since consolidators and wholesalers are more transaction dependent in this linkage, they are also buying from other farmers and suppliers from the Mainland in order to maintain year-round supply and spread risk of uncertainty in supply.

Capacity and variety of the produce is a big problem in Zanzibar that challenges suppliers and hotels in serving tourists especially during high season. To overcome the challenge, some consolidators deal directly with farmers in Morogoro and Lushoto – Tanga through captive linkages. Others also procure the produce from Kariakoo and Kisutu markets in Dar es Salaam by developing relational linkages. This is because delivery time from small farmers in Morogoro and Lushoto is sometimes constrained by poor transport infrastructure leading to delay in delivery. Relational linkages are

characterised by ‘mutual dependence’ between consolidators and wholesalers in Dar es Salaam with power equally distributed. These suppliers have the necessary competence/capacity to supply to the consolidators. Wholesalers also have been able to establish strong buyer-seller relationship with suppliers at Kariakoo and Kisutu market in a captive form. These are market strategies to make sure that they honor the contracts and serve the hotels as agreed.

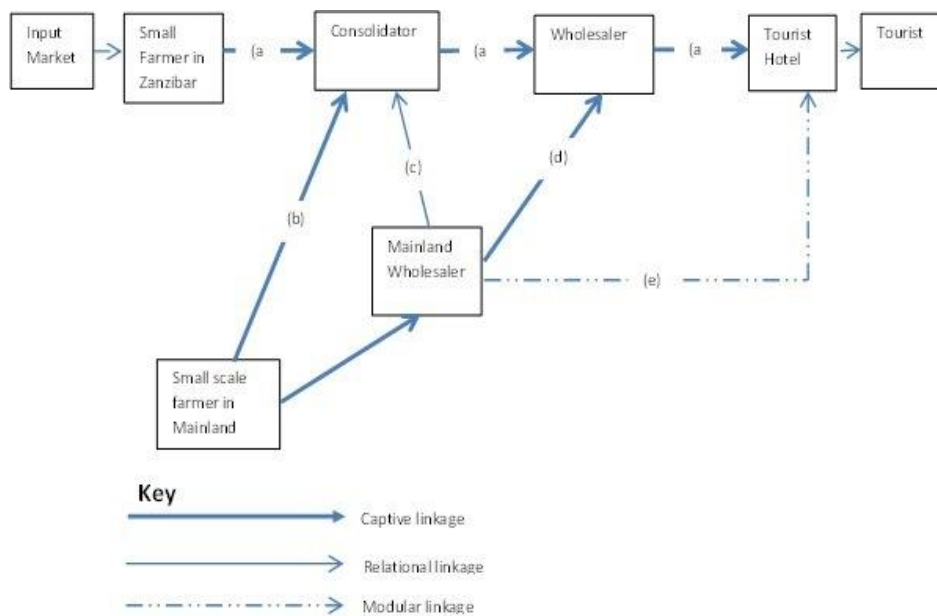


Figure 2: Value chain as organised by medium-scale hotels

During high season, medium-scale hotels create modular linkage in addition to captive linkage. Modular linkage is used as a buffer due to increased number of guests resulting to high demand for the produce. The hotels enter into short-term arrangements with suppliers in Kariakoo market to supply to the hotels only for few months. Unlike the case with small hotels, short-term arrangements in modular linkage with medium hotels are characterised by written agreement on a number of variables. Since business relationship between medium hotels and local suppliers is safeguarded by yearly contracts, hotels claim that a lot of logistical costs have been greatly reduced; and

reliability, availability, flexibility and urgency have been improved. On the other hand, intermediaries and farmers argue that their experience in dealing with the tourist hotels' market has increased compared to when they started the business years back. Although the tourist hotels' market is more demanding than the local market, it pays-off if the supplier knows how to deal with it. Due to more variables included in the contracts, the level of interaction is high through daily delivery, with strict inspection and feedback resulting to positive upgrading outcome.

Case 3: Large-scale hotels

The value chain organisation in Figure 3 is for 6 interviewed large scale hotels. One of these hotels is locally-owned while the other 5 are foreign-owned. Two hotels have been operating in Zanzibar for more than 20 years, 3 hotels between 10 and 20 years and 1 hotel for 10 years. Four hotels are located at Kiwengwa (East Coast): one at Stone Town and the other at Nungwi (North-east). These are hotels that receive a large number of guests regardless of the tourism industry season.

Large-scale hotels differ among themselves in the way they create linkages with the local economy. These forms of linkage are market, modular, relational, captive and hierarchy or vertical integration. Captive linkage is indicated by (a), (b) and (d); relational is indicated by (c), (e) and (h); modular linkage is indicated by (g); market linkage is indicated by (f); and hierarchy is indicated by (i). In this context, captive linkage has the same characteristics as in the case with medium hotels. Hotels create relational linkage with mainland wholesalers at Kisutu and Kariakoo markets as a supplement approach to captive linkage with suppliers in Zanzibar. One hotel creates relational linkage to procure special types of fruits and vegetables which are not available in Zanzibar. Two hotels use modular linkage to cater for both since there isn't enough capacity in Zanzibar and variety is limited. Large hotels have a long-term relationship with mainland wholesalers and they have been working together for more than 10 years. The same applies to other chain actors.

Two large-scale foreign-owned hotels are linked up directly with large-scale farmers in Arusha and Iringa instead of mainland wholesalers. These mainland farmers are believed to be very efficient in producing in large quantities with variety, and delivering to the hotel 2 to 3 days per week. The competence that these farmers have in production and other related functions motivate the hotels to keep on outsourcing from them for a long time. The hotels claim that they prefer dealing directly with mainland farmers because farmers in Zanzibar are less efficient.

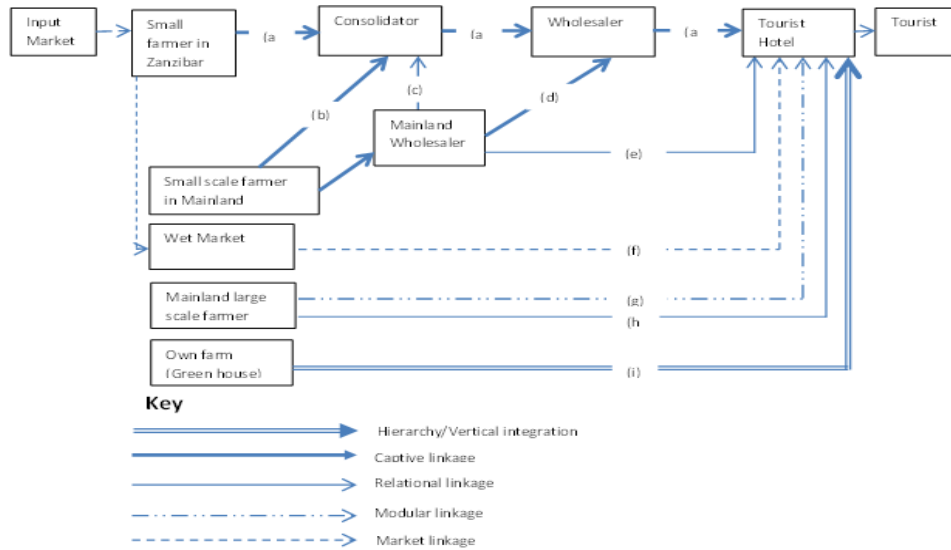


Figure 3: Value chain as organised by large-scale hotels

Due to transport infrastructural problems when transporting the produce from farmers in the Mainland to Zanzibar, which add to the operational costs, one of these two has vertically integrated farming activities and hotel operations by operating its own medium-sized green house. The green house was established to solve capacity problems in case of delay of deliveries by suppliers since it produces special types of fruits and vegetables.

As an exceptional case, one hotel has opted to organise procurement mainly through spot buying or market linkages. This is because the hotel has had negative experience with local suppliers in terms of delivery time, quality of the produce and reliability; suppliers do not follow standards, prices paid to the contracted local suppliers are higher than the market price. After all the markets are not very far from the hotel. Arm's length market linkages, as described in the case with small hotels, do not offer much knowledge transfer to farmers as there is little information exchange between the buyer and seller and they are less profitable. During the high season, this hotel creates modular linkage with mainland farmers as a backup plan to market linkage. The hotel enters into short-term arrangements, characterised by a formally written contract, with a large-scale farmer (Estate) in Arusha. Although there is mutual dependence with this farmer, this hotel cannot use this supplier throughout the year because during the low season there only few guests resulting into low demand for the produce and therefore

the hotel is better-off financially and operationally when using market linkage during this season.

DISCUSSION

Tourist hotels that are linked-up with local suppliers through market-type transactions do not offer any potential for smallholders upgrading. Market-based transactions tend to reduce rewards and increase risks for small farmers with negative ramifications. Farmers relying on wet market to supply to tourist hotels experience high uncertainty of price which is negotiated at each exchange, lower sales volume, poorly specified quality grades and standards, and lack of means of quality control. Poor transmission of product information demanded by these hotels constrains value addition, compliance to standards and small farmers' capabilities; this situation leads to exclusion of the majority of smallholders from the value chain. This was also discussed by Riisgaard *et al.* (2010). Modular linkages between small hotels and consolidators would have provided some potential for upgrading due to presence of contracts that safeguard the transactions and transmit products and the related information to local suppliers. However, the informal nature of those contracts exposes consolidators and farmers to same risks as in market linkages. As a result, this situation does not motivate small farmers to upgrade for tourist hotels market. With this kind of relationship it is far better for farmers and consolidators to concentrate on the local market. The majority of small hotels prefer a loose market-type and informal relationship with buyers in order to reduce the cost of operations, and the small quantity demanded by them motivates spot buying.

Other types of linkages between hotels and local suppliers, e.g. modular with formal contracts, relational and captive, are said to enhance various forms of smallholders upgrading (Riisgaard *et al.*, 2010). Intermediaries and farmers in Zanzibar involved in these linkages acknowledge to have improved their scale of operations since they started supplying the tourist hotels. They are able to sell more volume, produce products of the standard demanded by the hotels, and have improved packaging, handling and storing activities. They claim that this has been possible because the price offered by hotels is higher than that of the local/wet market. The only thing that they complain about is credit sales where payment periods are longer, varying between four weeks to a month and a half, which affects their working capital. This was also found by Meyer (2007) and Anderson and Juma (2011). They acknowledge the fact that since the financial market is unfavorable due to its small size and lack of collateral for accessing loans, most local suppliers are unable to continue supplying to the hotels a

situation that forces them to become expelled actors. However, those that have a long-term business relationship with the hotels do enjoy financial support such as advanced loan with no interest from the hotels to overcome financial difficulties. Through long-term contracts, hotels admit that it is easy to trace the products and enforce compliance with standards.

It was revealed from this study that intermediaries play a great role in linking small farmers and tourist hotels in Zanzibar. Wholesalers are working closely with consolidators who work closely with farmers, to ensure a consistent, year-round supply of produce. Being close to the hotels, wholesalers provide extensive information along the chain about product specifications and other market requirements. Small-scale economies, varieties, dispersed and unorganised small farmers, uncertainty surrounding land tenure and informal farming activities are among the reasons for hotels not to link-up directly with small farmers. Riisgaard *et al.* (2010) note that collective action such as farmers' association often increases chances for small farmers to directly access profitable markets such as tourist hotels and mitigates individual risks. However, it was found from this study that most of the small farmers who have specialised in supplying to tourist hotels are not part of the existing farmers' association. They claim that the association has failed to serve small farmers and most of the members are not farmers. Conversely, the association's response to this claim is that it is the government through the Ministry of Land and Water that is yet to respond to the request of providing the special zone for fresh fruits and vegetable production. The government has been emphasising development of tourism as an industry forgetting about complementing sectors. In addition, production of fresh fruits and vegetables has a marginal status in Zanzibar. Farmers interviewed said that they would be interested to make direct sales to the hotels if they owned large farming plots to produce on a large scale and invest in greenhouses for varieties.

Though contract farming with small-scale, farmers in Zanzibar could offer a cost-efficient procurement strategy. There are very few specialised farmers that produce fresh fruits and vegetables for the purpose of supplying to the tourist hotels. In addition, most farmers are scattered, with small plots, and those that have specialised in production of these products are operating in plots planned for settlements. If contract farming was possible, small farmers in Zanzibar would have a direct access to learning and knowledge to improve farming activities and move up into higher positions in the value chain which are more profitable. According to Prowse (2012) contract farming offers numerous opportunities for farmers: it can allow access to a reliable market; it can provide guaranteed and stable pricing structures; and most importantly, it can provide access to credit, inputs, production and marketing services e.g. seed, fertiliser, training, extension, transport, and even land preparation. With contract farming, it is

possible to include more smallholders into the value chain and make those that are expelled and/or marginalised by lack of capabilities, actively participate in the chain.

The study concurs with that of Torres (2003) that smallholders' coordination is a necessary element for them to break into strategic markets such as tourism. This would help them to supply year-round produce in bigger volumes and more varieties directly to tourist hotels through joint efforts. In addition, for their sustainability, they need financial market and government support. Smallholder involvement in the tourist hotels' market is declining following the requirement for the produce to meet stringent standards. This in turn requires the small farmer to obtain economies of scale and acquire financial resources to comply with the standards. Therefore, without access to credit, capital and technical assistance, small farmers are not able to produce for the tourist hotels' market. If there was a direct link between farmers and hotels, farmers would have been receiving better prices than what they are currently receiving and the hotels could be paying lower prices than what they are paying to intermediaries currently. From the study it was revealed that middlemen supply the produce to the hotels for a price three times the price they pay to the farmers.

For policy implication, we recommend that the overall master plan for tourism development should be integrated with those of agricultural development. There is also a need for the government to regulate and control the input market as farmers complain about explosion of fake farming inputs in the market which harm the quality of the produce. This situation increases the cost of production and demotivates smallholders from targeting tourist hotels as a profitable market, due to strictness on the quality of the produce. Large, medium and few small hotels offer opportunities for smallholders upgrading. However, the cost of screening, contracting, supplying supervising and paying a dispersed population of smallholders increases transaction costs compared to working with large-scale farmers as claimed by Prowse (2012). There is also a need to educate farmers massively to produce fresh fruits and vegetables whose demand is currently high and growing while making their access to credit, insurance and farming inputs possible. Therefore, government intervention is necessary to support small farmers' capabilities to access tourist hotels' market.

CONCLUSION

This article set out to examine various forms of linkages to local economy and their implication to smallholders upgrading. Using evidence obtained from fresh fruits and vegetables values chain that links small farmers and tourist hotels in Zanzibar, we conclude that formal contracts coupled with indirect captive linkages between hotels and small farmers provide greater learning opportunity for smallholders through

interaction with intermediaries that have direct links with the hotels. In addition, access to tourist hotels' market through formal contract offers higher prices and more secure sales outlets for smallholders than the conventional market. The role of institutional framework particularly in smallholders upgrading is crucial and should be discussed in future studies. The analysis of the results has revealed that small farmers that operate informally in small plots allocated for settlement are exposed to land tenure insecurity. Therefore, if the government provides a special area for production of fresh fruits and vegetable, then this will work positively for these farmers, otherwise they will be marginalised when the land is later used for the purpose of settlement. The financial market needs to be regulated to enable farmers and intermediaries reduce financial risks resulting from longer periods of payment by the hotels. Since there is a huge market for fresh fruits and vegetables in the country, the business environment needs to be strengthened to work better for the small farmers.

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