



# STIPRO GVC POLICY BRIEF

MAKING FREE GLOBAL VALUE CHAINS IN DEVELOPING COUNTRIES:

## WHAT ARE THE LESSONS FROM AVOCADO PRODUCTION IN TANZANIA?

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## SUMMARY

Many developing countries, Tanzania included, are attracting Global Value Chain (GVC)-oriented investment as a way of improving local technological capabilities. This is through direct training and explicit technology transfer from lead firms to local firms. However, reaping such benefits is not a straightforward as there are challenges around governance structures of the GVCs that affect learning mechanisms. Such challenges are like lead firm tends to monopolize the business by being a single buyer, making producers weak in negotiations. Drawing on the experience of farmers who produce Hass avocados in Tanzania, this brief is recommending practicing a free value chain in Tanzania as well as in other developing countries.

## INTRODUCTION

### Learning within GVCs: Challenges around the GVCs Governance Structure

GVC-oriented investments are meant to support local technological capabilities building in developing countries, by allowing learning, upgrading and technology transfer. However, reaping such benefits is not a straightforward and automatic process. There are challenges around governance structures of the GVCs that affect learning mechanisms. According to GVC theory, the governance structure adopted by the lead firm is the one that determines the type of learning that occurs within GVCs. Gereffi et al. (2005) count five main types of governance structures that occur within value chains: Market chains, modular chains, relational chains, captive chains and hierarchy chains.

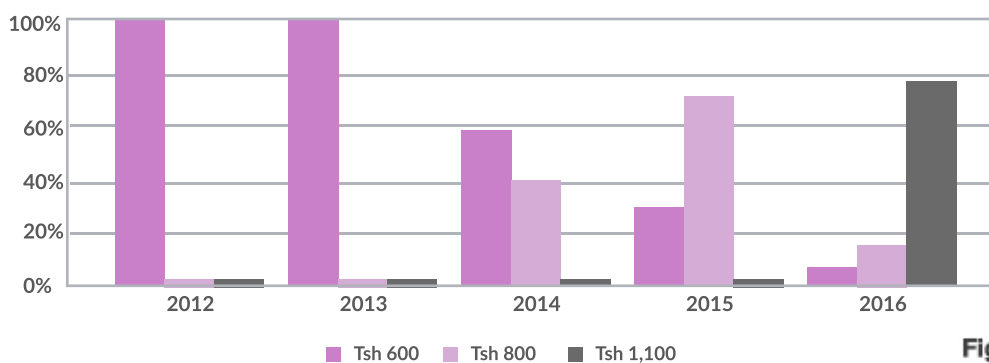
Governance Type/Structure	Characteristic
Market Chain	<ul style="list-style-type: none"> <li>Learning is through own supplier's/producers' efforts</li> <li>Linkages between suppliers and buyers are not strong because there are no contracts</li> <li>Low risk of changing partners in GVCs</li> <li>Multiple buyers and suppliers/producers are free</li> </ul>
Modular Chain	<ul style="list-style-type: none"> <li>Learning is through supplier's efforts on pressure to accomplish international standards</li> <li>The linkages between suppliers and buyers are strong because of contract signed</li> <li>Low risk of changing partners</li> <li>Multiple buyers/producers are free</li> </ul>
Relational Chain	<ul style="list-style-type: none"> <li>Mutual learning through face to face interactions</li> <li>Strong linkages - with mutual trust</li> <li>High risk of changing partners/single buyer</li> <li>Capabilities built mostly in a narrow range of tasks with little opportunity to upgrade</li> </ul>
Captive	<ul style="list-style-type: none"> <li>Learning via deliberate efforts by lead firm</li> <li>High degree of monitoring and control by the lead firm guided by contracts</li> <li>High risk of changing partners</li> <li>Capabilities built-mostly in simple activities, such as farming and assembling, with little opportunity to upgrade</li> <li>Single buyer</li> </ul>
Hierarchy	<ul style="list-style-type: none"> <li>Suppliers have low competences</li> <li>Learning takes place through imitation training of local suppliers; turnover of skilled managers and works; and knowledge spillovers.</li> </ul>

The above GVC governance structures/chains are little known by many stakeholders/actors in developing countries, including in Tanzania. As such, challenges around the chains cannot be easily identified, making it difficult to negotiate and plan appropriate governance structures of GVCs in the context of developing countries. Due to these weaknesses, lead firms that are operating in developing countries tend to use that opportunity to apply and practice captive and relational value chains. These kinds of chains mostly build producers' capacities in simple activities, such as farming and assembling, with little opportunity to upgrade. In addition, the lead firm tends to monopolize the business by being a single buyer, making producers weak in negotiations. Such chains tend to have winners (lead firms) and losers (local producers) in business. This argument has been substantiated in the case study on avocado farming in Kilimanjaro as described in the following section.

## Lessons from Hass Avocado Farming in Kilimanjaro Region, Tanzania

In 2016/2017, STIPRO conducted a study titled “Are there any opportunities for learning and upgrading for Tanzanian farmers within the fruit and vegetable global value chains?” The study used the case of smallholder farmers producing a Hass avocado variety for export to European supermarkets in Spain, Germany, Belgium and France. One of the aspects analyzed in the study was the impact of the governance structure on the types of learning and upgrading opportunities that are available for participants in the global value chain.

The study found that Hass avocado farming was introduced in Kilimanjaro by an export company called Africado1 . Likewise, the study revealed that seminars, workshop, demonstration farm model and information manuals were used by Africado to train farmers on site selection, planting, irrigation, mulching, pests and diseases control, pruning, compaction, pre- and postharvest handling procedures. The study informs that there was evidence of “learning and upgrading” amongst farmers, as a large number of farmers were able to adhere to Global Agriculture Practices (Global GAP) standards. Information and data obtained from farmers and Africado revealed that most farmers were able to improve their farming capability, from producing all avocado fruits of grade C in 2012 to mostly of grades A and B in 2016. Figure 1, below, shows that farmers who sold their avocados in 2012 and 2013, all (100%) were bought at the price of 600 Tsh (Tanzanian shillings) per kg (a kilogram can have 3 to 4 avocados) because their quality were only of grade C. In 2014 to 2015, the price offered was Tsh 600 and Tsh 800 for produce of grade C and B respectively. Finally, in 2016, 79% of producers provided produce of grade A. This provides evidence for product upgrading capabilities among smallholder farmers.



**Figure 1.** Source: Field Data, 2016/2017

It was also found that farmers’ capabilities were improved by certifying those successful ones to Global Agriculture Practices (GLOBAL G.A.P). For instance, according to Africado company, in 2014, only 26 farmers received certificates from GLOBALG.A.P out of 2,028. However, in 2016 and in 2017 more than 70% of farmers were certified as the best producers in those years.

## Governance Structure Adopted by Africado

When analyzing the governance structure, it was found out that smallholder farmers were operating within a captive value chain, which is characterized by a high degree of monitoring and control of the avocado business by Africado company. It was found that capacity building imparted by Africado to smallholder farmers concentrated mainly on simple activities, such as learning about new production practices. In terms of contractual arrangements, the study found that 13% of the farmers studied had to rely on Africado agents to understand the contract. However, when probed further, most farmers were not aware of arbitration options-for example, on risk sharing in cases of disasters. In addition, the contract did not give the mandate to farmers to take action if Africado failed to come for harvesting. Furthermore, the study found that there is a limited understanding by the Government officials in Kilimanjaro Region on the kind of governance structure operated in the avocado GVC. As such there is little or no intervention by the stakeholders on challenges that arise due to the captive value chain in which avocado farmers are involved. Policymakers as well as other stakeholders are highly impressed by data provided by Africado on tons of avocados sold to large markets

Furthermore, the study found that there is a limited understanding by the Government officials in Kilimanjaro Region on the kind of governance structure operated in the avocado GVC. As such there is little or no intervention by the stakeholders on challenges that arise due to the captive value chain in which avocado farmers are involved. Policymakers as well as other stakeholders are highly impressed by data provided by Africado on tons of avocados sold to large markets throughout Europe; on the number of farmers participating in the scheme and on the number of farmers certified by G.A.P. Such data and information provided are good for the policymakers when they are informing on the aspects of levels of employment and income generation in the region. However, when one thinks out of the box, there was no progress in captive value chain governance in terms of sustainability. The study found that, if farmers remain focused on the production of avocado and being controlled by a single buyer, there will be no upgrading into other activities such as processing. Furthermore, if Africado sourced avocados from other suppliers apart from farmers in Kilimanjaro, then the market of avocado produced by those smallholder farmers will most likely collapse.

The captive value chain governance has been designed to make the lead firm (in this case Africado) free in doing business by being able to control the producers (in this case avocado farmers), that is, being monopolistic and to have free exit in business. Developing countries, such as Tanzania, are required not only to celebrate the short-term benefits of GVCs but also to understand the details of give-and-take behind the governance structure and then plan for improved operations by putting in place mechanisms that allow a win-win situation in business.

## The way forward/Policy Options

It can be argued that virtually none of the value chains' governance structure fits appropriately in developing countries. For instance, the modular and market value chains cannot be practiced in developing countries for the first time because producers need to have capabilities to meet the set international standards. Likewise, chains like captive and relational have low chances of building technological capabilities of local producers because they concentrate on simple activities, thus making it difficult to upgrade into other activities such as processing.

Consequently, this policy brief is recommending practicing a free value chain in Tanzania as well as in other developing countries. This can be achieved by building technological capabilities of the local producers. There are ways to do this.

- A start would be diffusing production skills imparted by the lead firm to many other producers in different areas of the country. This will allow having more producers that are capable of meeting international standards, thus attracting more buyers. As a consequence of this, more producers will automatically become independent of the GVCs. In this case study, it was found that other avocado producers who had learnt the skills from their fellow producers were selling avocado to other buyers from Kenya. There are cases where farmers have refused to sell their produce to Africado and opted for other buyers who offered them competitive prices. This means that there is a struggle amongst avocado farmers for transition from a captive to free value chain.
- The next level of capacity building required will be the ability of smallholder farmers to process avocados into other produce, such as avocado oil. In this study, it was found out that an accelerator, called TWENDE, has built capacities for several entrepreneurs in avocado processing. As a result, there are entrepreneurs that have managed to process avocado into oil and other oil-based products for export. One of those is the AVOMERO group that in February 2016 signed oil delivery contracts with CEOs companies from USA: JOMA, Gladys Beauty and Albert International Distributors. These companies use avocado oil as a main ingredient when making soaps, shampoos, body lotions and hair products. Selling avocado oil to more than one buyer reflects a transition from captive to free value chain. Likewise, the selling of raw Hass avocado to AVOMERO group by the farmers for processing reflects a transition from single to multiple buyers.

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