Organizing smallholder production for sustainability

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ORGANIZING SMALLHOLDER PRODUCTION FOR SUSTAINABILITY

LESSONS LEARNED FROM FAIRTRADE CERTIFICATION IN THE TANZANIAN TEA INDUSTRY[1]

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Abstract — The objective of this paper is to examine the different ways that smallholders are brought into Fairtrade certification schemes in the Tanzanian tea industry. We examine the different ownership relations of processing factories and the perceived benefits of these different arrangements. We are looking to explore the challenges and opportunities provided by each of these different ownership relations and the possibilities for sustainability. Specifically we ask: 1) Which type of ownership arrangement is more likely to engage in Fairtrade certification? 2) Do perceived benefits from Fairtrade certification increase with the percentage of ownership shares? and 3) What aspects of these organizational relations have resulted in more sustainable relationships between growers and processors? We use descriptive qualitative analysis to identify the significance between factory ownership organization and scheme success. This also allows us to discuss participants' perceptions of the benefits of each scheme. We find that there is a movement towards innovation in the organizational strategies for linking growers to tea processing factories in Tanzania. This innovation includes new ownership arrangements of processing factories and outgrower contracts that have been associated with certified Fairtrade production. We also suggest that organizational innovation is significant for obtaining scheme success yet perceived benefits of and increased information about Fairtrade production is independent from ownership shares in processing.

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1. INTRODUCTION

In Tanzania, tea was first grown commercially by plantations in the 1926. Smallholder tea production was first promoted in the 1960s by the Tanzanian Tea Authority. However, low prices, late payments and mismanagement of factories left the smallholder industry extremely weakened when the sector became privatized during the 1990s (Tyler, 2006). Currently smallholders are producing about half of the amount of tea per hectare that estates produce. The Director General of the Tea Board of Tanzania has recently claimed that the low levels of smallholder tea production can be attributed to their lack of empowerment. Specifically he claims that, "If [at all] our tea farmers here in Tanzania own their industry, I am sure they will be highly motivated in producing it" (Kimaro, 2009). One of the sustainability indicators of the Fairtrade[2] certification is the notion of famer empowerment. As such, it is important to understand the current and emerging ownership patterns of factories involved in Fairtrade certification schemes, as these encourage us to look at the ways in which growers and processors are linked and empowered through these relationships.

While fair trade schemes have been studied in depth for other commodities, very few studies have looked at fair trade tea (e.g., Besky, 2008; Dolan, 2008; 2010). Moreover, the focus of analysis in certification schemes has been to look at the social impact of sustainability on labour rights, social services, or marginal costs/benefits, rather than at the organizational variables as significant contributions to sustainable development (e.g., Fisher, 2007; Bacon et al., 2008; Valkila and Nygren, 2009). The objective of this paper is therefore to examine the different ways that smallholders are brought into Fairtrade certification schemes in the Tanzanian tea industry. In this paper we use a case study approach (Yin, 1984; Patton, 1990) to reflect on four Fairtrade certification schemes in Tanzania. We explore the challenges, opportunities and perceived benefits provided by each of these different ownership relations and the possibilities for sustainability. Specifically we ask: 1) Which type of ownership arrangement is more likely to engage in Fairtrade certification? 2) Do perceived benefits from Fairtrade certification increase with the percentage of ownership shares? and 3) What aspects of these cases have facilitated sustainable relationships?

The data for this paper have been collected through analysis of the Fairtrade Labelling Organizations (FLO) standard and through semi-structured interviews (24) and focus groups (13) with FLO certifiers and liaison officers, smallholder growers, estate workers, factory management and factory owners for each of the identified grower/processor relationships. We use descriptive analysis to identify the significance between factory ownership and scheme success. However, before we present a discussion of our cases, let us first provide some background on organizing production networks and the Tanzanian tea value chain.

2. ORGANIZING PRODUCTION

There has been debate that corporate agriculture threatens the survival of household-based, and family-owned, production (eg., Ainger, 2003). Corporations also have been controversial because they are often considered synonymous with the concentration of wealth and power (cf. Klein, 2000). Other forms of ownership arrangements (family partnerships, individual or family proprietorships, and cooperatives) are viewed as superior to and as viable alternatives

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[2] We differentiate between Fairtrade and fair trade throughout this paper. Fairtrade refers to the standard and organizations affiliated with the Fairtrade Labelling Organizations International (FLO), while fair trade refers to the concept and other groups not associated with FLO.

to the corporation in agricultural production (cf. Buttel et al., 1990; Welsh, 1998). For example, Roy (1997) argued that the publicly owned corporation altered the nature of a firm's operations and the relation between its operations and ownership. Moreover, "innovative organizational arrangements and business models (typically involving major private sector actors, public research agencies, producers, and different communities of users or sets of customers) are leading to product differentiation or the derivation of high-value products from traditional crops and plants" (Ochieng, 2007:149). In the consumer-led economies of the global North, most competition is on the basis of "customer relationships, intellectual property, and innovative organizational and management arrangements" (Harris and Burgman, 2005: 4), Fairtrade is a case in point.

The fair trade movement emerged, in part, with the purpose of changing trading relationships between different types of actors within the agri-food system (Jaffee, 2007; Raynolds et al., 2007). Beginning with coffee, and expanding to other agri-food and agricultural products (e.g., cotton), the fair trade movement looks to reshape the actors involved in production by specifically seeking out cooperatives as the main ownership structure of its 'partners' in trade (FLO International, 2009). Tea, however, is dominated by large multinational corporations, Limited companies, family-owned businesses, and publicly traded companies. Fairtrade has thus accommodated these ownership arrangements so to be more inclusive in the industry.

2.1 Theorizing Ownership

According to the property rights theory of the firm, ownership gives power (cf. Grossman and Hart, 1986; Hart and Moore, 1990), which in turn provides incentives for increased productivity. Alternatively, with reputation effects (Baker et al., 2002; Halonen, 2002); or different bargaining models (De Meza and Lockwood, 1998), ownership can demotivate (Jensen and Meckling, 1979). Ownership is often operationalized as an equity arrangement where the owner invests capital and in return receives information about the firms' operations (Blasi et al., 1996). From a psychological analysis of ownership, Pierce and Rodger (2004: 598) suggest that "systems which provide the employee owner with opportunities to exercise some form of influence/control over certain organizational affairs will produce more consistent and positive performance effects than an equity-based approach." Put differently, "ownership of an asset consists of the right to control its use and to enjoy its returns" (Ben-Ner and Jones, 1995: 532). Ben-Ner and Jones (1995) sketched a 4x4 matrix that places conventional firms in the upper left quadrant with no shared control and return rights, while producer cooperatives are found in the lower right quadrant illustrating majority control and return rights (Appendix 1). Their research found that, in general, ownership arrangements that include both employee control and return rights delivered productivity gains in most firms, while the profit gains depended on the costs associated with employee ownership schemes and on the distribution of the returns between stakeholders (Ben-Ner and Jones, 1995). These theories place the question of ownership within the rubric of the governance of a firm and allow us to conceptualize the Fairtrade aim of inclusive governance. However, agri-food production is most often organized into global value chains, which adds another dimension to our analysis. That is, how do firms with different internal governance structures relate to the governance relations of the value chains of which they are part?

2.2 Value Chains and Innovation in African Agriculture

Innovative business models and organizational arrangements are leading to the increased coordination between actors in global value chains (GVC) (Gereffi and Korzeniewicz, 1994; Gereffi et al., 2005; Bair, 2009). Gereffi et al. (2005) identify five types of GVC governance – hierarchy, captive, relational, modular, and market –ranging from high to low levels of power asymmetry (Table 1). These types of governance are differentiated according to: (1) complexity of inter-firm transactions; (2) the degree to which this complexity can be mitigated through codification; and (3) the extent to which suppliers have the necessary capabilities to meet the buyers' requirements (Gereffi et al., 2005).

Table 1: Global Value Chain Governance Typologies

Power Asymmetry	Type	Characteristics
Low	Market	• Market linkages can persist over time with repeat transactions. • Costs of switching to new partners are low for both parties.
Semi-low	Modular	• Products made to a customer's specifications (i.e., 'turn-key services') Suppliers take full responsibility for: • Competencies surrounding process technology, • Use generic machinery that limits transaction-specific investments, • Make capital outlays for components and materials on behalf of customers.
Medium	Relational	• Complex interactions between buyers and sellers • Mutual dependence and high levels of asset specificity. • Managed through reputation, or family and ethnic ties. • Spatial proximity or Trust and reputation in spatially dispersed networks
Semi-high	Captive	• Small suppliers are transactionally dependent on much larger buyers. • Suppliers face significant switching costs (i.e., 'captive') • High degree of monitoring and control by lead firms.
High	Hierarchy	• Vertical integration • Managerial control: managers - subordinates or headquarters - subsidiaries.

Adapted from: (Gereffi et al., 2005)

The core analysis around GVC governance has been identifying lead firms that 'drive' coordination of value chain actors. This has led to the emergence of three main trends: *Producer-driven* (Gereffi and Korzeniewicz, 1994; Raikes et al., 2000), *Buyer-driven* (Gereffi and Korzeniewicz, 1994; Raikes et al., 2000; Gereffi et al., 2005; Conroy, 2007;Dolan and Humphrey, 2000; Schmitz and Knorringa, 2000; Fold and Larsen, 2008); and more recently *Twin-driven* (Islam 2008), where a lead firm (usually a buyer) governs the supply chain transactions, while the regulatory aspects such as food safety, labor and environmental standards are governed by third-parties. These third parties include social movement organizations, standards development organizations, and certification agencies.

While these typologies focus on economic power within the organization of value chains, cultural power is vital to their governance (Dixon, 1999; Freidberg, 2004), particularly with respect to notions about quality (Gibbon and Ponte, 2005; Ponte and Gibbon, 2005) and stakeholder preference (cf. Pirsch et al., 2007; Ochieng, 2008). Moreover, standards, and the certification systems that have been constructed to ensure their compliance (Loconto and Busch, 2010), are increasingly being used to regulate the relationships between actors in GVCs. The Fairtrade system illustrates the twin-driven trend in GVC governance.

3. ORGANIZING FAIRTRADE

We can conceptualize the use of the standards developed by the Fairtrade Labelling Organizations (FLO) International as a means to innovate the organization of the commodity chains that have added 'fair trade' value. FLO standards act as the rules about those who are governed within their value chains and are based on the ideas of "transparency, partnership and participation, representative democracy, and equal exchange" (FLO International, 2009). According to the FLO (2009) trading standards, traders must:

- pay a price to producers that covers the costs of sustainable production and living;
- pay a premium that producers can invest in development;
- partially pay in advance, when producers ask for it; and
- sign contracts that allow for long-term planning and sustainable production practices.

These standards are created within the FLO organization by a specialized division for standards setting and in public consultation with FLO members. In the beginning of its existence, only the National Fair trade Initiatives (e.g., Max Havelaar and Transfair) held FLO membership and elected Board members. 2002 saw a restructuring of the governance structure of FLO where the 12-member Board included six representatives elected by the national initiatives, four elected by producer organizations, and two elected by certified traders. Producers are further represented through regional producer assemblies and the biennial fair trade forum (Auld, 2009).

Historically, we see that the fair trade conventions have emerged from personalized sets of relations represented by the Alternative Trade Organizations, World Shops and national fair trade labeling initiatives (Raynolds et al., 2007), and have moved toward the codified form of standards that have expanded the reach of the fair trade movement and begun mainstreaming fair trade concepts. Some herald this as restructuring agri-food value chains (Cavanagh and Mander, 2004). Others, however, are more cautious. For example, the separation of FLO eV (the standards settings and support organization) and FLO-Cert (a private certifying agency) as two separate entities in 2003 has been characterized as the "professionalization of the Fairtrade system" (Interview February, 2010).

Dolan (2008) argues that the values of collaboration and partnership found in the Fairtrade model and the characteristics that Gereffi et al. (2005) note are fundamental to relational governance (trust, obligation, shared expectations) should be congruent. In other words, by codifying these values into the Fairtrade standard – relational governance should be practiced *de facto* in Fairtrade GVCs. In fact, other scholars have noted that the power behind the idea of Fairtrade is found in the model it provides for organizing economic exchange (Jaffee, 2007). However, Dolan (2008) shows that it is the dominance of the auction system in Fairtrade tea that erodes those common values that would make the Fairtrade's GVC governance relational in nature. Dolan (2010: 33) further argues that "certain neoliberal rationalities are emboldened through Fairtrade, as a process of mainstreaming installs new metrics of governance (standards, certification, participation) that are at once moral and technocratic, voluntary and coercive, and inclusionary and marginalizing." In fact, Jaffee (2007) notes that FLO's recent efforts toward expanding market presence by including new corporate participants within the system means that Fairtrade is increasingly operating with the logic of mainstream commodity markets and transnational capital. For example, the current revision of the FLO tea standard proposes a reduction in the premium in exchange for larger volumes of tea sold with the Fairtrade 'brand' so to facilitate the incorporation of large UK blenders and supermarket private labels into the system (FLO International, 2010).

4. ORGANIZING THE TEA VALUE CHAIN IN TANZANIA

There are certain structural differences related to the way by which tea is produced that differentiate it from other Fairtrade commodities and value chains. Tea (black, green and white) comes from an evergreen bush (*Camellia sinensis*) which thrives at fairly high altitude in the humid regions of the tropics and sub tropics (1400 – 2500 m). In Africa, tea is produced mainly in East Africa with Kenya, Malawi, Uganda and Tanzania being the largest producers and exporters of tea. All factories in Tanzania use the cut-tear-curl (CTC) method of tea processing for teas that will be sold in tea bags. However, two of the Fairtrade and Organic certified factories are also producing Orthodox tea, which means that the tea leaves are rolled rather than cut before the oxidization process that produces black tea.

Tea production is labour intensive. It has a year-round harvest and the green leaf from the fields must reach the processing factory in less than 12 hours. This translates into very restricted catchment areas around factories where both estate grown and smallholder grown tea is found (Simbua, 2006). This ties factories and farmers together in close geographic proximity with little option for competitive markets for green leaf. As a result, contract farming schemes, which link smallholders to processing factories, have long been used. In this system, small-scale farmers have access to inputs, agricultural technology and markets through contracts which require them to produce according to international market requirements (FAO, 2009). Smallholders receive monthly payments for the delivery of green leaf, which is currently at an average of US$ 0.11/kg for the Southern Highlands region and US$0.09/kg in the Usumbaras.

A tea-processing factory is considered to be the anchor of the tea value chain: a specialized stage where involvement of high capital costs lowers the likelihood of competitors joining the chain. Most of the activities upstream (greenleaf production) as well as downstream (marketing and sales) are usually controlled by the decisions made at the tea-processing factory (Simbua, 2006). Most investors have purchased made tea (MT) processing factories together with the purchase of large-scale estates. In Tanzania, the tea packing companies have also invested upstream through joint investments in MT processing factories and/or estates that provide the majority of the MT that is packed domestically (e.g., Afritea & Coffee Blenders have a joint interest in the Lushoto Tea Company which owns the New Mponde Factory in the Usumbaras). There are currently three different organizational relationships between tea growers and factories in Tanzania. These relationships are (1) full ownership of growing and processing by a single private company, (2) full ownership of processing by a single investor company and contracted growing by smallholders, and (3) shared ownership between a single investor company and smallholder cooperatives of processing, and contracted smallholder production. These three organizational relationships are present in the Fairtrade certified system.

Market prices are fixed at the weekly Mombasa Auction (Kenya), although a majority of Tanzanian tea is sold outside of the auction through private contracts (cf. Baffes, 2003; TBT, 2009). Tea quality plays a vital role in determining the final value at auction. Although market forces may affect the general price levels, it is quality which distinguishes the value of tea across different factories irrespective of demand and supply patterns in the market. Fairtrade certified sales currently take place outside of the auction system for Tanzanian tea.

5. ORGANIZING FAIRTRADE CERTIFIED TEA PRODUCTION

Fairtrade certification in Tanzania began in 1994 with Mufindi Tea Company being the first to become certified – “because [they] believed in the ethics that fair trade represented” (Interview October, 2009). Both estates and smallholders can become certified for tea. With tea plantations, the focus of the fair trade movement was predominantly focused on eliminating child labor and improving the lot of hired labour (Auld, 2009). To this end, a ‘sustainability margin’ was added to the Fairtrade tea premium to encourage factories to participate in the system. The structure of the Fairtrade tea premium varies according to the product (CTC or Orthodox) and the type of producer, Hired Labour company (HL) or Small Producer Organisation (SPO) (Table 2). The ‘sustainability margin’ is a payment of 0.10 $/Kg out of the 0.50 $/Kg that goes to the estate management to support improvements in working conditions as part of ongoing certification and compliance with Fairtrade standards.[3] This

[3] Some Fairtrade buyers (e.g., Cafedirect) will pay the 0.10 $/kg to the factory in addition to the 0.50 $/kg premium to the SPO.

sustainability margin does not exist for SPOs because they are" free to allocate their premium for that purpose if they wish" (FLO International, 2010: 9).

Table 2: Fairtrade Premiums (FTP), Minimum Prices (FTMP) and Sustainability Margins for Tanzanian Tea (January 2010)

Types	CTC teas and orthodox dusts and fanning		Other orthodox teas	
	Conventional	Organic	Conventional	Organic
SPO	✔ FTMP of 1.40/ 1.50 $/kg ✔ FTP of 0.50 $/Kg ✗ Sustainability margin	✗ FTMP ✔ FTP of 0.50 $/Kg ✗ Sustainability margin	✗ FTMP ✔ FTP of 1.10 $/Kg ✗ Sustainability margin	✗ FTMP ✔ FTP of 1.10 $/Kg ✗ Sustainability margin
HL	✔ FTMP 1.40/ 1.50 $/kg ✔ FTP of 0.40 $/Kg ✔ Sustainability margin 0.10 $/kg	✗ FTMP ✔ FTP of 0.50 $/Kg ✗ Sustainability margin	✗ FTMP ✔ FTP of 1.10 $/Kg ✗ Sustainability margin	✗ FTMP ✔ FTP of 1.10 $/Kg ✗ Sustainability margin

**FTMP are distinguished by Auction price / Free on Board (FOB) price*
Adapted from: (FLO International, 2010)

The greatest deviation from the traditional organizing of the Tanzania tea value chains in the Fairtrade system is the introduction of the Fairtrade premiums and the corresponding groups that are created to manage these funds. The HL arrangement involves workers and management working together to "achieve improvements in the workers' lives using the Fairtrade Premium" (FLO International, 2007: 4), while for the SPO "the way the organization works can be a way to encourage this development" (FLO International, 2006: 4). Therefore, if we consider the Fairtrade premium to consist of a right of return and the decision making about Fairtrade concerns as a right of control, we can see the following typologies (Table 3). Each of the ownership arrangements are explained in detail below.

Table 3: Typology Of Ownership in Tanzanian Fairtrade Certified Tea

Return Rights Held by Smallholders	**Control Rights Held by Smallholders**			
	None	**Participation in Control**	**Sharing of Control**	**Dominant Control**
None	EUTCO			
Small		BBTC	MTC	
Moderate			WATCO	
Majority				RSTGA

Adapted from: (Ben-Ner and Jones, 1995)

5.1 East Usumbara Tea Company Ltd. (EUTCO)

EUTCO, operating in Muheza District of Tanga Province, is a Tanzanian registered company, owned by the Mac Group Plc. – a Tanzanian, family-owned, shareholding, Umbrella Company for a variety of companies in Tanzania. EUTCO operates two factories and estates (Bulwa, Kwamkoro) that were both Fairtrade certified from 2007-2009. Prior to the current ownership, EUTCO has been owned by two UK based companies, namely Global Tea and Commodities Ltd. (2001-2005) and CDC Group Plc (1987-2001). Prior to this, EUTCO had been nationalized and run under the TTA system. The majority of production for the two factories comes from the companies own fields as there are not many smallholders in Muheza district who grow tea - 246 smallholders farming 119 hectares that source to three factories (Priest, 2010). Among the reasons for this is competition for highly fertile land with high value crops such as spices, fruit trees and maize. Moreover, there is a history of industry neglect towards the smallholders in this area, which has eroded the tea cultivation culture (Faber, 1995). TRIT has been engaged in research and extension in this area since 1999. TRIT noted that the greatest difficulty in providing extension services is "changing the attitude" of smallholders about the benefits of growing tea (Interview January, 2010). However, the company has been encouraging outgrowers by providing plants from their own tea nurseries at subsidized rates and they expect an increase in smallholder production (EUTCO, 2010).

EUTCO was certified under the HL arrangement and no smallholder farmers were involved in the Fairtrade system. The decision to engage with Fairtrade was a management decision, based on negotiation with a set of buyers, yet during the two year period of certification, EUTCO was "unable to sell a single kilo of tea" (Interview January, 2010). The buyers who prompted the certification pulled out based on the "low quality" tea produced by EUTCO. When workers were interviewed, it was difficult to find workers who knew what Fairtrade was and were aware that operations had been certified. However, the floor supervisors in the factory remembered the visit of the last certifier whose audit resulted in the de-certification of the factories and estates. The lack of a substantial number of smallholders organized into a strong tea growers association, coupled with a history of poor management practices, has led to no rights of control or return for smallholders supplying to the EUTCO factories. EUTCO has been selling its tea mostly to the domestic blenders and has only begun to send its tea to the Mombasa Auction in 2009, after many years of absence due to low quality. EUTCO has a shorter value chain than most other Tanzanian tea producers because of its reliance on the local market. However, the relations within this value chain are "market" governed, as the improved quality presents more options to switch to new trading partners.

5.2 Bombay Burmah Trading Corporation Ltd. – Herkulu Estates (BBTC)

BBTC, operating in Lushoto and Muheza Districts of Tanga Province, is an Indian registered share-holding company that operates two factories and estates in Tanzania – Herkulu and Marvera. BBTC is India's second oldest publicly quoted company (Wadia Group, 2010). In 1954 the Indian company spread BBTC's tea interest to East Africa. In January 1956, Herkulu Estate in the West Usambara Mountains was purchased, the factory has been in operation since 1961, and teas have been sold at the London and then the Mombasa Auction throughout this period. Since 1989/90, the Herkulu Estate (230 Hectares) has been organically cultivated, beginning in 1994 it was certified organic by the Institute of Marketecology, Switzerland (IMO) (Bombay Burmah, 2010). Since 1997 Herkulu has been certified according to the FLO HL standard, but presents an interesting arrangement whereby the smallholder farmers were involved in the Joint Body (JB).

Herkulu has an outgrower contract with about 2,000 smallholder farmers who are part of the Mponde Tea Producers and Marketing Co-operative. This cooperative was created in 1999 when this group of farmers split from UTEGA (the umbrella smallholder association for the Usumbaras region) to begin sourcing to Herkulu. This break represents an interesting case in the local politics of tea in Tanzania as UTEGA owns 50% shares in the New Mponde factory in Lushoto and all UTEGA members should be receiving share payments. The reasons given for the shift to sourcing to Herkulu were that Herkulu paid on time and the farmers were receiving additional benefits from the Fairtrade funds (FG Interview 100116). In fact, although these smallholders were not FLO certified, Herkulu management allowed them to be represented on the JB since they lived in the same villages as the majority of workers. Over the years, the JB has invested the funds to build dispensaries, classrooms, housing for para-medical staff and teachers, and to build bridges to better connect the surrounding villages. The premiums have also been used utilized to procure roofing sheets for local school buildings, as well as distributing roofing sheets, cement and sewing machines to workers (as they do not live in the company provided accommodation), setting up a Fairtrade shop where supplies are purchased at wholesale prices from the towns and sold to the workers and smallholders on a 'no-profit-no-loss' basis., the workers only are allowed to purchase supplies from the shop on credit. Additionally, a maize mill was installed as a joint project between the JB and BBTC, which is available to residents of the surrounding villages. The smallholder involvement in the JB was stopped as a result of the FLO audit in 2009, FLO adjudicated that the smallholders should not be involved as they were not part of the certified system. Management did not argue as they had noticed that the smallholders had been dominating the decisions made by the JB (Interview January, 2010). As a result, we locate the ownership arrangement of Herkulu within the quadrant of participation rights and small return rights. This reflects the perceived benefits and control that smallholders expressed.

In terms of the BBTC value chain, all tea sales are managed by the India-based management company. The Herkulu factory receives the orders and ships the product either to the Auction or through direct sales. One of Herkulu's main buyers, Cha Dô, is an agent of the company that markets Herkulu's tea. In addition to purchasing under both the organic and Fairtrade labels, Cha Dô provides technical assistance on quality standards. This company is also highly engaged in the FLO system and sits on Product Advisory Council (Interview March, 2010). We thus characterize the Herkulu value chain as "hierarchical" given the formal integration of assets and trading systems within a single ownership structure.

5.3 Mufindi Tea & Coffee Company (MTC)

MTC, operating in Mufindi and Njombe Districts of Iringa Province, is a subsidiary of Rift Valley Holdings, which is a share-holding company created in 2005 by a merger of the African interests of Saxonian Estate Ltd. and Höegh Capital Partners Ltd. All three of the factories and estates owned by MTC are Fairtrade certified (Itona, Luponde, and Kibena). Together with Unilever, MTC controls more than half of the production of tea in Tanzania. MTC was first established in 1954 with the Itona factory in Mufindi district (operational 1960) and added Luponde estates in 1987. Luponde received organic certification in 1988 and, together with Itona, was the first to receive fair trade certification in 1994 through Tradecraft. During the socialist period, MTC was nationalized due to political concerns about its Zimbabwean ownership; it was handed back to the company in 1995 (Interview November, 2009). Kibena estate was planted, by CDC Group Plc., on land originally farmed with wattle trees in 1997. In 2002 it merged with Tanzania Tea Packers Ltd. (TATEPA), a successful Tanzanian tea processing, packaging and distribution business also controlled by CDC. Together they created a strong, integrated tea business which was the first company to be listed on the Dar-es-Salaam Stock Exchange (Tyler, 2006). In 2007 Kibena was bought by MTC.

Itona and Luponde joined Fairtrade under the HL arrangement and have not engaged smallholders in the JBs. However, both factories do have strong ties with the local smallholder associations and Itona has a separate processing line dedicated to processing smallholder green leaf tea. The competition with Unilever in Mufindi district has allowed the local smallholder associations (uniquely organized into block farms from the socialist period) to negotiate higher than average prices for their green leaf tea and they have benefited from both Fairtrade and company investments in community infrastructure as well as an active presence by TRIT who have been working in the district since 1999. While under the ownership of TATEPA, Kibena developed a model HIV/AIDS outreach program and also gained Fairtrade certification for their estates as soon as they started processing tea. The Kibena workers receive the Fairtrade premium that has brought benefits to the local community. However, they commented that there was too much investment being made in the community and not enough being made for the living conditions of the workers (FG Interview February, 2010). According to Fairtrade rules, the premium "may not be used for expenditure for which the company is legally responsible" (FLO International, 2007: 4). As housing is a legal requirement in Tanzania, Fairtrade funds cannot be used for this purpose.

Under TATEPA, Kibena also experimented with bringing smallholder farmers into the Fairtrade system. The first was SHATGL smallholder tea growers association in the neighbouring district. SHATGL had been sourcing to Kibena for a number of years and the village leader was the owner of the transport company that organized the transport from this area to the factory. Kibena management assisted the smallholder association to become certified (by filling out the forms for them and paying the first certification fee) and agreed that a certain quantity of tea would be sold through Fairtrade each year. SHATGL was certified from 2006 to 2008 and during that period of time they received TSH 10 million from Fairtrade premiums. However, SHATGL was decertified in 2008 and justification varies. The district where SHATGL is located is an area of current and historic political turmoil. The tea factory that is located less than 7 km from SHATGL villages is 50% owned by the competing smallholder association (CSHA) and a family-owned Tanzanian company. During data collection, the factory had been overtaken by CSHA and closed because of a dispute of illegal sale of the factory by the government during the dismantling of TTA.

With regards to losing the Fairtrade certification, CSHA claimed that SHATGL was not transparent about where their extra income was coming from, claiming it was a bonus negotiated by the chairman with the factory, and was using it as a way to convince smallholders to leave CSHA and join SHATGL (Interview October, 2009). Alternatively, SHATGL claimed that they found the Fairtrade rules cumbersome as they were not allowed to use the premium money on any of the projects that they proposed, such as fixing the village roads. They also claimed that the certification fee of TSH 5 million was too expensive as they were banned from using the premium funds to pay the fee (FG Interview February, 2010). FLO claimed that there were political contestations between Kibena management and SHATGL over the wealth being generated by the transportation company and therefore management was uncooperative (Interiew January, 2010). Finally, Kibena management claimed that there was little ownership (and understanding) of the Fairtrade process by SHATGL and found that the “one shoe fits all” approach to FLO certification caused a number of problems for the smallholders’ ability to remain certified. The major non-compliance was the inability of SHATGL to deliver the General Assembly minutes. It was also acknowledged that the efforts made by TATEPA management to support SHATGL were not carried through by the MTC management team (Interview October, 2009). As this example illustrates, MTC allowed only small rights of return for smallholders, since they were transient, and shared control of the Fairtrade process despite the fact that it was this control that allowed the smallholders to exit the system.

MTC is an active participant in the African Fairtrade Network. It was one of the first partners of what was at the time called “Twin Trading” tea (now CaféDirect), however their sales to CaféDirect have dwindled over the years and the percentage of tea sold under the Fairtrade label is about 5% of tea sold by all three factories combined. MTC relies mainly on direct sales for its certified tea and invests in marketing. For example, Luponde tea is sold under the Luponde brand at a shop of the same name in London. Direct sales links have also been created through personal ties and through a wholesale trader in the UK that holds shares in TATEPA. The MTC value chain embodies the Fairtrade notion of “relational” governance based on complex interactions between buyers and sellers, despite the retreat of CaféDirect.

5.4 Wakulima Tea Company (WATCO) & the Rungwe Smallholders Tea Growing Association (RSTGA)

WATCO, operating Katumba Factory in Rungwe District of Mbeya Province, is a joint venture between TATEPA (75%) and smallholders represented by RSTGA (25%). TATEPA is a small private holding company that was established in 1995 by the joint involvement of a Tanzanian national and a UK investor (CDC Group plc). This company has been heralded by the World Bank as an example of well directed venture capital and technical assistance (World Bank, 2000). It then “expanded upstream” and bought WATCO, a smallholder tea producer that had been formed in 2000 as part of the privatization scheme of the TTA. The business plan for TATEPA’s investment in WATCO is based on the intention of selling 100% of its shares to RSTGA. RSTGA is the smallholder tea growers association that represents the 16,000 tea farmers in Rungwe. It is organized into nine sub-schemes and each sub-scheme is composed of 10 or more villages. There are currently 118 villages growing tea. Each sub-scheme is headed by a Chairman and a Secretary. The Chairman of each sub-scheme automatically becomes the member of the RSTGA Board. The Chairman of the RSTGA is democratically elected by the Board and a secretariat for the association accommodates an accounting department and administration for the Rungwe Fair Trade Fund (RFTF) and the Rungwe Smallholders Tea Development TRUST Fund. Both WATCO and RSTGA are certified for Fairtrade – WATCO as a trader and RSTGA as a SPO.

RSTGA is fully responsible for managing Fairtrade affairs and its administrative structure is able to accommodate the paperwork requirements of FLO. Technoserve has provided volunteer consultants who have been working with RSTGA to streamline its administrative processes and become more business oriented in preparation for its eventual purchase of WATCO (Mwakasege, 2009). Additionally, RSTG actively participates in the Africa Fairtrade Network. As a result, we see RSTGA as having full control and return rights to the farming aspect of the Fairtrade process. RSTGA has reported receiving over US$ 1.2 million over 7 years from the Fairtrade premium, which has contributed to building schools, dispensaries, bore holes and a Savings and Credit Cooperative Organization. This same group has also reported increased yields and productivity during this period (Rowland, 2008), however, this cannot solely be contributed to Fairtrade (Interview October, 2009). During this period, WATCO hired TRIT to provide commercial extension that provides farmers with technical support to enable them to attain optimal production potential; acceptable quality within the given plucking schedule; facilitate logistics of green leaf collection; facilitate correct and timely payments to farmers; and coordinate field activities, and use of inputs. This is an innovative approach linking production, transportation, processing and marketing. All these work together under different organisations (i.e., RSTGA controls production, WATCO controls processing and marketing, and Jilanjo is contracted by WATCO to provide transportation). We can thus characterize the ownership of WATCO as an arrangement where the smallholders have moderate return rights (25%) and sharing of control rights.

The value chain for WATCO tea is also based on "relational" governance steeped in trust and entrenched trading relationships. Fairtrade contracts are negotiated entirely outside of the auction system and account for typically about 10% of production. CaféDirect is one of the main buyers of WATCO tea and WATCO is a shareholder in CaféDirect. Also, the previously mentioned TATEPA wholesaler purchases directly from WATCO. We observe significant involvement of stakeholders in contributing to the operations and maintenance of Fairtrade values. For example, CaféDirect is very active in supporting its producers and has consistently involved WATCO/RSTGA in its climate change and other development projects.

6. CONCLUSIONS

In this paper, we have looked at the different types of ownership arrangements in the Tanzanian Fairtrade system and have found that there is no set pattern of ownership that determines involvement in Fairtrade. Rather, it is the specific relationships between factory management and smallholders that either facilitates or hinders Fairtrade involvement. We find a movement towards innovation in the organizational strategies for linking growers to tea processing factories in Tanzania. This innovation includes new ownership arrangements of processing factories and outgrower contracts that have been associated with certified Fairtrade production, however not dependent on it. We also suggest that organizational innovation is significant for obtaining scheme success, as is illustrated with the case of Rungwe. We also note that perceived benefits from Fairtrade does not necessarily increase with ownership shares as illustrated with the case of Herkulu. Finally, we have noted that stakeholder involvement has worked to create more sustainable relationships between growers and processors in the tea sector.

While we find that relational governance can account for two of the four case studies presented here, there is a caveat. These cases of relational governance also exhibit some degree of cross investment between actors in the value chains. In other words, the relational governance that we see is not due to, or even facilitated by the codification of these values in the Fairtrade system, but rather due to locally situated conditions of the enterprises. Additional research may seek to trace the flow of resources and information between these companies to determine to what extent these relationships are indeed relational as opposed to modular, or perhaps even captive, as proposed in the literature. What we can also observe is that three of the four cases were owned at one point by CDC Group Plc. whose vision for investment in African agriculture was that of development, rather than profit. An interesting research project might examine the development trajectories of CDC and non-CDC holdings in the industry to determine differences on the basis of tea quality and smallholder engagement.

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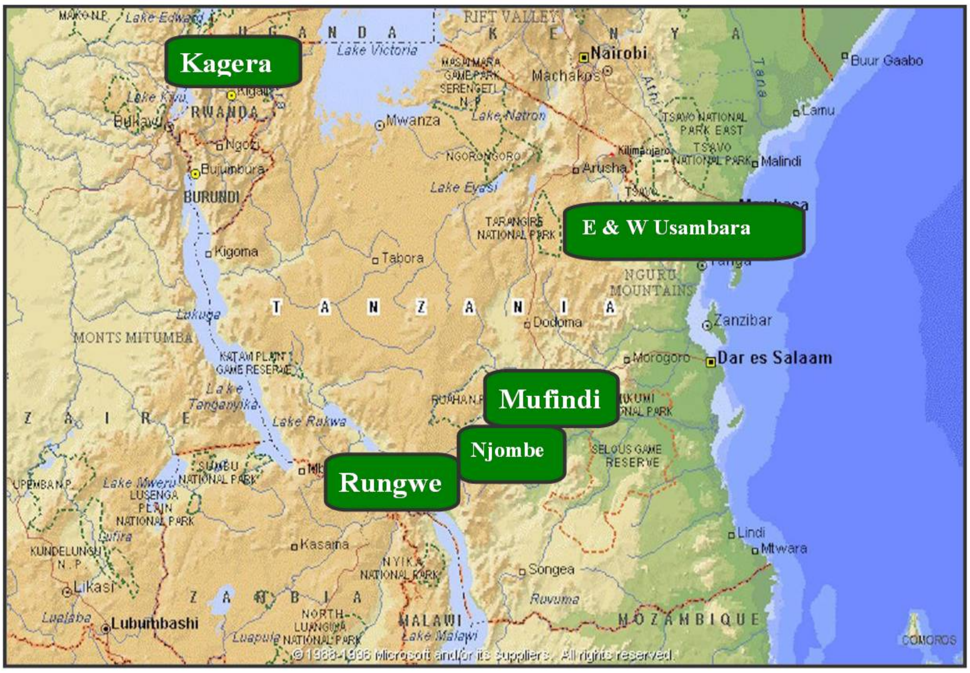
Appendix 1: Typologies of Ownership

Return Rights Held by Employees	**Control Rights Held by Employees**			
	None	**Participation in Control**	**Sharing of Control**	**Dominant Control**
None	Conventional firms	Arrangements ranging from consultation by management with employees, to teamwork, to participatory schemes on issues selected by management	Employee representation on board of directors	Ownership rights of employees are manifested through full control but no return rights
Small	Profit sharing	Profit sharing with participation programs	Co-determination with another program	In some cases constitute a majority of the decision-making board and have tiny amounts of profit sharing and ownership.
Moderate	Stock-Option Plans - Moderate rights to returns but do not share in control as in many gain-sharing plans.	Plans where participation in control coexists with moderate rights to returns.	Workers share control with other organizations, such as labor unions and consumer cooperative	Workers have majority control of decision-making bodies, but modest amounts of profit sharing and/or individual ownership.
Majority	Employees constitute the largest shareholder block , but do not have dominant control rights.	Majority return rights, participation programs	Majority return rights, sharing control	Producer's cooperatives

Adapted from: (Ben-Ner and Jones, 1995)

APPENDIX

Appendix 2: Map of Tanzanian tea producing areas



Source: (Kigalu, 2007)