Tourist Hotels’ Procurement Strategies and smallholders upgrading in local linkages: evidence from horticultural-tourism value chain in Tanzania

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The study examines the implication of tourist hotels’ procurement strategies on smallholders upgrading in local linkages using the evidence from horticultural-tourism value chain in Tanzania. In-depth interviews with the hotels’ procurement managers/chefs, intermediaries, individual farmers and groups, farmer organisation, survey and documentary review were conducted. The collected information was subjected to qualitative and quantitative data analysis and interpretation. The results show that, while some strategies, i.e. sourcing from wet market, have negative impact on smallholders upgrading and local linkage, others such as captive procurement strategy, enhance smallholders’ competence and capabilities to access tourist hotels’ market. The study recommends for policies to further increase smallholders know-how to supply more horticultural produces to tourist hotels and strengthen local linkage between agriculture and tourism sectors in the country.

Field: Marketing/Supply Chain Logistics

1. Introduction

Global linkages between agricultural producers in developing countries and industrialized countries' markets have received much attention over the past decade, predominantly focusing on global value chains for non-traditional agricultural products. More recently, the existing literature has been extended to focus on smallholders’ participation in the global economy market. These studies have considered how global buyers’ procurement strategies for nontraditional agricultural products facilitate or obstruct the possibilities for smallholders to upgrade and take part in the global value chain. However, less is known on the procurement strategies used by High Value Food (HVF) products buyers within a developing country, such as tourist hotels, and the implication they have on smallholders upgrading and their participation in such profitable markets.

In global value chain literature, upgrading is defined as a process where producers acquire and improve skills, knowledge and competence that facilitate their access to profitable markets and maintain their position in them (PerezAleman, 2012). So far, studies on upgrading have discussed consequences of different procurement strategies in global market on the potential for smallholders to acquire capabilities and supporting services required to participate in global value chain (Lee, Gereffi, & Beauvais, 2012); (Fold & Larsen, 2011). Regardless of this impressive knowledge progress pertaining to upgrading in global linkages, literature focusing on upgrading in local linkages is still underdeveloped. Besides, existing studies paid a particular attention on the export market (Ponte & Ewert, 2009); (Fromm, 2007), less is known regarding the impact of buyer’s procurement strategies on smallholders upgrading in local value chains linking two or more economic sectors, such as agriculture and tourism sectors, within the developing country.

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For a long time now, creating and strengthening ‘local linkages’ between agriculture and tourism in developing countries to maximize the host country’s benefit from tourism industry has been a burning debate in the pro-poor literature (Meyer, 2007). This is considered to be the solution in minimizing tourism revenue ‘leakage’ from the host country to external markets to source for goods and services that are also available in the local production (Rogerson, 2012). Whereas tourism is reported to be the largest foreign exchange earner in most of the developing countries (Boz, 2011), agriculture employs between 50 to 80 percentages of smallholders in these countries (Berdegué & Fuentealba, 2011). Despite this fact however, these two sectors are reported to be poorly linked to date (Rhiney, 2011) and the existing literature does not provide adequate details to this situation.

In Tanzania particularly, due to financial leakages’, contribution of tourism sector towards sustained economic growth which is important for rural poverty reduction and for raising the living standards of the people, is far from reach (Kazuzuru, 2014). In addition, while promotion of smallholders to export is highly emphasized in the country, the existing agricultural policy and institutional frameworks have not been efficient to link smallholders to the export market thus denying them opportunities to generate incomes and improving their livelihoods in the farming communities (ESRF, 2013). This study, therefore, stresses that if the host country is to achieve meaningful economic development, creating local/domestic value chains that link agriculture and tourism within the country should be prioritized over exports. Once created and strengthened, HVF domestic value chains can act as a catalyst for smallholders to export after acquiring necessary knowledge, experience and skills through supplying their produce to these high value markets.

Thus, in order to provide adequate details as to why agriculture and tourism are still poorly linked this far in most of developing countries, it is necessary to examine in depth the implication of tourist hotels’ procurement strategies on smallholders upgrading in local linkages. This is due to the fact that different procurement strategies used by tourist hotels to procure FFV from the local production may have an important say on how smallholders improve farming techniques and product quality to meet this HVF market’s requirements. This in turn may determine the nature of local linkages between agriculture and tourism in developing countries. Therefore, using evidence from horticultural tourism value chain that links fresh fruits and vegetables (FFV) smallholders and tourist hotels in Tanzania, this study focuses on the linkages between smallholders and high value markets with specific attention on the influence of procurement strategies on smallholders upgrading.

I particularly focus on FFV value chain following the argument put forward by (Torres & Momsen, 2011) that the greatest area of potential for creating local linkages is provision of fresh fruits and vegetables by smallholders to tourist hotels. Besides, recent reports (Singh, 2009); (Hewett, 2012) show that for the past ten years the demand for fresh fruits and vegetables by global consumers is high and growing. This paper therefore is set to look at how tourist hotels’ FFV procurement strategies influence smallholders upgrading and shape local linkages between FFV smallholders and tourist hotels in Tanzania.

This paper is structured as follows. The second section draws together those strands of literature which have bearing on procurement strategies and upgrading. The third section specifies the method used for data collection and analysis. The fourth section presents the findings of the study obtained from the field and discussion. Finally, the summary and conclusion are presented in the fifth section which provides recommendations and areas for improvement.
2. Procurement Strategies and Upgrading

2.1 Procurement Strategies

This paper is concerned with examining different procurement strategies used by tourist hotels to source FFV from the local production and their potentials and barriers for FFV smallholders upgrading and access to tourist hotels’ market in Tanzania. This in turn may help us to better conceptualize the ongoing debate on pro-poor literature (Anderson, 2013); (Torres, 2003) regarding the presence of persistently poor linkages between agriculture and tourism in developing countries as yet. However for this paper to provide significant contribution to the debate, I stress that the implication of procurement strategies on upgrading and local linkages should not be measured by counting how many smallholders are accessing tourist hotels’ market for FFV. Rather, there is a need to consider whether the impact of these strategies are increasing or decreasing income and resources for smallholders. This is because the possibilities for smallholders to learn, acquire new capabilities and upgrade to enhance their competitiveness in supplying FFV to tourist hotels are often enhanced by the reward structure spelled out by the nature of the procurement strategies used by the buyer.

Based on transaction cost analysis and network governance theory, early works in global value chain literature (Humphrey & Schmitz, 2002a) posited a distinction between different procurement strategies that a buyer uses to procure goods and services from a particular supplier. In addition, these procurement strategies are used further to define buyer-seller relationships and demonstrate how power is exerted in a certain value chain. They also determine the terms of chain membership, the related inclusion/exclusion of actors, and the reallocation of value-adding activities in the chain (Gibbon, Bair, & Ponte, 2008). For the purpose of this paper however, I use the framework provided by (Gereffi, Humphrey, & Sturgeon, 2005) to conceptualise different procurement strategies that the buyer can use to source products from the supplier. This is due to the fact that the (Gereffi et al., 2005) framework is more elaborate and combines more variables including those in the Humphrey & Schmitz’s (2002) model. Although Gereffi et al.’s (2005) framework has been criticized for being relatively static and existence of multiple forms of linkages in many sectors, for this paper, it remains a useful tool to consider the nature of different procurement strategies by HVF buyers in including or excluding smallholders in the value chain and the consequences this have for smallholders upgrading and local linkages.

According to Gereffi et al., (2005), types of procurement strategies are based on three factors: 1) the complexity of transactions between lead firms and their suppliers, 2) the capabilities of these suppliers, and 3) the extent to which such transactions can be easily codified into clearly defined rules, norms and standards. This framework generates five distinct types of procurement strategies namely: market, modular, relational, captive and hierarchy as shown in table 1 below.

| Table 1 Key Determinants of Procurement Strategies |
|-----------------|-----------------|-----------------|-----------------|-----------------|
| Procurement strategy | Complexity of transaction | Ability to codify transactions | Capabilities in the supply-base | Degree of explicit coordination and power asymmetry |
| Market         | Low             | High            | High            | Low             |
| Modular        | High            | High            | High            |                 |
| Relational     | High            | Low             | High            |                 |
| Captive        | High            | High            | Low             |                 |
| Hierarchy      | High            | Low             | Low             | High            |

Source: (Gereffi et al., 2005) p.87
At one extreme is the arm’s length market strategy, where transactions are simple, suppliers are capable and codification is easy. As a result, organization does not imply any distinct power asymmetry between lead firms and their suppliers. Transactions are purely governed by market and price consideration. At other extreme is hierarchical strategy. This implies very high level of power asymmetry and comes when transactions are complex, cannot be easily codified and supplier capabilities are low. Between these two extremes lie three distinct network procurement strategies: 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 strategy emerges with power asymmetrically held by the buyer. In contrast, if suppliers have high levels of capabilities and transactions can be easily codified, then modular strategy appears with power more equally distributed between buyers and suppliers. When product specifications cannot be codified and supplier capabilities are high relational procurement strategy is expected. This is because tacit knowledge must be exchanged between buyers and sellers, and because highly competent suppliers provide a strong motivation for the buyer to outsource to gain access to complementary competencies. It is from this reason Neilson & Pritchard (2009) contend that, arrangements in relational strategy are dominated by complex interactions and ‘mutual dependencies’ between suppliers and customers. Figure 1 makes further clarification.

**Figure 1 Five types of Procurement Strategies**

Source: (Gereffi et al., 2005) p.89

Using Gereffi et al.'s (2005) framework to understand different procurement strategies that are used by high value market buyers, such as tourist hotels, in sourcing produce from
local production is very important for firms and policymakers. This is because certain strategies may restrict prospects for smallholders to enhance capabilities, acquire new forms of knowledge and thus improve their competitive positions and conditions for profitable survival as claimed by (Kadarusman & Nadvi, 2012). (Fold & Larsen, 2011) further contend that, these procurement strategies can further be used to identify appropriate tactics to enhance smallholders upgrading and strengthen agriculture-tourism linkages in developing countries.

2.2 Upgrading

Global value chain literature has widely examined upgrading through the lenses of how knowledge and information flow within value chains (Gereffi, 1999). However, for the sake of this study and in line with (Gibbon, 2008), I contend 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. In light of this view, this paper is set to focus on the broader definition provided by (Riisgaard et al., 2010) to see upgrading as something that happens to a specific actor (an economic group, organization 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 lenses of reward structures will provide a better understanding on the possibilities of incorporating more smallholders into horticultural-tourism value chain in Tanzania. Besides, we will understand what are the gains and/or losses if smallholders access the tourist hotels’ market, how those that are in the chain maintain their positions, how should those that are not in the chain be included, among others.

Although (Humphrey & Schmitz, 2002b) provide very useful typology of upgrading in global linkages, to better conceptualize upgrading in agriculture-tourism linkages this study uses upgrading categorization as provided by (Riisgaard et al., 2010). This is due to the fact that there are other forms of upgrading that occur in local linkages which have been overlooked by Humphrey & Schmitz’s (2002) categorization. In other words, categorization of upgrading provided by (Riisgaard et al., 2010) is more broader and combines some of the Humphrey & Schmitz’s (2002) categories, or even go beyond them. These include: (1) process upgrading: improving efficiency or reducing negative externalities; this includes delivery on delivery schedules, invoicing, improving client management, reducing waste, etc.; (2) 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; (3) volume upgrading: increasing the amount of products sold, through increased in yield or area; (4) 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; (5) 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); (6) improve 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, fertilizer, 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; and (7) inter-chain upgrading: applying competences acquired in one value chain to a new chain.

For procurement strategy to provide reward or risk to smallholders, it largely depends on the kinds of actors these smallholders are in the chain and changes in the horticultural-tourism value chain. According to Riisgaard et al. (2010) kinds of actors in any value chain are: (1) chain actors, who are directly involved in within-chain exchanges of product, typically estates or small producers, processors, exporters, importers and retailers; (2) external actors, who are individuals or organizations that do not directly handle the product but that provide services, expertise and exert influence such as NGOs, financial institutions, government agencies, etc.; (3) expelled actors, who are chain actors who have withdrawn from the value chain due to pressure or coercion; and (4) non-participants/excluded/marginalized actors, those who never participated in the value chain, by choice or for lack of capability.

Likewise kinds of changes in any value chain are: (1) inclusion of new participants, which refers to the incorporation of actors into an existing or newly created value chain; (2) 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; (3) 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 (4) 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, Ponte, Toit, Riisgaard, & Halberg, 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, when people lack leverage within a particular economic or social field, retreat to the margins or externality from its operations may be an advantage. Smallholders opting out of production for a particular profitable market and choosing instead to produce for less lucrative but less risky low value markets, are in one sense becoming more marginal but may experience relatively more market leverage. Therefore, different procurement strategies may be connected to different rewards and involve different levels of risks and performance requirements which in turn may negatively or positively affect smallholders upgrading.

3. Methodology

Mixed method was the main research methodology used in this study. This approach to inquiry allowed the researcher to combine or associate both qualitative and quantitative methods in a study as suggested by (Saunders, Lewis, & Thornhill, 2009). The purpose for this decision was to build on the strength of different methods and to confirm the findings collected through one method with that collected by another method. The study further adopted a sequential data collection and analysis process, where the researcher started collecting and analysing data using qualitative approach as principal method followed by quantitative approach as complementary method (Morgan, 1998b). Here in-depth understanding of the issues connected with tourist hotels’ procurement strategies and
upgrading in horticultural-tourism value chain in Tanzania was sought first as a primary motive. This in turn assisted the researcher to identify the ‘gaps’ in the local linkages between smallholders and tourist hotels in the country. Quantitative method was then used as a follow-up study for the purpose of expanding what has been learnt through the qualitative study and explore the generalizability or transferability of conclusions from qualitative research (Morgan, 2015).

In the light of the above, case study was selected as the main research strategy of inquiry followed by a survey. Arusha and Zanzibar were purposively selected due to the fact that these are the regions in Tanzania where tourism activities are heavily concentrated and a large number of tourist hotels are found. Iringa, Morogoro and Lushoto in Tanga regions were deliberately selected based on chain-referrals obtained from tourist hotels and intermediaries located in Arusha and Zanzibar. These are the regions where smallholders who supply FFV to tourist hotels are found. In the course of establishing sampling framework, the respondents for the in-depth interview were selected based on the criteria that: 1) smallholders must be dealing with the fresh fruits and vegetables business, 2) hotels must be accommodating foreign tourists and sourcing FFV from local production among others, and 3) intermediaries should be dealing with any activity that links smallholders and tourist hotels like consolidating, packaging, wholesaling and so on. Therefore snowball sampling was utilized to identify specific respondents for the qualitative study.

The list of 436 tourist hotels was established by compiling the list obtained from TripAdvisor, Tanzania Tourist Board (TTB), Hotel Association of Tanzania (HAT), Zanzibar Association of Tourism Investors and Zanzibar Commission for Tourism websites. However only 170 hotels qualified for the survey based on the criteria set forth. 98 hotels responded to the questionnaire distributed. Others did not respond for various reasons: 1) they were bed only (BO) 2) closed for renovation, 3) did not procure FFV from local production and 4) were sister hotels to other hotels that have responded to the questionnaire. Data collection was done between April 2014 and March 2015. It included strategies namely: in-depth interviews with the hotels’ procurement managers/chef, intermediaries, smallholders, key informants from farmer organisations and government officials, focus group discussions, questionnaire and documentary review. The collected information was subjected to qualitative and quantitative data analysis and interpretation.

As suggested by (Yin, 2014) the analysis of qualitative data for this study utilized pattern-matching technique. This is a technique that identifies and compares evident in the data against one or several hypothesized patterns that the analyst has developed through familiarity with the field. Based on this fact, the first step prior to undertaking the study was to develop proposition for the study. This was derived from the literature review and hunches developed from my experience as a researcher in the field and in this context known as predicted pattern. To examine the correctness of the proposition, predicted pattern was matched by experienced pattern. Experienced pattern was derived from research/field data. In this case therefore: Predicted pattern was: Tourist procurement strategies can influence FFV smallholders upgrading in horticultural-tourism value chain. Experience pattern was: Tourist procurement strategies have an impact on smallholders upgrading in horticultural-tourism value chain. These two patterns were then matched whose process was performed at two levels: within-case analysis and cross-case analysis.
Quantitative data was analyzed using SPSS and excel. The overall quality of pattern-matching in this study was improved by using statistical techniques. The quantitative data analysis provided a greater level of understanding through: 1) conforming and/or disconfirming what was observed during qualitative data analysis and 2) providing additional detail not necessarily possible through the collection of qualitative data.

4. Tourist Hotels’ Procurement Strategies and Upgrading in Tanzania

Tourist hotels that participated in this study were categorized as locally owned, foreign owned and joint ventures. Locally owned hotels are established, run and managed by local people (Tanzanians) and foreign owned are established, run and manage by non-Tanzanians. Joint venture hotels are established, run and managed by an association of two or more individuals (in this case foreigners and locals) for profit without partnership or incorporation. Most of the locally owned hotels are small scale while most of foreign owned hotels are large scale. Hotels that participated in this study are located at Arusha City, Arumeru, Karatu and Ngorongoro in Arudha and Stone town, Nungwi, Kiwengwa and West coast in Zanzibar. These hotels also differ in terms of size that includes small, medium and large scale hotels classified based on the URT (2003).

Intermediaries are located at Soko Kuu - Arusha City, Tengeru – Arumeru in Arusha and Darajani and Mwanakwerekwe markets in Zanzibar. Intermediaries' establishments are self-owned and majority of them are located at Soko Kuu and Darajani. Intermediaries are further categorised as consolidators and wholesalers. Consolidators are enterprises that order/buy and gather together small quantities of fresh produce from different smallholders in Zanzibar and resale it in large quantities/orders to wholesalers. Wholesalers are enterprises that order/purchase fresh produce in huge amount from various consolidators and resale it to tourist hotels.

Smallholders who participated in this study are located at Arumeru – Arusha, Lushoto – Tanga, Morogoro, Iringa in Tanzania Mainland and Northern and central parts in Unguja Island in Zanzibar. However majority of them are found at Arumeru. About 80% of these smallholders have less than two acres of land and tend to produce FFV to meet household needs and sell any surplus to the wet market. FFV farming activities in Tanzania is characterised by scattered, independent and primarily smallholders with little or no appropriate inputs such as fertilisation or modern irrigation facilities. During the in-depth interviews, discussion and survey it was found that approximately 45% of fruits and vegetables for the tourist hotels’ consumption is sourced from local production while the remaining is imported from external markets. This reveals poor local linkage between smallholders and tourist hotels in the country. Figure 1 below illustrates different tourist hotels’ procurement strategies that are used to source FFV from local production.

Majority of the interviewed tourist hotels have shown high dependence on intermediaries as the main FFV procurement strategy in the country. In Figure 1 this is illustrated as relational strategy. This strategy is also confirmed by the survey data as shown in table 1 below. There are various reasons for this trend, but the most is the reduction of coordination costs given the wide dispersion, unorganized smallholders with small land holding. While on one hand business relationship between small scale hotels and wholesalers is characterized by informal agreements, on the other hand, medium and large scale hotels have much more formalized business relationship with wholesalers.
However, with or without formal agreements the business relationship between tourist hotels and wholesalers, in each case, is revealed to be in a long term perspective. Hotels are also providing support to intermediaries like soft loans and technical assistance. Intermediaries also extend the support to smallholders in terms of provision of farming inputs at cheaper price and trainings on how to adhere to produce quality standards demanded by tourist hotels. Price, quality, quantity and delivery time are the most variables that are stipulated in any business agreement. For all interviewed hotels, contracts with intermediaries are yearly review and supplier’s performance is a major determinant for contract renewal.

<table>
<thead>
<tr>
<th>PROCUREMENT ARRANGEMENT</th>
<th>Value Label</th>
<th>N</th>
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<tbody>
<tr>
<td>1</td>
<td>Through intermediaries</td>
<td>55</td>
</tr>
<tr>
<td>4</td>
<td>From own farm</td>
<td>6</td>
</tr>
<tr>
<td>5</td>
<td>Purchase from wet market</td>
<td>29</td>
</tr>
<tr>
<td>8</td>
<td>Through intermediaries/Directly from smallholders or farmer organisation</td>
<td>1</td>
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<tr>
<td>9</td>
<td>Through intermediaries/From own farm</td>
<td>5</td>
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<tr>
<td>10</td>
<td>Through intermediaries/Purchase from the wet market</td>
<td>1</td>
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<tr>
<td>16</td>
<td>From own farm/Purchase from the wet market</td>
<td>1</td>
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About 30% of tourist hotels predominantly source FFV from the local production through market procurement strategy. The business relationship here between tourist hotels and
FFV suppliers is pure arm’s length market relationship characterized by spot buying. The main reasons revealed by these hotels for this procurement strategy are: 1) cheap wet market price, and 2) negative experience when dealing with wholesalers as FFV suppliers. However this arrangement to a large extent is mainly used by small scale hotels that are also closer to the market, with exception case of some large hotels located far from the wet markets. Unlike in relational procurement strategy where each link is responsible in making sure that the specifications are met, in market linkage the chef/procurement personnel is solely responsible in checking and inspecting quality of the produce. There is no interaction of the value chain actors whereas the price determines the quality and other market related information for FFV.

Modular procurement strategy is characterized by short term arrangements that the tourist hotel use to procure FFV in the country. Usually tourist hotels do not rely on one procurement strategy to source FFV. Given the nature of FFV farming activities in the country where FFV varieties, continuous supply and sufficient quantities are major problems, hotels prefer to have other sourcing strategies in addition to the main procurement strategy used. Therefore, modular strategy is considerably used as a supplement procurement strategy to cater for variety, capacity and year-round supply, and widely used during high tourism seasons. The business relationship is short term with either formal or informal contract. In addition a modular strategy can be any of the strategy shown in table 1 above, but in this case it is just used as a buffer.

Some (mostly large scale) hotels procure FFV directly from smallholders. In Figure 1 above this is illustrated as captive procurement strategy. While some (mostly small scale) hotels have informal agreements with smallholders, others have a formalized business relationship with them. To reduce coordination costs in dealing with widely dispersed smallholders with small plots, tourist hotels have a tendency to work with farmer groups than individual smallholder. Through farmer groups it is easier for the hotels to provide agricultural extension services, technical assistances and trainings, credits, appropriate farming inputs and the like to smallholders at low cost. By so doing the hotel guarantees itself of high quality produce, continuous supply, more varieties and adequate quantities to mention few. Having a direct linkage with the tourist hotels, smallholders benefits a lot in terms of guaranteed market, skills in FFV farming and access to institutional support like input market among others.

However, the survey results show that very few tourist hotels have direct linkage with smallholders and majority of them complement this strategy with others such as relational and market strategies as table 1 show. Land size, fertility and smallholders' geographical concentration are the most important factors considered for FFV procurement directly from smallholders. In addition the results reveals that developing agencies like NGOs, exporters like HomeVeg and some farmer associations like Tanzania Horticultural Association (TAHA) have been playing a critical role in directly linking smallholders to tourist hotels' market for FFV through various support such as trainings and extension services. However in both cases, smallholders’ opportunism such as side-selling is controlled through social ties and reputation rather than legal procedures.

Few tourist hotels tend to have their own farms for cultivating FFV as table 1 shows. In Figure 1 this is illustrated as hierarchy or vertical integration procurement strategy. While majority of small scale hotels use this strategy as the main procurement strategy, large scale hotels use this as a buffer strategy to cultivate some few items that are either scarce or special types FFV. Besides, majority of the hotels that have integrated FFV farming
activities and hotels’ operations are located within the areas that are known for production of FFV given the availability of fertile soil.

Most regions in Tanzania are characterized by fertile soil and better climatic condition, factors that are favorable for the production of different kinds of FFV. Given the nature of smallholders in the country i.e. low capacity to produce (2 acres or less), insisting on cultivating indigenous species to reduce risk, lack of modern farming tools and limited access to trainings related to commercial farming, etc., the market for FFV experience less varieties, poor quality and low volume among others as stated earlier. In addition, the presence of weak legal systems in the country makes contract enforcement very difficult to deal with opportunistic behavior of and default by both, intermediaries and smallholders. This situation in turn forces tourist hotels to also source from the external market, mostly from Kenya and South Africa. It is reported that the horticultural sector in these countries is 10 times advanced than that of Tanzania.

It is clear from the findings that possibilities for FFV smallholders to learn, acquire new capabilities and upgrade to enhance their competitiveness in horticultural-tourism value chain are conditioned by FFV procurement strategy used by tourist hotels. In other words upgrading opportunities for smallholders vary with the strategy that tourist hotels use to procure FFV from local production and other markets as proposed by Kadarusman & Nadvi (2012). This view is discussed below.

In relational procurement strategy, intermediaries play a critical role in linking smallholders and tourist hotels. However, the indirect linkage between tourist hotels and smallholders has placed majority of smallholders at a position where they are highly exploited by middlemen. Given high risks of working with smallholders, intermediaries do include smallholders in the value chain only if they expect the benefits to outweigh costs. Except for the few intermediaries, most of them show no interest in how smallholders struggle to comply with food safety standards. Because they lack knowledge on production and access to market, smallholders face a lot of risks than reward such as lack of voice in price setting and late payments. Moreover, the informal nature of agreements between intermediaries and smallholders constrain the learning and proper acquisition of knowledge in FFV farming for smallholders. This in turn limits product and process upgrading for smallholders a situation that may force them to withdraw from the chain due to high price risk and become expelled actors. The intermediaries’ opportunistic behaviour demotivates smallholders to specialise in serving the tourist hotels’ market and upgrade. As a result they focus on supplying directly to the traditional market which offers low price but has less risks. In line with (Van Der Meer, 2006) argument, this study therefore recommends that smallholders be organised into sustainable groups to get rid of intermediaries.

One consequence of arm’s length market relationships is that smallholders decide what to produce FFV according to their understanding of tourist hotels’ requirements. Since there is no direct involvement of the tourist hotel or intermediaries in smallholders’ production activities information flows are limited. Product quality is judged on spot and regulated by face-to-face contact and informal institutions. In this setting, transaction costs and risks in the chain are relatively high, which reduces the volume and income level of smallholders as noted by (Riisgaard et al., 2010). Thus, the implication of market procurement strategy on smallholders upgrading is that process upgrading in terms of improving FFV productivity, product upgrading in terms of improving the quality of the produce and volume upgrading in terms of supplying more to tourist hotels tend to be very slow. In this way smallholders are becoming non-participants in horticultural-tourism value chain in the
country as there is no any kind of interaction between them and either the tourist hotel or intermediary. Therefore, this study calls for more involvements from private sector in terms of support to smallholders and public sector in terms of proper agricultural policy implementation.

The results further show that in modular procurement strategy the level of interaction between hotels and intermediaries or smallholders is low due to low frequency of trade. The business relationships are not permanent and are rarely formalised in contracts. The informal and seasonal nature of those contracts exposes intermediaries and farmers to same risks as in market procurement strategy. As a result, this situation does not motivate smallholders to participate in the tourist hotels’ market for FFV. With this kind of relationship it is far better for smallholders to concentrate with the traditional or domestic market.

Captive procurement strategy promotes fast upgrading for smallholders in the sphere of production (process and product upgrading). The results make evident that smallholders supplying directly to the tourist hotels receive nonfinancial benefits such as more secure and long-term relations with the hotels, continued participation in tourist hotels’ market for FFV, increased awareness of agrochemical handling practices and improvement in general conditions of hygiene and cleanliness at the farm. The efforts that tourist hotels make to intensify farmer extension increases the intensity and scope of value chain interactions and the span over which these interactions take place thereby enhancing vertical contractualisation. In captive strategy smallholders are more active chain actors by being directly involved in within-chain exchanges of the produce.

Given the fact that tourist hotels and export market for FFV target the same global consumer, this study contend that if smallholders perform well in supplying to tourist hotels through captive strategies then they can expand the production for export market and thus enhancing inter-chain upgrading. Research by Browne, Dalley, & Davies (2011) in fresh vegetables production in Timor-Leste, Fonsah et al. (2008) in FFV industry in Indonesia and Labaste (2007) in EU horticultural market also observed that smallholders often organised into captive procurement strategies/contract farming, have been able to meet requirements of the most demanding markets (such as export markets). Therefore tourism and agricultural policies should be directed towards direct linkages between smallholders and tourist hotels as it reduces a lot of institutional risks such as limited access to extension services and proper inputs.

Given the fact that the tourist hotel controls the entire production chain from varietal innovation to logistics, hierarchy vertical integration procurement strategy leaves few spaces for knowledge, skill and competence transfer to smallholders as noted by Tallontire, Opondo, Nelson, & Martin (2011). This strategy tends to include few smallholders as workers and part of the hotel limiting market access to majority of them and making the non-participants and excluded from the chain.

Smallholders are highly marginalised and expelled from horticultural-tourism value chain when tourist hotels sources from the external markets. In this situation chances for smallholders upgrading are greatly minimized or even removed. However, the results reveal that organisation of dispersed smallholders into sustainable groups enhances horizontal contractualisation. If this is encouraged there are greater possibilities that more tourist hotels will be encouraged to work directly with smallholders and abandon the external market. Noted by George, Nissen, & Broadley (2008), success in smallholders inclusion in HVF markets and upgrading always requires well-organised groups with good
leadership. Non chain participants such as TAHA and NGOs also have an important contribution in enhancing smallholders upgrading and local linkages as noted from the results. These institutions have been active in providing direct technical assistance and trainings on organic farming methods to improve agricultural techniques.

Based on the findings and discussion so far, this study agrees with Fold & Larsen (2011) that particular types of procurement strategies within the value chain ties can restrict the prospects for local producers to enhance capabilities and upgrade. This in turn determines the nature of local linkages between agriculture and tourism sectors in developing countries.

5. Summary and Conclusion

This paper has set out to examine the implication of different tourist hotels’ FFV procurement strategies on smallholders upgrading in developing countries. Using evidence obtained from fresh fruits and vegetables values chain that links smallholders and tourist hotels in Zanzibar; it is evident that while some procurement strategies such as sourcing from the wet market and external market, have negative impact on smallholders upgrading and local linkage, others such captive procurement strategy, enhance smallholders’ competence and capabilities to access tourist hotels’ market. To be competitive in HVF markets such as tourism accommodation sector, smallholders need to produce and market collectively, preferably through their own groups or cooperatives. These collaborative production and marketing groups must be of sufficient size and scale, perhaps inclusive of several thousand smallholders, to be able to achieve economies of scale in purchasing and logistics and to command significant power in the horticultural-tourism value chain. The study further recommends for policies to further increase smallholders know-how to supply more to this HVF market and strengthen local linkage between agriculture and tourism sectors in the country.

Endnotes

i http://www.tripadvisor.com/Hotels-g297913-Arusha_Arusha_Region-Hotels.html
ii http://www.tanzaniatourismonline.net/
iii http://hat-tz.org/hat-2014-members-directory/
iv http://www.zati.org/?wpbdm-category=hotels

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