PRACTICE ABSTRACT

Tools for defining a fair price and strengthening crop diversification value chains

Problem

Introducing new crops into cropping systems involves experimenting, investing and taking risks for farmers. If they do not receive additional value for new crops compared to more common crops, it may discourage crop diversification.

Similarly, the processing and marketing of new products resulting from crop diversification requires downstream actors to innovate, which in turn requires additional resources.

Solution

When encouraging farmers to undertake crop diversification, the price of the new crops should provide additional value compared to more common crops.

Value chains must also ensure a fair distribution of benefits among actors, in consistency with their risks and investment levels.

Applicability box

Theme
Value chain, actors, learning, assessment

Agronomic conditions
n/a

Application time
Any

Required time
Minimum 2 hours

Period of impact
Immediate

Equipment
n/a

Best in
Value chains with direct interactions between actors and a collaborative mindset.

A list of 14 criteria for defining a fair price for new crops and value chains was developed. A related questionnaire helps actors discuss the price level and matters such as value repartition, transparency, etc.

Benefits

A special attention to pricing is needed at the innovation stage of crop diversification. When good pricing levels are proposed, crop diversification can take place more easily. A fair pricing process can strengthen actors' capacity for innovating and creating sustainable and fair value chains.

Practical recommendation

- By going through the **list of fair pricing criteria (Figure 1)**, farmers and other value chain actors can get an overview of the concept of a fair price.
- This list constitutes a collection of potential conditions which contribute to fair pricing mechanisms. Actors can **choose the most relevant criteria** for their project. As fairness is highly context-dependent, different criteria might be more or less important for different projects.
- The relative importance of criteria is also likely to change as the project grows and evolves. Pricing and fairness should be discussed and reviewed regularly.
- The related **questionnaire** can allow actors to assess the current status of pricing in their value chain, and to identify which fair pricing criteria are the most important and relevant for the future of their project, both individually and collectively.

Example

The DiverIMPACTS Belgian case study aiming to support *intercropping grain legumes with cereals in organic systems (CS18)* used the fair pricing criteria list in order to foster discussion on the value repartition within their value chains and establish fair, long-term relations between value chain actors.

UCLouvain. Tools for defining a fair price for innovative crops and products.
DiverIMPACTS practice abstract.

Figure 1: List of the 14 criteria for defining a fair price (Anton Riera, UCLouvain).

1 – Production and market criteria	
1. A fair price is usually higher than a minimum price.	Considering reference prices (e.g. market price, competing products' prices, etc.) can contribute to evaluating and setting a fair price.
2. A fair price should cover the production costs.	Estimating production costs and integrating them in the price definition is a way to ensure a fair price. This implies considerations in terms of: scope of included costs; transparency; and governance.
3. A fair price should allow for a good revenue level.	Ensuring that farmers get a good revenue level can contribute to achieving a fair price. This requires a reflection on the quantity of labour needed and on what is a fair level of revenue.
4. Consideration for the added value compared to other crops.	When farmers undertake crop diversification, taking the opportunity cost (i.e. a comparison against the reference crop which would otherwise be grown) into account might contribute to setting a fair price.
5. A fair price should be acceptable to consumers.	The acceptability and affordability for consumers should be taken into account when setting a price, for example by estimating the consumers' willingness to pay.
2 – Chain development criteria	
6. A fair price should allow for investments.	Ensuring that further investments are possible might contribute to fair prices. The relevance of investments should be evaluated against a reference cost and depending on the context of the project.
7. Risk sharing and premium for innovation or risk-taking.	Accounting for innovations and risk-taking might contribute to a fair price (e.g. through a premium for innovation). This entails considerations on how the risks are shared and how the level of the premium is defined.
8. Stability and/or reassessment of the price.	How is the evolution of the price over time defined? What triggers price reassessments? Ideally,the reassessment mechanisms, which are specific to each project, should be transparent.
3 – Relationship between actors	
9. Transparency principles.	Transparency within the value chain relates to several aspects: value repartition, production costs (which ones are covered), and governance mechanisms (who is involved in the decision-making processes).
10. Fair value distribution.	A fair distribution of value and profit among actors can contribute to fair pricing mechanisms. This requires considerations on the mechanisms which define a fair distribution (e.g. based on workload, capital, etc.).
11. Long-term commitment of actors.	A long term commitment of actors can contribute to fair pricing mechanisms. The relationship between producers and buyers/processors must be clearly defined to ensure stability, even in bad years.
12. Shared effort by all actors to guarantee commercial outlets.	Mutual, bilateral relations can be important for fair pricing mechanisms. This involves a commitment of all actors to maintain the chain, communication and a common understanding of needs and expectations.
13. Fair governance mechanisms.	This relates to the way decision-making mechanisms are put in place (e.g. who has a say? are decisions made unilaterally?). It applies to price setting and all decisions in general (e.g. quality, payment times, etc.).
14. Payment in a fair time.	This relates to two aspects: a minimum delay between the delivery of the primary product and the payment; a possibility to provide (total or partial) pre-payment if necessary.

Further information

- Download the related questionnaire: https://sytra.be/publication/fair-price-tools/

About this practice abstract and DiverIMPACTS

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DiverIMPACTS: The project is running from June 2017 to May 2022.

The overall goal of DiverIMPACTS - Diversification through Rotation, Intercropping, Multiple Cropping, Promoted with Actors and value-Chains towards Sustainability - is to achieve the full potential of diversification of cropping systems for improved productivity, delivery of ecosystem services and resource-efficient and sustainable value chains.

Project website: www.diverimpacts.net

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