A framework for *fair prices* and *governance mechanisms* to support sustainable farming and innovative value chains.

The importance of fair pricing *in the context of innovative, sustainable farming*

Shifting farming practices, for example by introducing new crops in cropping systems, implies experimenting, investing and taking risks.

If farmers do not receive additional value for new practices or new crops compared to more common systems, it may discourage them from innovating. Similarly, the processing and marketing of products resulting from new practices such as crop diversification requires downstream actors to innovate, which in turn requires additional resources.

When good pricing levels are proposed, innovation can take place more easily. **A fair pricing process can strengthen actors' capacity for innovating and creating sustainable and fair value chains.**

In the context of DiverIMPACTS, an EU-funded project focusing on the development of crop diversification, a list of fourteen **criteria for defining a fair price** for new crops and value chains was developed. A related questionnaire helps actors discuss the price level and related matters such as value repartition, transparency, etc.

Taking into account critical stages to foster innovation and growth of sustainable farming systems

A special attention to pricing is needed at the **innovation stage** of crop diversification or other sustainable practices, as well as **the scaling-out phase.**

The importance of an approach at the value chain level

Fair pricing is a multi-actor question that requires a comprehensive analysis across all steps of a value chain, if the transition process towards innovative and diversified cropping systems is to be established and remain sustainable over time.

> *« Barriers hindering the development of diversified cropping systems are found not only at the farm level but also at other stages of value chains. [...] This is why value-chain coordination is paramount. Beyond creating new value chains or adjusting existing value chains to new production systems, it is necessary for actors to work collaboratively ». (DiverIMPACTS Policy Brief, Antier et al. 2022).*

From fair pricing to fair relationships

For encouraging farmers to shift towards more sustainable systems, the value chain should not only provide an additional value (*fair price*) for the newly adopted crops or practices, **it must also ensure *fair relationships* between actors of the value chain.** This entails a fair distribution of benefits among actors (in consistency with their risks and investment levels), the adoption of transparency principles and fair governance mechanisms, etc.

In the continuity of the fair pricing criteria list, a framework was proposed to assess the level of maturity of the value chains regarding value chain building and adoption of a "value-chain approach".

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Setting or assessing a fair price.

List of criteria for defining a fair price (Anton Riera, UCLouvain).

	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 reflexion 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.
	Chain development criteria	
6	**A fair price should allow for investments.**	Ensuring that furhter 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.
	Relationship between actors	
9	**Transparency principles.**	Transparency within the value chain relates to several aspects: value repartition; production costs (which ones are covered); 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 value 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.

The importance of an approach at the value chain level.

Characteristics and consequences of the level of advancement of value chains (partly from Riera, Antier, Bliss and Villa, 2022).

No or limited approach at the value chain level.	• A low implementation of the value chain approach is common in early stages of innovation, when actors are organising activities to be carried out. These value chains are mainly centered on the primary production step, which involves farmers, technicians and researchers. In addition to this, actors are often working on creating knowledge and finding references for farmers. • The lack of a value chain approach may slow down or hinder the identification of market opportunities, and doesn't allow co-innovation, co-investment and co-development with downstream stages of value chains, while they could provide relevant resources and information.
Medium implementation	• Case studies with a medium implementation of the value chain approach show a will to move towards the creation of coordinated and fair value chains. To this end, they may work on establishing and building relationships with other actors (which may be successful or not), or carry out market analyses to assess marketing possibilities. • At this stage, it can be particularly relevant to agree and set fair pricing criteria as well as shared governance mechanisms, to ensure further development of the value chain in a sustainable way.
High implementation	• Case studies with a high implementation of the value chain approach have clear activities to carry out across the value chain. Relationships and partnerships between actors are well-established. Though knowledge remains an important asset to develop and improve current and future products, these cases are well embedded into diversifying cropping systems and developing products. This means that farmers and actors across the chain develop farming practices for managing new crops in the local context, as well as integrating members of their communities and their contributions towards activities that support the value chain.

For further details, visit Sytra.be and the DiverIMPACTS website.

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