

# NOTE 21: Innovative Financing Mechanisms for Demand-driven Agricultural Advisory Services

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## Philosophy and principles

### Why do we need demand-driven agricultural advisory services?

The rapidly changing economic, climatic, and social environment for agriculture worldwide is causing farms to become increasingly diverse in terms of size, resources, production patterns, access to markets, and household characteristics.<sup>1</sup> So there is a strong need for more diverse and specialised agricultural advisory services (AAS) that are relevant to farmers. This requires rethinking ways of organising and financing AAS towards systems that are led and tailored by demand from farmers.

### What are demand-driven agricultural advisory services?

Demand-driven AAS represent a break from the earlier understanding of agricultural producers as beneficiaries of services. Instead, in demand-driven AAS the users' demands define the content, quality, and mode of delivery.<sup>2</sup> The main principles are:

- services are based on user demand
- service providers are accountable to users, particularly on content and quality
- users have a choice of service providers.

### What are the principles of financing mechanisms that empower users?

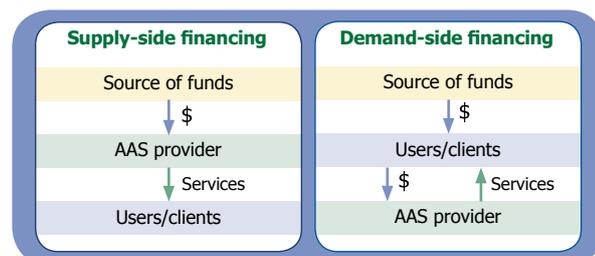
Demand-driven AAS require innovative financing mechanisms that enable farmers, their organisations, and communities to take greater responsibility and negotiate the services they want from a variety of qualified service providers who are accountable to farmers. Existing financing mechanisms that primarily support the supply side (AAS providers) are not appropriate for this purpose.

While public sector funding for pluralistic AAS remains crucial in the fight against poverty and food insecurity, the financing and delivery of advisory services do not need to be through the same institution; these two functions may be performed by different organisations.

The *Common framework on financing agricultural and rural extension*<sup>3</sup> provides policy advice regarding different financing mechanisms that promote empowerment of service users through increasing service providers' accountability towards users. This may be achieved by:

- financial participation by users
- direct payment for services by users
- indirect payment through membership fees, production levies, taxes, etc. combined with farmers/farmer organisations (FOs) being involved in decision-making on the use of these funds
- public or donor funds channelled through users or their organisations to pay for services
- service provision by producer-owned organisations.

Figure 1 illustrates the change in the flow of funds, with demand-side financing illustrating the new approach.



**Figure 1. Supply-side and demand-side financing of AAS**

<sup>1</sup> FAO. 2014. *The state of food and agriculture: Innovation in family farming*. Rome: Food and Agriculture Organization of the United Nations. Available at: [www.fao.org/3/a-i4040e.pdf](http://www.fao.org/3/a-i4040e.pdf).

<sup>2</sup> Neuchâtel Group. 2002. *Common framework on financing agricultural and rural extension*. Available at: [www.g-fras.org/fileadmin/UserFiles/Documents/Frames-and-guidelines/Financing-RAS/Common-Framework-on-Financing-Extension.pdf](http://www.g-fras.org/fileadmin/UserFiles/Documents/Frames-and-guidelines/Financing-RAS/Common-Framework-on-Financing-Extension.pdf).

<sup>3</sup> Neuchâtel Group. 2002. Op. cit.



## Innovative financing mechanisms

Examples of fully demand-driven services are few, but some innovations have been implemented. Four different models of innovative financing mechanisms have been identified.<sup>4</sup>

### Farmer organisation-owned advisory systems/ services with public subsidies combined with farmer payments

Some national FOs choose to provide their own advisory services, such as the Danish Agricultural Advisory Service (DAAS); National Smallholder Farmers' Association of Malawi (NASFAM); and ProAgria in Finland. In all these cases, AAS are provided by advisers employed by FOs and financed partly by public subsidies, partly by farmers' own contributions, the latter increasing over time.

### Decentralised services with public financing of demand-driven processes and services

In this mode, farmers/FOs are involved in articulating their demands and defining who provides which kind of services to them. Examples include Senegal's Agricultural Services and Producer Organisations Support Programme (PSAOP); Tanzania's District Development Funds; Coordinadora Nacional de las Fundaciones Produce (COFUPRO) in Mexico; Corporación Colombiana de Investigación Agropecuaria (CORPOICA) in Colombia; Fadama II in Nigeria; and Decentralised Agricultural Extension through Farmer to Farmer Extension in Nepal.

### Public sector-driven privatisation of services through competitive grants and contracts

Some countries aim to improve the effectiveness of AAS by supporting privatisation of services through public competitive grants and contracts available to different types of service provider, including civil society organisations, private enterprises, and FOs. Examples are the Chilean Institute for Agricultural Development (INDAP); Innovation and Competitiveness Programme for Peruvian Agriculture (INCAGRO); and former National Agricultural Advisory Services<sup>5</sup> in Uganda. Some competitive grants are combined with users' financial contributions.

### Producer cooperative-based embedded services fully financed by own processing and marketing revenue

Globally there are many examples in operation where producer cooperatives provide AAS to their members and finance core services through the revenue gained by marketing their produce. Several of these are dairy cooperatives, such as the Nariño Dairy Products Cooperative (Colácteos) in Colombia. Other commercial organisations, including the Colombian Coffee Growers' Federation, also have outstanding experience.

## Capacities required

Compared with traditional financing systems, demand-led systems require substantial new capacity, both institutional and managerial.

**Smallholder farmers' capacity:** Smallholder farmers and their FOs need to be able to develop and negotiate their priorities, to evaluate services, and to hold service providers accountable for quality and effectiveness.

**Finance and administration systems:** Because financing mechanisms must be transparent and some of the models are complex, there is a need for new skills in terms of developing and implementing innovative financing mechanisms, as well as raising, managing, and administering the related financing streams, grants, and other funds.

**Local institutions' ability to manage financing systems:** Systems with decentralised funding of services often require long-term efforts to build local capacity to facilitate and provide demand-led AAS, for example in dealing with public procurement, contracts, and general financial management.

**Advisers with the knowledge and skills that farmers require:** A major challenge for AAS worldwide is adjusting to the rapid changes in the agricultural sector. It is essential for advisers to keep in tune with farmers' needs. Advisers need to be able to deal with the ever-increasing flow of knowledge, structural changes in the sector, and new market developments, and to operate with the producers' own food and growth strategies. Educational institutions with curricula that respond to these requirements are crucial.

**Dealing with political changes and shifts in government priorities:** This requires FOs that are empowered to analyse policies and legal channels for advocacy and to participate in policy and other decision-making processes. This is particularly important for AAS systems that rely primarily on public funding, and where government has a strong hand in governing the service agencies.

## Costs

Costs related to financing systems for pluralistic, demand-led AAS systems are:

- management and administration within institutions
- developing capacity of demand-side institutions –
  - strengthening FOs
  - installing systematic demand mechanisms
  - FOs managing and evaluating AAS
- supply of services with an emphasis on –
  - developing capacities of service providers to advocate for their services and to respond to demands and changing needs
  - back-up services involving institutional, organisational, and human capacity development.

The overall costs of management and supply of services are not different from conventional systems.

## Strengths and weaknesses

Experience so far shows both strengths and weaknesses of demand-side financing of AAS (Table 1).

<sup>4</sup> Based on a recent study by FAO which includes four different cases along with relevant literature describing like-minded models: Chipeta, S. and Blum, M. Forthcoming. *Innovations in financing mechanisms for demand-driven agricultural advisory services. Framework for analysis and synthesis of experiences*. Rome: Food and Agriculture Organization of the United Nations.

<sup>5</sup> NAADS was officially dissolved in 2015.

**Table 1. Strengths and weaknesses of demand-side financing of AAS**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Promote empowerment of farmers and accountability of service providers towards them</li> <li>Can ensure relevance to different categories of farmers and adaptation to change</li> <li>Increase effectiveness in terms of quality and results</li> <li>High degree of ownership of farmer-driven and -managed AAS</li> </ul>	<ul style="list-style-type: none"> <li>Substantial organisational and individual capacity development required, with sufficient time and resources</li> <li>Transparency of financing mechanisms and demand-led processes required but not sufficient in existing systems</li> <li>Need promotion of pluralistic services so that farmers have a choice</li> <li>Vulnerable to political will and policy instability</li> </ul>

### Best-fit considerations

Demand-driven financing mechanisms for AAS require an enabling environment to function well. There is a need for strong and healthy institutions close to their users. Local institutions and FOs need to have, or to be ready to develop, the capacity and procedures to become relevant, transparent, and accountable to users and members.

There also needs to be consensus on conducive policies and willingness by policy- and decision-makers to promote pluralism in service delivery, and to move the responsibility as well as the decision-making power to users.

Demand-driven financing works most effectively when services connect with activities that raise farmers' incomes,<sup>6</sup> for example by increasing market opportunities. Some INDAP programmes that connect to agribusiness succeed by focusing on productivity and commercialisation, whereas farmers who have no additional opportunities for commercial production have little incentive to engage.

### Governance

Institutional good governance and accountability have proven to be required for success. This means that institutions should

ensure farmers and their FOs participate in decision-making regarding resource mobilisation, financing mechanisms, and contract allocation as well as planning, implementation, and evaluation of advisory services. This includes their full and practical representation in policy processes and decision-making bodies, procedures to evaluate services by farmers (e.g. through SMS), systemic mechanisms to develop demand and to link demand with qualified service providers, and contracting of AAS.

### Evidence of impacts, sustainability, and scalability

#### Impacts

The framework in Figure 2 shows the expected results of demand-side financing combined with demand-driven delivery systems.

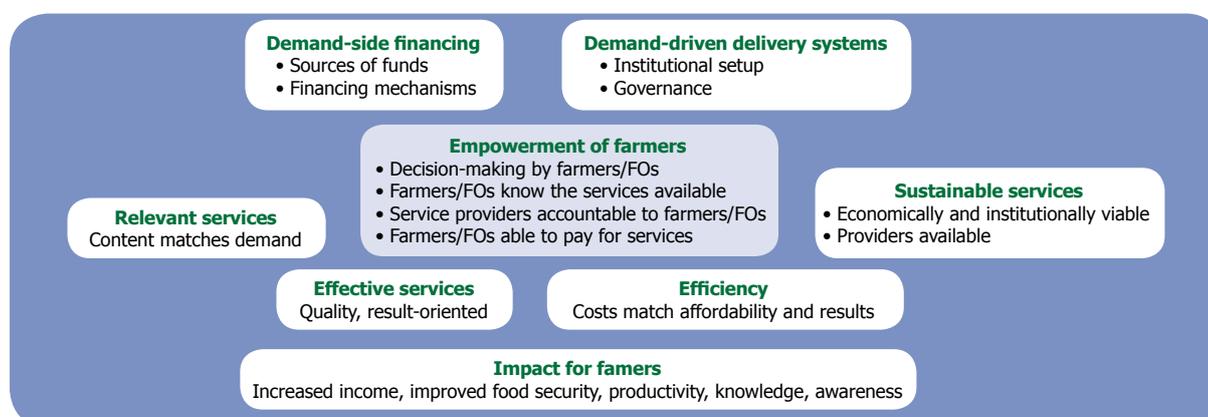
**Empowerment of smallholder farmers:** Improved knowledge regarding available services and financing mechanisms enhances users' capacity to access the services they need. Service providers are thus accountable to users.

**Increased relevance of services:** When farmers are engaged in financing, planning, and governing AAS, they become empowered to demand services that respond to their needs in terms of both content and quality.

**Increased effectiveness and efficiency in quality and results:** Experiences of effectiveness<sup>7</sup> and efficiency are mixed in the different models. Where implementation has been successful, the services have been effective in increasing productivity, product quality, and access to markets.

#### Sustainability

There is a strong relationship between commercial market integration of farmers and sustainability of systems. This includes the ability and willingness of farmers to contribute financially from their own funds. For small-scale farmers with a weak connection to markets, public subsidies are required to increase their purchasing power (e.g. through demand-side financing) as well as securing their interest in the services.



**Figure 2. Results framework**

<sup>6</sup> As is the case with DAAS and Colácteos.

<sup>7</sup> There are many factors influencing the effectiveness of AAS, and it is difficult to separate the effect of the financing mechanism from other factors in the systems (education, back-up support, management). None of the experiences so far has been subject to in-depth studies on effectiveness. The assessment here is based on documentation of experience and interviews with key stakeholders.



## Lessons learned

Several lessons have been learned from the different models.

**Long-term political commitment:** Institutional development of a demand-driven AAS system including demand-side financing is a long-term affair involving great efforts in institutional and human capacity development, and requires consensus among stakeholders. Publicly funded models depend on continuous political commitment for as long as it takes for the systems to mature. This often conflicts with the political reality of governments needing to show fast results within an election period. Governments are therefore often impatient with the delivery of results of long-term institutional development.

**Organisational capacity and experience are crucial:** The participation of FOs and local institutions with good capacity strongly stimulates the demand drive and empowerment of farmers. At the same time, the organisational experience that farmers and their FOs gain through their involvement in AAS policy processes and management are likely to be beneficial in other aspects of the agriculture sector, such as marketing cooperatives and breeding associations.

**Availability of qualified service providers:** Success requires that a pool of qualified service providers is available in rural areas, so that farmers have a real choice of providers. This may require that the demand-side financing of AAS is integrated with promoting pluralistic services, and reform regarding education, back-up services, and research.

**Market opportunities:** Demand-driven financing works most effectively and produces the strongest results when the services are connected to activities that increase market opportunities for participating farmers, hence improving their income and livelihoods, and the rural economy.

**Gender equality in accessing services:** Without a specific gender policy, women farmers rarely benefit from AAS financed via either the demand side or the supply side. Service organisations, whether service companies or FOs, need to have firm gender policies for women to be represented in decision-making so that service providers employ women advisers, and are in a position to respond to women's needs and demands.

## Recommendations for application and scalability

Based on these lessons learned, a number of general recommendations are relevant to future development of similar models.

- Develop policy consensus to ensure adequate ownership of the process by stakeholders nationally and locally. Farmers and/or FOs should take responsibility for driving

demand and the management of AAS, while the relevant government authorities need to focus on and strengthen their regulatory and facilitating roles.

- Make allowance for both time and resources to develop the capacity of farmers and FOs to formulate demands, know what services are available, monitor services, and manage their funds and organisations.
- Based on user demand, consider financing educational programmes, in-service training, and back-up services. Promote links within the innovation system, particularly to research and the private sector.
- Promote new and innovative demand-led financing mechanisms for AAS, for example through production levies, taxes on imported food, or other funds for AAS programmes managed by FOs or boards with a majority of farmer representatives.
- Facilitate market opportunities for smallholders alongside demand-oriented financing systems. This can encourage farmers' interest in contributing financially to services, which promotes real interest in the services and their quality.

This paper was produced by the Food and Agriculture Organization of the United Nations (FAO) with financial support provided by the agencies with the logos below.

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This work was undertaken as part of the CGIAR Research Program on Policies, Institutions, and Markets (PIM) led by the International Food Policy Research Institute (IFPRI). This publication has not gone through IFPRI's standard peer-review procedure. The opinions expressed here belong to the authors, and do not necessarily reflect those of IFPRI.

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Correct citation: Blum, M. and Chipeta, S. 2016. Innovative Financing Mechanisms for Demand-driven Agricultural Advisory Services. Note 21. GFRAS Good Practice Notes for Extension and Advisory Services. GFRAS: Lausanne, Switzerland.

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