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Agricultural advisory services and the market

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*This paper presents findings of a review of over thirty case studies of field level experience in promoting market orientation in agricultural advisory services. This study was carried out by the Neuchâtel Initiative (*www.neuchatelinitiative.net*), an informal network that has been working with advisory service policy reform for the past twelve years. Advisory services are starting to respond more effectively to the needs of farmers and other value chain actors as they adapt to market demands. Despite significant progress in analysing and understanding how to respond to markets, sustainable enhancement of the capacities of the rural poor to benefit from markets will require a more focused and consistent approach. It is particularly important to critically monitor the outcomes of current pilot efforts in providing quality services and in reaching different rural clients.*

Policy conclusions

- Market demands are changing rapidly and becoming more stringent. Publicly financed (but probably privately provided) market-oriented agricultural advisory services (MOAAS) are essential if poor producers and rural entrepreneurs are to have the knowledge and information they need to meet these changes.
- MOAAS require iterative approaches to help clients adapt to the factors impacting on agricultural markets, from climate change to the expansion of modern retail.
- Market orientation demands a value chain orientation; which in turn implies that advisory services must meet the needs a range of actors — not just farmers.
- For these reasons, traditional 'technology transfer' services will no longer be a primary focus. Outdated assumptions and modalities associated with this approach are a major obstacle to the promotion of more appropriate innovation systems.
- Advisory service providers need advice themselves if they are to sustain quality. Ad-hoc 'capacity building' is not a substitute for the ongoing back-up support that advisory services require to stay in tune with markets and clients' needs.
- Lessons from marketing-related 'pilot' projects are potentially valuable, but not enough has been done to adapt these for scaling-up in ways that will convince politicians and policy-makers to invest scarce public resources in them.

Introduction

The agricultural market environment is changing with unprecedented speed and in very diverse ways — globally and locally. A small number of well-off farmers with favourable conditions for production have been the primary beneficiaries of these developments, while small-scale producers, traders and processors have been largely unable to take advantage of available opportunities, above all because they lack the capacity to meet market demands for quality, quantity and timeliness. Inadequate access to information, understanding and networks are one form of capacity constraint. Market oriented agricultural advisory services (MOAAS) are one of the services needed if value chain development is not to become a 'race to the bottom' for those unable to compete in more profitable markets (see BMZ 2007).

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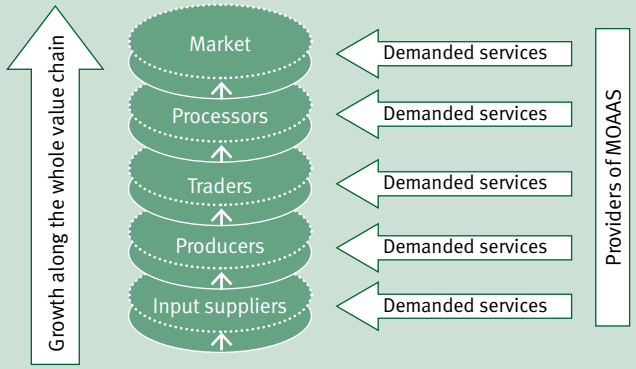
Figure 1: A value chain approach to advisory services



Advisory services — not only for farmers

The adoption-diffusion models of the past presupposed that competitiveness could simply be equated with farming which used the latest technology (e.g., Rogers 1983). The current focus on value chains (see e.g., GTZ; SDC; ADB) recognises that there are advisory service clients at each tier in the value chain, as illustrated in Figure 1. In this perspective, advisory service clients should include input providers, producers, producer organisations, processors and traders, as well as farmers. Ideally, each of the actors should have their own MOAAS.

Despite growing attention to value chain development, there is little evidence that advisory service policies and priorities have been adjusted to reflect such a perspective. Public (especially aid) investment remains overwhelmingly skewed toward support to farmers alone as the default 'target group' for public investment in poverty alleviation. This must change if advisory services are to have a significant impact on the livelihoods of the rural poor (Christoplos and Farrington 2004).

Back-up services to maintain quality

In order to establish effective service provision and to keep their services updated, attractive and of high quality, providers of MOAAS need access to 'back-up services', including accessing information, training and mentoring in a range of skills.

MOAAS systems may also need a major injection of support to stimulate piloting and innovation, and ultimately local institutions must be able to provide back-up services on a permanent basis. This is rarely reflected in the temporary funding structures that characterise most externally-funded MOAAS initiatives.

Market-oriented innovation systems and macro-level challenges

Research institutions have traditionally been viewed as the main source of innovation for agricultural development. But research is only one component of complex innovation systems. With a market-orientation perspective, technology transfer is secondary to the social and institutional innovations required to bring actors together, get products to market, ensure competitiveness and profitability and establish linkages among producers, processors, traders and service providers.

Where research is undertaken, a new angle it can explore is whether and how value chain development is contributing to the public interest with regard to poverty alleviation, environmental protection and inclusive development more generally. These aspects have tended to be neglected in value chain driven interventions. As one example, research-based debates relating to climate change suggest that MOAAS and innovation systems generally should not be separated from efforts to address environmental concerns and the changing nature of food security. Research can also draw attention to the new types of risk raised by market opportunities and help to monitor changes in gender roles. For this to happen, agricultural researchers focusing on climate change and food security will have to broaden their perspectives (Box 1).

Box 1: Beyond technology transfer

MOAAS puts competitiveness in the spotlight. This means that, whilst technological research may be part of maintaining market share, brokering market relations, facilitating organisational development and advice for business management take on greater importance.

This is not a new finding, but deserves renewed attention as there are signals that advisory services are again being increasingly portrayed as subordinate to research. The 2008 World Development Report, for example, presents advisory services as a factor in confronting 'technological challenges', rather than as a tool for increasing competitiveness. Many recommendations for mitigation of climate change portray advisory services as a tool for convincing farmers to do their part. Without downplaying the importance of advisory services in these agendas, it is important to stress that climate change is affecting agricultural markets and this influences how the rural poor address their food security concerns. For all of these reasons, 'technological challenges' have to be understood within a primary focus on the 'market challenges' faced by the poor.

From 'helping small farmers' to 'creating rural income opportunities'

Public investment in MOAAS helps to get markets working and so creates rural income opportunities – especially for the poor. This means working with those actors in a given value chain or market system which offers the best leverage for overcoming bottlenecks and for achieving benefits for all stakeholders. This does not necessarily mean working with small farmers.

The range of case studies reviewed here suggests that such a shift in perspective can be difficult to achieve. Conventional advisory services rarely have 'non-farm' contacts. Governments and development agencies tend to distrust private sector actors, such as traders or processing enterprises. 'Middlemen' are portrayed as the bane of the poor, even though many of the rural poor are themselves trying to become middlemen. Policies have yet to recognise that these actors provide access to markets for poor producers and create employment opportunities.

Mitigating the risks of market orientation

Markets are always risky, but for the small-scale producers and traders in volatile value chains this can have devastating consequences. Market-related risks may discourage investment, specialisation and commercialisation. On the other hand, traditional subsistence systems are also becoming precarious.

Addressing risk is perhaps one of the greatest challenges of pro-poor MOAAS. As well as reducing risk, awareness and information can help the poor to make informed decisions about what risks they wish to take. Types of awareness and information include:

- awareness of the options in a market-oriented environment, and better understanding about how different markets function;

Box 2: Developing local capacity for facilitating and brokering linkages

In many MOAAS and value chain interventions, 'projects' are taking on the functions of facilitating and brokering between different value chain actors in an effort to liberate the poor from 'middlemen'. The underlying assumption is that these functions are only required to facilitate change, and once the market has reached a higher degree of effectiveness, they become unnecessary or will be replaced by producer organisations. These assumptions must be critically questioned. Market demands are constantly and rapidly changing, which implies that the facilitation and broker functions need to be permanently in place – either through service providers outside the value chain or by organisations within the value chain. While producer organisation may indeed be able to take on many of these functions in time, extensive capacity development is needed and the results are far from certain. (see OECD 2006; Watson 2005; Boesen and Therkildsen 2004).

- an assessment of economic potentials and the potential risks of particular products and enterprises;
- more transparency in prices, regulations and standards;
- facilitation of multi-stakeholder platforms to openly discuss the interests of different actors; and
- support to producer and commodity organisations in enhancing their negotiating skills.

Promoting trust and transparency

Distrust among different actors discourages the rural poor from taking on more market-oriented strategies. Lack of knowledge about potential profit margins and lack of recourse when agreements are not fulfilled constitute massive risk factors. In some contexts these obstacles are increasing as the traditional largely informal channels and norms that have governed market relations are eroded due to the rise of new market actors with requirements for formal standards, product certification and procurement structures. Knowledge about these new structures and about legal/regulatory mechanisms tends to be especially weak among the rural poor. MOAAS can provide information on how buyers and sellers can be held accountable for their contractual obligations, and may help to set up arbitration mechanisms. This will not prevent powerful actors from manipulating market governance, but helps to level the playing field to some extent.

Pro-poor market orientation depends on relevant policies

For MOAAS to be succesful, market orientation has to be reflected in policies for investment in a range of fields including research, legal/regulatory structures, financial services, rural education, infrastructure etc., which support market orientation.

Policy frameworks must also provide for structures to monitor and regulate the downside of growing commercialisation, for instance on the environment or on different population groups.

Box 3 describes how MOAAS interventions in Uganda are part of a national agricultural policy, and yet, decentralisation enables stakeholders to frame MOAAS at the local level.

Public policies and strategies for MOAAS are not a matter for central government alone. Designing effective public policies demands transparency and broad consultation. Politicians and the bureaucracy may be inexperienced in combining a focus on public interests with an enabling environment for commercialisation. Successful examples have usually emerged where local government, producer organisations and a range of enterprises have found themselves drawn into dialogue on how best to develop agricultural markets at national and local levels, with advisory services playing a facilitation role. Moves towards decentralisation have often greatly stimulated this process.

Sometimes the policies needed for MOAAS do not come from the state, but rather from those enterprises, producer organisations or NGOs that recognise the need for advisory services as part of a comprehensive approach to branding, maintaining quality standards or product certification. Government may play only a supportive role in managing the legal and regulatory structures needed to underpin these initiatives.

MOAAS – in tune with the wider context?

Strong capacities are needed for relating macro-trends to frontline service provision. This is an area where micro-level MOAAS efforts often fail to support sustained competitiveness. Capacities must be in place for determining comparative advantage, identifying emerging threats to local markets, choosing investment priorities, and recognising the changing landscape of opportunities and risks facing the poor. The contextual factors that need constantly to be reassessed for sustainable and effective MOAAS include:

- the status of WTO, regional trade agreements, and changing trade barriers for different products,
- changes in quality and food safety standards,
- changing preferences in bio-fuels, fair trade and organics,
- changing consumer food preferences
- mega-trends such as urbanisation and climate change, and
- the rapid emergence of global actors such as China and India as both producers and consumers.

Combining public and private investments

Past emphasis on increased food production has been replaced by recognition that livelihood security, and indeed even food security, are best served by enabling them small farmers to take advantage of market opportunities. Relevant advisory services

Box 3: Ugandan Plan for Modernisation of Agriculture – a policy framework enabling MOAAS

The national Poverty Eradication Action Plan in Uganda gave rise to an agricultural policy – the Plan for the Modernisation of Agriculture (PMA) – which envisages the transition to commercial agriculture as the engine for national economic growth and poverty reduction. The PMA has seven pillars, three of which are particularly relevant to MOAAS: the National Agricultural Advisory Service (NAADS), rural financial, and promotion of agro-processing and marketing.

NAADS aims to 'promote market-oriented farming'. It is a decentralised service, publicly funded but privately delivered. Farmer groups determine the topics for service delivery, but enterprise selection is driven by commercial potential. Good monitoring and joint donor-government annual reviews have helped NAADS to learn and evolve.

There are also challenges. Among these has been the difficulty of keeping the seven pillars of the PMA in phase. For those pillars (like NAADS) that were started early, there has been political pressure for quick roll-out, beyond the capacity of the private service providers who are much criticised for their lack of skills and experience in commercial agriculture.

Box 4: MOAAS in action

Strawberry production in Mexico: A 2006 survey conducted with small- and medium-size strawberry producers in Michoacán, Mexico showed that some buyers (exporters, agro-industry and the informal sector) are key sources of: technical assistance (for 41% of producers), training (54%), and credit (45%). Companies selling agrochemicals (65%) and other producers (30%) were key sources of technical assistance with low participation by public programme advisors (6%) and professional consultants (11%). However, there is an important public role in preventing misuse of pesticides in the region, with some 50% of producers using prohibited chemicals.

Sources of advice for small farmers in South Africa: In South Africa 75 % of the respondents of a survey among small-scale producers received advice from local public sector extension workers. Neighbours were also mentioned as a key source of knowledge. Private suppliers of technical support, such as retail chains/supermarkets, the Perishable Products Export Control Board and commodity organisations were felt to generally provide a better standard of advisory services than government advisors. However, these only visit their preferred suppliers, who are often large scale farmers, thus often excluding small-scale producers.

Source: Regoverning Markets Programme (www.regoverningmarkets.org)

will require both public and private investments.

Public investment should be concentrated where there are latent market opportunities for the poor, but where private investment is discouraged by risks and uncertain profits. There is also a role for public investment in MOAAS in areas with high market potential, but this should concentrate on filling gaps in services, for example developing the capacities of private service providers. These investments should avoid 'crowding out' potential private investment, but instead, create conditions by which private sector flows can be leveraged (Christoplos and Farrington 2004).

Massive flows of private capital are already being invested in the agri-business sector, and a significant proportion of this flows into MOAAS. Supermarkets, dairies, importers and other enterprises are aware that the quality, quantity and timeliness of their suppliers demands investment and they are not waiting for the old state advisory services to do this for them. To be relevant, public sector investments and aid programmes need to start from these realities, not ignore them.

Conclusions: from 'marketing oriented' to market oriented

A large proportion of international experience in MOAAS has been derived from projects, but few efforts have been made to draw lessons systematically for policies and institutional development. Policy makers increasingly recognise that conventional public advisory systems are unable to address MOAAS needs, but they lack credible guidance on what to do instead.

There is an abundance of 'pilot' MOAAS projects which aim to link small-scale producers to markets. Although frequently effective in creating immediate benefits for participants, few have been scaled up. Nor has there been much reflection on how these relevant but often fragmented experiences can inform public policies on MOAAS. MOAAS projects still commonly consist of heavily subsidised 'marketing oriented' efforts which attempt to sell the produce of a chosen set of 'beneficiaries'. Many of these 'marketing oriented' projects have no explicit rationale of how they will promote competitive market strategies beyond the specific targeted beneficiaries or even beyond the timeframe of the project. There are major opportunities here, but they will require moving from small projects to sustainable reform of the way institutions work at the front line, i.e., in the services and market relationships relevant to the rural poor. MOAAS must be pragmatic about the rural poor's limited room for manoeuvre, but must also retain an awareness that for the vast majority there is no turning back.

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Websites for further reading

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Making Markets Work Better for the Poor http://www.markets4poor.org/

Neuchâtel Initiative www.neuchatelinitiative.net

Regoverning Markets Programme www.regoverningmarkets.org

SDC http://www.sdc-valuechains.ch/

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