photo by Erica Gralla

SUMMARY OF TECHNICAL REPORT

Quality-Differentiated Pricing Among Agricultural Traders
Feed the Future Uganda Market System Monitoring

BACKGROUND

The USAID Uganda Feed the Future Value Chain (FTF-VC) project uses a market facilitation approach to strengthen the value chains that serve smallholder farmers in Uganda. One of the goals is to improve profitability for farmers and other value chain actors by enabling improved quality and prices throughout the value chain. In a system where actors value quality and are willing to pay more for better products, farmers have the incentive to engage in practices to improve crop quality. To achieve a market for quality products, actors throughout the supply chain should offer and have access to quality-differentiated pricing (QDP). This study addresses a gap in understanding the factors that affect an actor's ability to access and incentives to extend QDP.

Key Takeaways:

- **QDP strengthens agricultural market systems by creating incentives to improve crop quality, leading to increased revenue.**
- **Interventions to improve crop quality and formalize price setting are likely to help institutionalize QDP.**
- **QDP should be further investigated in Uganda to understand its extent and drivers.**
- **Market facilitation projects should encourage reinforcing behaviors that propagate QDP throughout the value chain.**

GOAL AND APPROACH

This case-based, exploratory research aimed **to understand the factors that enable or inhibit quality-differentiated pricing of agricultural commodities in Uganda** from the trader perspective. We interviewed six traders who dealt in different commodities (beans, maize, coffee, or a combination) and hailed from Uganda's western and central regions. Traders had mixed experiences providing/accessing quality-differentiated pricing. We used qualitative analysis methods to identify themes within and across trader cases.

FINDINGS

The traders interviewed sold almost exclusively to export markets. Collectively, they identified ten challenges they face to improving quality and raising prices; most common were 'limited access to finance' and 'constrained crop volumes'. Traders did not clearly describe quality-differentiated pricing, but did have shared views of quality and pricing through which we were able to learn about QDP.

QUALITY

- Traders perceive that crop quality is improving.
- Traders attribute improved crop quality to the dissemination of knowledge about and the application of good agricultural and post-harvest handling practices.
- Traders understand quality to include the following attributes: moisture content, presence of foreign matter, spoilage, presence of roughage, grain size and shape, and color.

PRICES

- Traders report that they are buying and selling at higher prices than in the past.
- Quality is only one aspect of pricing, and not always the most important aspect:
  - When buying, traders set prices based on exporter prices, record keeping, and crop quality.
  - When selling, traders fetch higher prices by negotiating, comparing offers, selling seeds and premium varieties, waiting for market prices to rise, and building a reputation for quality.

QUALITY-DIFFERENTIATED PRICING

- QDP exists in the supply chain, but is not always formal.
- There were two approaches for implementing quality-differentiated pricing:

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    - Price based on quality grade – actors use distinct pricing brackets for different grades determined by common perceptions of specific quality characteristics.
    - Price based on adjusted weight – certain quality attributes (e.g. moisture content, presence of foreign matter) affect the weight of a given quantity purchased; many buyers perform secondary processing that results in weight reduction. Therefore, they may "reduce the kilograms" purchased in a transaction to account for reduced revenue potential.

- Conditions that enable QDP include: access to good quality inputs, seeds, and varieties; use of good agricultural, processing, and storage practices; disseminating knowledge of these practices; provision of spray and pruning services; access to markets; and access to finance.

- QDP requires a set of coordinated and interacting changes by multiple actors. In order for QDP to propagate, each seller must provide quality goods and each buyer must offer better prices for quality. Throughout the supply chain, sellers must have the skills, knowledge, and equipment to improve quality, while buyers must have the finances and a market to offer higher prices. To institutionalize QDP, the final buyer (the exporter, in this case) and other buyers in the chain must offer higher prices for better quality, and sellers must be aware of these better prices. In addition, the initial seller (the farmer) must provide better quality goods and other sellers in the chain must maintain that quality.

- Increasing the number of relationships among actors enables them to coordinate efforts for improving the quality of goods and institutionalizing QDP.

Overall, the results indicate that **quality-differentiated pricing can be propagated across the value chain through synergistic relationships.** When some actors offer QDP, they create incentives for other actors to improve the quality of their goods; actors who provide high-quality goods, in turn, create an incentive for buyers to offer QDP. This reinforcing loop, in which an action produces a result that enables more of the same action, is a foundational structure within systems thinking. Additionally, findings suggest that **QDP exists but is implemented informally and not yet well-established**. Quality is slowly improving through efforts to disseminate knowledge about quality improvement techniques and prices are slowly rising through improving quality and better market knowledge and relationships.

RECOMMENDATIONS

- Strengthen QDP through future interventions. Our results suggest that QDP is critical to improving livelihoods, but that it is implemented informally and therefore remains underdeveloped. Future interventions should aim to strengthen the reinforcing loop of actions described in this study.

- Explore QDP from the perspective of other actors. This study observed QDP solely through the lens of six traders. Studying the experiences of other traders (e.g. those who have not worked with USAID/Uganda FTF activities) and other actors (e.g. farmers, collectors, exporters, producer organizations) may lead to a revised understanding of the concepts identified here. In particular, further research should investigate whether farmers see the same changes, whether actors uninvolved in FTF-VC activities have similar perspectives, and how exporters and their business partners – some of which may be more significant actors in the market – approach quality improvement.

- Study QDP in domestic markets. Since traders primarily discussed export markets, the existence and drivers of QDP in domestic markets is unclear. Further study on the nature of QDP should be initiated through engagement with significant actors in domestic food commodity markets.

- Study correlation between knowledge of a grading system and incentive for improved quality. Evidence suggests that traders who use a formal grading system are more discerning of crop quality than those who use imprecise methods to measure and rate quality. However, this hypothesis could not be explored further with the existing interview data.

Further information is available in the main report, which can be found at Quality-Differentiated Pricing Study.

ABOUT MSM

The Feed the Future Uganda Market System Monitoring (MSM) Activity is developing new approaches that assess the impact of market facilitation activities on systemic change in the Uganda agriculture sector. It is a joint implementation by the Massachusetts Institute of Technology and The George Washington University. Contact us at msm.uganda@mit.edu.