

Sustainably financing extension services

Providing extension and advisory services is expensive. There are salaries to be paid, transportation and operational funds to be provided, buildings to be rented or built, demonstration plots to maintain, and continued education to be offered to the extension staff. And then there is the need to continually invest in an overall functioning agricultural innovation system with strong research and teaching institutions, enabling policies, as well as to make capital investments in rural infrastructure that will not only benefit the farming population. Where are these funds to come from, and will these expenditures pay off?

“The quality of spending to agriculture is more important than the overall level of spending.” (Akroyd and Smith, 2007)

Delivery of extension and advisory services takes place from a plurality of actors including the public sector (especially via a national extension service, but also through public universities and agricultural colleges), the private sector (seed dealers and agro-vet suppliers, fee for service extension providers, or extension agents employed by out-grower programmes and contract farming operations), as well as through local NGO and international NGO providers. Even within the public systems around the world, there is variation along the lines of decentralised control of finance, use of bonuses or performance-linked payments to agents, contracting in of donor-funded extension projects, and other practices.

Public sector financed and delivered.

World-wide, the public sector remains the primary source of funds for extension services, and the public sector extension services deliver the bulk of

extension messages and activities. The most common approach appears to be a large, widely distributed extension bureaucracy with national geographic coverage that includes positioning extension agents at the local level.

The centralised approach to the public sector system has been modified in a number of countries (India, the Philippines, Nepal, Uganda, and others) to have funds flow to district and other local government levels and then put into agricultural extension services. The promise of decentralisation is for improved accountability and a means of heightening the responsiveness of the extension system to farmers and their local representatives.

Public sector financed and contractor delivered.

Another commonly observed structure has a ministry of agriculture financing extension efforts while a contractor (a for-profit organisation or an NGO) delivers the service. In this case, the ministry provides contract oversight and, oftentimes, overall project coordination and performance against objectives is measured. In Chile, the government moved to a contracting approach for extension, where better-off farmers paid a fee for extension services and where government paid the contractor for services to the poorest group of farmers. A government that is able to manage this process demonstrates a

significant administrative and managerial capacity.

User charges financed and private provider delivered.

Another model is the private sector provider who offers farm visits and advisory services for a fee. This entirely private sector model has the benefits of a very responsive extensionist who is focused on ensuring repeat business from his/her clients. It is sustainable financially as long as the producers can afford to pay the fees and they see the value for the services. A drawback of this approach is that many of the poorest farmers will forgo utilising extension services because of lack of ability to pay.

Marketing margins financed and private provider delivered.

For higher value crops such as cocoa, oil palm, cotton, rubber and others, private sector companies operating agricultural marketing businesses or processing plants often work with contract farmers, or with outgrowers on a less formal basis than a written contract, to provide technical advice on seeds, fertiliser and chemicals and their use and application, planting times, harvesting techniques and equipment. An especially valuable aspect of these contracts and services is the business knowledge and abilities to connect with markets and intermediate with growers regarding quality of produce. While everyone understands the private

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sector firm providing these services has business incentives to control the costs of extension services and keep those services narrowly focused in the business' interest rather than the producers' broader needs, real benefits to producers occur. The benefits include information about new technologies, access to market opportunities and marketing channels, and often credit for inputs such as fertiliser, seeds, and chemicals. A drawback is that other information and educational interests of the farmers to meet subsistence needs or successfully integrate with other value chains may not be met.

Private sector providers of crop advisory services or vet services receive their payment through product sales or marketing margins. Thus they have a distinct commercial interest tied in with their service provision. Advice and training provided by private sector input dealers will be tailored to the sales of their product. If there is little or no prospect of sales, most private sector input dealers will curtail visits, leaving only a subset of farmers served and entire regions of a country underserved.

■ Sustained funding – sustainable financing

Sustainably financing extension services means that, in terms of public or donor funding, there is a long-term

commitment to do so because it is in the national development interest, and in terms of private funding, that the business models employed lead to increased profits that reliably cover expenses. The benefits, to the consumers of the services but also to society and the economy at large, must outweigh the costs, and the returns must be higher than alternative uses of the funds.

The financing question often receives attention for the wrong reasons and in the wrong way. Some within the agricultural development policy community have noted the weaknesses and failures of public extension and have thereby advocated the private sector provision of extension services. Similarly, some development advocates have advanced community-based extension services as being the most appropriate way forward (farmer-led, farmer control through vouchers or other mechanisms of extension services delivered to their farmer organisations, etc.). However, a broad consensus appears to exist among agricultural development researchers and analysts that no "one-size fits all" approach exists for extension structures (Birner et al., IFPRI report on best fit), and by corollary, extension financing.

The question of how to sustainably finance extension is much more than simply how much funds should be channelled into the public sector sys-

tem, through NGOs, and through the private sector input dealers. The financing question also concerns how funds ought to be allocated within the public sector, what the design of the flow of funds is, how funds are controlled, and how they are linked to extension programmes and activities. Although staffing costs and major capital expenditures (office, demonstration plot development, and vehicles) receive much of the attention in projects, the question of budgeting and access to funds for recurring expenditures within public extension systems (expenditures on items such as fuel, telephone and internet access, electricity, water, supplies for demonstration plots, farm labourers, vehicle repairs, and extension teaching supplies and materials) also impacts the sustainability of the financing of an extension system.

Related to the "who pays" question is the question of who actually delivers the service. For training and education on the use of fertiliser, an input supply dealer might provide the training to farmers who are likely to be able to pay to purchase fertiliser. For organising a farmer group, there are a number of extension service providers that might deliver the service, namely the government extension service, or a local NGO or international NGO or a private company or consultancy.

■ Demand for information – willingness to pay for extension services

Another aspect of the framework for analysing the sustainability of finance for extension services concerns the demand expressed by farmers for extension services. Economists generally discuss this demand as the farmer's willingness to pay for extension infor-

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Sustainably financing extension services means that the benefits – to the consumers of the services but also to society and the economy at large – outweigh the costs.

significant fraction of the producers do not have a willingness to pay sufficient to cover the cost of the service. In a high poverty context, does extension have as a goal poverty reduction along

mation or extension services. Holloway and Ehui offer an estimate of the willingness to pay for a one visit increase in the number of extension visits from milk co-operative marketing data from Ethiopia (2001). With milk production and marketing data on 168 milk marketing households, and using an inference off of the relationship of extension visits to market participation, they estimate the willingness to pay using an econometric regression model. While they find a wide dispersion in the values of willingness to pay for a one-unit increase in extension visitation, they put the cost of providing a unit of extension service at 2.14 Ethiopian Birr, and 65 of the 168 households were estimated to be willing to pay that amount. Thus, they conclude that at least partial privatisation may be possible if a significant fraction of the milk producers are willing to be up to the cost of receiving the extension services. However, they do not report the description of the producers who had an estimated willingness to pay beneath the cost level, and we might conclude that these farmers were more likely to be smaller and less productive farmers and poorer farmers. The willingness to pay highlights a critical point – willingness to pay, a key aspect of any private sector financing based on user fees or producer contributions, is also a function of ability to pay. While a privatised system may be sustainable and self-financing, as the Holloway and Ehui research shows, a

with increasing agricultural productivity? If so, then a purely privatised system is likely to leave many producers behind, and the poverty reduction goal may not be met.

Dinar and Keynan (2001) and Keynan, Olin, and Dinar (1997) analyse a pilot programme for payment for extension services in Nicaragua that was implemented in 1996. The programme was not designed to precisely measure farmer willingness to pay for extension services, but instead was designed to increase quality and responsiveness (demand-driven) in the extension services delivered as well as to measure farmer willingness to pay some charges for extension services. Farmers committed to paying to the extension agent a bonus, thereby creating a linkage between quality of the service and the direct relationship between the agent and the farmer. In the first year of the programme, Keynan, Olin, and Dinar report that “farmers paid more than 60 per cent of their fees within a reasonable time ... indicating that they were willing and able to pay”. They also report that overtime remaining balances were paid and that all 17 farmer groups continued the programme the following year. They further conclude that the programme generated the desired impact on extensionists, and the agents sought out additional clients and were more responsive to client needs. Further, extension agents switched in their desire to obtain

additional trainings to a desire to be in the field. Management encouraged this by introducing a rule that no more than two days per month of training would be permitted.

To sum up, while the quantitative research base is quite limited regarding farmer willingness and ability to pay for extension services (of different kinds), some evidence exists that farmers are willing to pay and able to pay limited amounts, perhaps not the full cost. However, some farmers, especially poorer farmers and smaller-scale farmers may not have the ability to afford payments unless they are structured so that the farmer does not have to pay upfront and does not substantially increase risk through the payment. Furthermore, some farmers, including many of the most vulnerable farmers, may not be able to perceive *ex ante* the benefits and value of the services they might receive, thereby creating an informational market failure in the provision of extension services.

■ Conclusion

A variety of models and approaches to financing extension services exist, from viable and strong publicly funded extension to private sector financed and delivered extension services. Often, extension policy-makers and advocates must make trade-offs between considerations such as system performance, sustainability, political feasibility, efficiency, equity, and access in the choice between publicly-funded and privately-financed extension services and the variants along that continuum. Going forward, researchers interested in the financing of agricultural extension services should document case studies of sustainably financed extension services and systems as well as conduct research on the impact of various financing approaches on farmer productivity and system performance.

References: ► www.rural21.com