Common Framework on Financing Agricultural and Rural Extension

NEUCHÂTEL GROUP

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Contents

Foreword

This Common Framework about Financing Rural Extension has been drawn up by an informal group of representatives of bilateral and multilateral cooperation agencies and institutions involved in agricultural development in the countries of sub-Saharan Africa and elsewhere. The “Neuchâtel Initiative Group” was formed in 1995 and comprises representatives of the cooperation agencies of Austria, Denmark (Danida), France (MAE), Germany (GTZ), the Netherlands (DGIS), Sweden (Sida), Switzerland (SDC), UK (DFID) and the USA (USAID), as well as representatives of the FAO, the IFAD, the European Commission (EC/DGVIII), the CTA (Technical Centre for Agricultural and Rural Cooperation) and the World Bank.

In a “Common Framework on Agricultural Extension” (1999), the Neuchâtel Group agreed on six principles and six commitments for reforming extension services to rural communities in developing countries. Later it was decided to carry out a more in-depth work on financing mechanisms to complement the common vision on rural extension. Results of different field studies done in Africa and Latin America have been discussed in the annual meeting of Neuchâtel Group in November 2000. Joint reflection then resulted in the elaboration of a draft version of this common framework on financing extension. This was discussed at the annual meeting of the Neuchâtel Group in November 2001, and issues and concerns raised were integrated into the present final document.

This document takes into account not only the reform of national extension agencies but also the global context of the transformation of the rural services landscape. It offers some principles and options for innovative financing mechanism based on context- and policy-specific priorities. The new mechanisms aim at mobilising diverse sources of funds (private/public) and at improving governance of extension systems towards more demand orientation and pluralism. This framework is not a “one size fits all” set of recommendations. It should be used as a guideline for discussions and negotiations among the stakeholders involved in extension in the developing countries, in order to devise innovative and/or adequate schemes. This international point of view of decision-makers should also be the object of discussions and negotiations with the producers’ organisations at the local level.

A second document, “Guide to Decision Making for Financing Extension”, complements this framework. It presents practical details and examples of innovative financing mechanisms.

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Context of the quest for new financing mechanisms

1. Introduction

The financing of extension for agriculture and other areas of natural resource management is frequently discussed by development planners and practitioners in the South and the North due to a number of concerns, like unsatisfactory effectiveness, financial constraints and changing policies, in particular with respect to the role of the state.

Concerns about extension motivating the debate on its financing

Unsatisfactory effectiveness and efficiency: Quality, effectiveness and efficiency of extension services are often questioned. Quality of services means that the extension organisation can readily identify, and respond to, the needs of users (farmers as well as other client and stakeholder groups), communicate well with users, and so be of maximum utility to users. However, whether extension is effective in bringing about real improvements in agricultural production and land use systems depends also on decisions made by users to effect changes at local, farm and even field level, and on a favourable policy environment. Good quality services are therefore a pre-condition for effectiveness, but quality alone cannot guarantee effectiveness. Efficiency requires extension services to achieve the objectives of quality and utility at reasonable cost, but many current extension systems do not encourage efficiency.

Financial constraints: Currently by far the largest part of extension services for agriculture and natural resource management in developing countries is funded from public sources (this includes donor funds as well as public funds from the respective countries). This is the case for public extension services as well as for set-ups of NGOs and producer associations. Donors are no longer willing to bear the running cost of these organisations, and governments cannot afford to do so; consequently many extension organisations are far from being financially sustainable.

Policy changes: In many developing countries policy changes which impact on the livelihood of rural people and the land use systems are underway. The role of the state is reconsidered. Decentralisation, liberalisation, privatisation and democratisation are key directions in this process. These policy changes influence agricultural extension.

2. Public investment to support extension is essential

In the context of the concerns mentioned above, it is increasingly questioned whether it is justifiable to invest public resources in extension services. Some people view extension as serving the private interests of producers, and thus think that market forces regulate supply and demand for extension services satisfactorily. However, we consider that there are in many situations public interests related to agricultural extension which make public investment in extension – from donor as well as national sources – not only justifiable, but a necessity.

Extension constitutes an important element of modern development strategies, that can bring about a substantial impact of government and donor engagements. The challenge, however, is to design useful and effective services, to invest public funds in the most helpful ways, and to mobilise private funds where desirable and justified.

Well designed extension services contribute to improving agricultural production and land use systems, to reducing rural poverty[2], and to fostering political and social stability by more equitable economic development, through:

- accompanying the diversification of economic activities of rural households,
- facilitating access to markets for farm products,
- supporting the sustainable management of natural resources,
- enhancing the management capacities of producers, rural communities and other agricultural sector players.

In this way extension services help rural people to take advantage of opportunities, and thus contribute to livelihood security, while ensuring the conservation of the natural resource base[3].

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[2] New financing mechanisms have a role to play in poverty alleviation in rural areas. In a recent study supported by DFID and Sida (Extension, Poverty and Vulnerability: The Scope of Policy Reform, 2001), the Neuchâtel Group addresses the issue of the links between extension policies ands rural poverty.

[3] This vision of extension underlying the current document is presented in the “Common Framework on Agricultural Extension” published by the Neuchâtel Group in 1999.

Foto Helvetas

3. Transformation of the extension landscape and new financing mechanisms

Currently, extension systems are changing in many ways. This concerns organisational settings as well as the focus of the services. Previously the affair of national public institutions only, advisory services are now increasingly provided by a range of organisations (producer organisations, NGOs, private enterprises, central and decentralised public bodies), in diverse institutional and financial arrangements. National public extension organisations undergo reforms like decentralisation and privatisation. Often new local extension set-ups are built. The producers become clients, managers, owners or partners of the advisory services rather than mere beneficiaries. The involvement of producers in an extension set-up fosters quality and relevance. The services are more and more demand-oriented. Demands are not only voiced by producers, but in some instances also by other players in commodity chains. Moreover, consumers and the broader society raise demands related to the quality of farm products or ecologically sound management of natural resources.

In this context new financing mechanisms and new set-ups for extension are experimented with. It is sought to achieve more sustainability by combining financial resources and competencies of various players (producers, private enterprises, local and national public bodies, donors and international public bodies). More emphasis is placed on involving private sector actors.

Foto Christine Etienne, Switzerland

One has to distinguish between who finances a service and who delivers it. It is well possible that public funds are used to finance services provided by private sector extension organisations, and public extension organisations can complement the public funds with private funds by asking for payment from the clients for specific services. In the case of private delivery, particular attention must be paid to the impartiality of the services which should be controlled by independent bodies.

4. Challenges for new financing mechanisms

The primary purpose of this common framework for financing extension is not to conceive mechanisms which reduce public expenditure through cost recovery, but to design financing mechanisms in a way that:

- guarantees effective and demand-oriented services,
- empowers clients and other stakeholders, in particular those whose voices tend to be not heard,
- invests public funds to secure public interests,
- promotes a market of diverse providers in the extension service delivery landscape,
- promotes environmentally sustainable land use practices,
- contributes to better livelihood security for the poor and prevents marginalisation of vulnerable groups.

Certainly the financing mechanisms alone cannot ensure better extension, but they are an important part of the design of extension systems, and they impact on the quality and the effectiveness of the services to a major degree.

What is a financing mechanism?

The following elements are combined to make up a financing mechanism.

Involved actors. These can be grouped according to their roles. Note that the same actors can take on different roles, depending on the situation, often even at the same time.

- Funding sources (national and international donors, national public bodies, local public bodies, but as well producers, producer associations and sub-sector organisations, private companies)
- Extension service providers (public organisations, NGOs, producer organisations, sub-sector organisations, private companies)
- Users or clients (producers and their organisations, sub-sector organisations, local communities)
- Indirect beneficiaries (consumers, national public, international public)

Flows of finance and services. Funds are moving between the involved actors in exchange for services and other actions. Mechanisms for the collection and allocation of funds are key issues in this respect.

Conditions of funding. Attached to the flow of funds and services are usually rules and conditions governing how funding is to be obtained, how funds are to be used, and how involved actors and institutions relate to each other.

Environment. Every extension set-up and thus every financing mechanisms is embedded in an environment which is shaped by policies, socio-economic and agrarian conditions, degree of producer organisation, capacity of extension service providers etc.

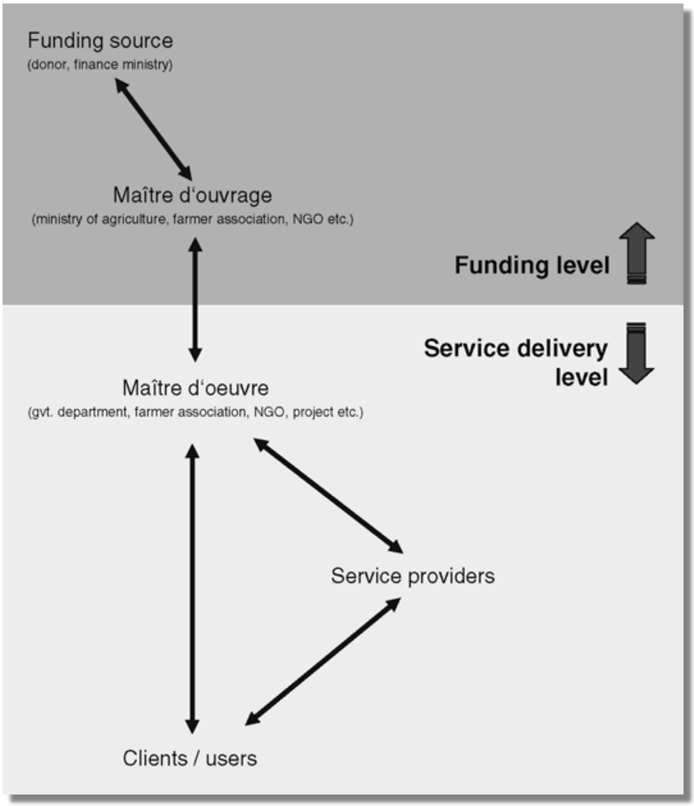
This framework attempts to outline the key points to take into consideration and to guide the decisions when designing financing mechanisms for extension set-ups.

5. Financing mechanisms at the service delivery level and funding level

There are two distinct but interacting levels at which financing mechanisms need to be designed: the “funding level” and the “service delivery” level.

The “funding level” is the level where decisions regarding the investment of public funds from international and national sources are taken, and where large amounts of funds are administered and allocated. It largely concerns interactions between donors, higher government levels and implementing agencies/programmes[4].

The “service delivery level” is the level of interaction between local implementers and administrators of funds, service providers and clients/users.



This common framework focuses on the service delivery level. The funding level is addressed as far as it influences the service delivery level, but issues like the choice between budget and programme support by donors are not dealt with. In fact, funding level issues are largely not specifically related to extension, but to broader development financing.

[4] In the diagram «Maître d’ouvrage» is a French concept, which refers to the one or those who are responsible for the definition and the oversight of an intervention. The “maître d’ouvrage” often delegates the implementation to a “maître d’œuvre”, the one who implements the activities, or provides directly the services under the responsibility of the ”maître d’ouvrage” (in some cases “maître d’ouvrage” and “maître d’œuvre” can be the same institution).

Principles for the financing of extension

1. Use financing mechanisms which promote empowerment

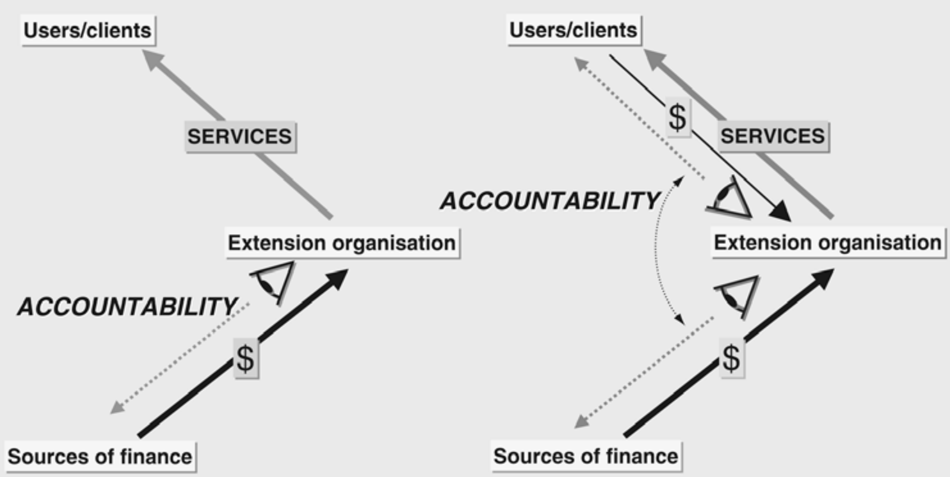
The link between financial participation and empowerment

The one who pays commands. This is also the case with extension services. Financing mechanisms are a powerful tool to promote empowerment of producers, their organisations and rural communities, if they are designed in an appropriate way.

Participation of producers/users in financing extension, even to a modest extent, is essential if they are to be heard when they ask for good quality services responsive to their needs.

Any extension service provider tends to seek the recognition of the actors by whom he/she gets paid, which is in many cases a donor, an NGO administration or a central government institution. If (part of) the payment comes from the users, then the service provider is compelled to seek

The impact of financial participation by users on accountability



In the left diagram payment comes only from a public funding source ➪ accountability is towards that source. In the right diagram clients contribute to paying for the services ➪ the extension organisation looks also towards the clients for recognition and can be held accountable by the clients.

recognition from that side, in particular if a substantial part of the payment depends on user satisfaction with the services delivered. This means that with financial participation the service providers are not only accountable to their main source of funds but also to their clients.

Foto Christine Etienne, Switzerland

With the legitimation of their financial participation producers can define the contents of extension services, appraise the quality of services, and sanction advisers. Practically this can be achieved by involvement of the users in the governance of the extension organisation (e.g. in producer organisations' own extension services or through representation of producers on supervisory boards), but also by fostering competition between different service providers among which the clients can choose.

The principle of financial participation can easily be put into practice with farmers who are to some extent involved in market production, and live in economically dynamic areas. But financial participation can also be implemented in more remote areas and/or for more vulnerable groups.

Usually farmers – also poor ones – are willing to pay for extension services, if they are sure to obtain an added value which exceeds the cost, within a reasonable period of time.

It is the farmer's perception of value and cost which is relevant for the willingness to pay and not the more obvious monetary facts, or the public or private nature of services. Willingness to pay is strengthened when producers perceive to be in control of the services, when the payment arrangements have been negotiated and are transparent, and when the services to be paid for are attractive and more profitable compared to the usual free services.

Farmers' willingness to pay differs between different kinds of services. Willingness to pay is usually greater for tangible services and services related to cash crops, and rather lower for facilitation or longer-term knowledge generation.

Payment for services by the clients not only empowers the clients, but also the service providers who gain professional status by having something valuable to offer to their clients.

Organisation of financial participation: hot and cold money

There are different ways in which the financial participation of users can be organised:

- direct payment for services,
- indirect payment through membership fees of producer organisations,
- indirect payment via levies on produce processed or marketed e.g. by a sub-sector organisation or a private company,
- out of tax revenues raised from agricultural produce, such as export taxes and octroi taxes (i.e. local taxes on the movement of produce).

The concept of hot and cold money is helpful in explaining the relation between the organisation of financial participation and empowerment. The notion refers on the one hand to the origin of funds (the more directly the payment comes out of the pockets of individuals the hotter it feels), and on the other hand it reflects the feeling of ownership.

With hot money users perceive their financial participation as direct and real payment for services. The perception of hot money is achieved best with direct cash payment for services. If there is transparency and awareness, indirect payment through membership fees in producer organisations and levies on products are also perceived as hot money.

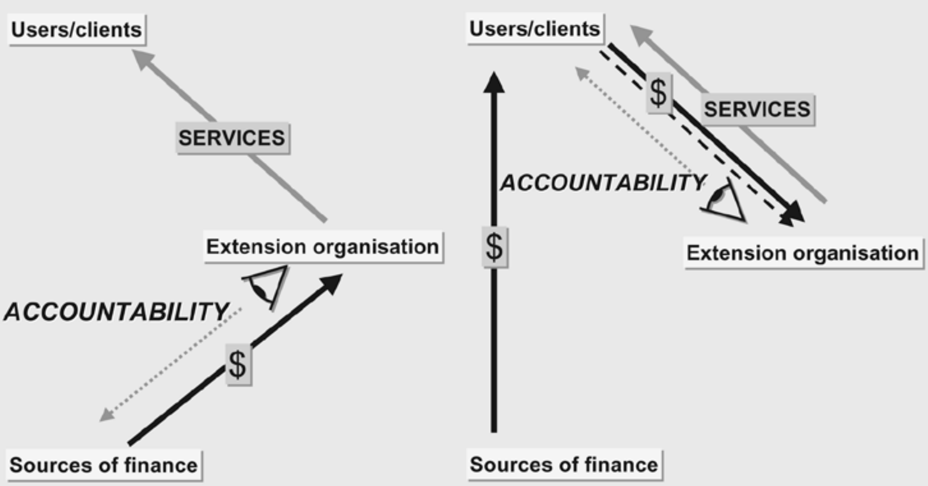
External funds (foreign aid, general tax money) are often perceived as cold. For instance, users perceive the funds of centralised public extension set-ups usually as fairly cold.

Financing mechanisms can foster processes of warming up money, for instance when users are really involved in the governance of service delivery institutions that are financed by levies on produce. But financing mechanisms can also cool down money, for example when membership fees or direct contributions of users are mixed in a global budget, or when the service delivery institution has no functioning accountability mechanisms.

Using public funds in an empowering way

In many cases only partial financial participation of clients is practical and desirable. A major part of the service cost is still financed from public sources (donor countries, international donors, national and local government budgets). In such a situation the financing mechanisms can be designed to promote empowerment as well, if the public fund share is not paid directly to the supplier of services, but transferred to the users who then pay the extension organisation with this money. Such mechanisms are called demand-side financing (because the public funds are channelled via the demand-side) or transfer-of-purchasing-power mechanisms (because funds to purchase services are transferred to clients who would otherwise not have sufficient purchasing power to use them).

Empowerment and accountability through demand-side financing



Conventional (supply-side) financing **Demand-side financing**

Public funds can also be channelled via the demand-side if funds from further private sources like processing or commodity export enterprises are involved. This strengthens the farmers position vis-à-vis those powerful players.

Ownership empowers: extension services provided by producer organisations

In the case of extension services belonging to producer organisations, the empowerment potential is particularly strong because member farmers are not only clients but the real owners of the service, and have maximum control over services and service providers. This remains the case also when a large share of donor or public funding is involved. Participatory and democratic functioning of producer organisations is a crucial factor for realising the empowerment potential of ownership of services. Control of the producer organisation and the extension service by a few influential and better-off members is a threat to such systems. Experience shows that such a governance drift is common.

Foto Brigitta Stillhardt, CDE, Bern, Switzerland

2. Design financing mechanisms in a way that those who benefit from services participate in financing them

This principle implies a) that funds from different sources of finance need to be combined, and b) that it needs to be determined which actors derive benefits from a service, directly and indirectly, and on this basis the financial contribution of each benefiting actor is negotiated. The outcome of such negotiation processes can only partly be based on technical considerations, and political considerations are likely to play a major role.

Combining funds from different financing sources

There are diverse sources of funds which can be mobilised to finance extension. These sources coincide with the actors concerned with extension and can be grouped largely into private and public. It is necessary to combine different sources of funds and capture more of the available private sources. This has the advantages a) that the national and international public funds can concentrate on financing services to which a high degree of public interest is attached, and b) that free (i.e. publicly funded) services for private interests are avoided (provided that the system functions transparently and without corruption).

It is important to recognise that a certain level of public funding for extension will always be necessary if public interests around extension are to be taken care of. Even in the highly commercialised agriculture of industrialised countries only a varying portion of the cost of extension are borne by farmers. In addition, the farmers of industrialised countries continue to enjoy comfortable subsidy levels of which poor farmers in developing countries cannot even dream.

The table below gives an overview of the players which can act as sources of funds and different modes to collect the funds:

Actors and possible sources of finance	
Actors/source of funds	**Mode of collection**
Farmers, farmer organisations and community organisations	Member contributions, fees, levies on products
NGOs	Donations (from local and international community), transfers from governments
Sub-sector/commodity organisations	Levies on products, negotiated contributions of different players
Processing, marketing and export enterprises	Portion of profit
Input suppliers	Margins on product prices
Local government	Local budget (transfer from central level or local fiscal resources)
Central government	Central or sector budget (general taxes, export taxes, subsector taxes)
Consumers	Contributions to consumer organisations, general taxes
International community	Donor country budgets, international organisations, donations

Negotiation of benefits and sharing of costs

In many cases not only the immediate client of an extension service benefits from it. Other, more indirect benefits may result:

- consumers benefit if producers use pesticides correctly,
- a whole community benefits if pastures are not overgrazed,
- a micro-finance institution benefits if its clients make profit from the businesses for which they take loans,
- a processing firm benefits if farmers deliver good quality produce,
- a country benefits if farmers produce commodities for export,
- the society of a whole country or even the international community benefits if more poor farmers earn a decent living,
- and the international community benefits if biodiversity is preserved.

Thus, often several stakeholders – from individuals, families and local communities to the national and global public – benefit to some extent from the same extension service. All those who benefit from a service should participate in financing it. Which player finances what share in a service must be negotiated. The basis for negotiation is the extent to which a player benefits from a service.

Key points to be negotiated are:

Degree of public interest in a service. The degree of public interest is in practice of particular importance as it determines the share of the cost to be financed with public funds. The opinions about what are the interests of the broader society are guided by beliefs and individual or group interests, and often extremely controversial. Thus decisions on the share to be funded from public sources are often very political.

It may also be negotiated at which level the public interest is located: whether it is (e.g.) at a local level or at the national or international level. Contributions to the cost of the service should then be made from the appropriate level. In some cases, for instance in services for natural resource management, local, national and international interests can be closely linked: here a contribution made up of funds from different sources would be required.

Examples of services in the public and in the private interest

Services which result directly in increased profits of farm households (with the exception of very poor households) are largely in the private interest of the concerned household. Among these would be e.g.

- training in the production of commercial crops,
- assistance in the elaboration of a business plan to obtain credit,
- vaccination of livestock.

Services which generate both, benefits in terms of profit for individual farm households and benefits for a broader public, are of mixed interest, e.g.

- training and coaching in the production of commercial crops for very poor farm households,
- promoting market integration of remote areas,
- vaccination of livestock against highly contagious diseases,
- economic and marketing innovations, and new forms of organisation etc.,
- production increases for export crops which are taxed and thus contribute to fiscal resources of a country.

Services which result mainly in benefits for a broader public (nationally or internationally) are e.g.

- promotion of sound pesticide use (reducing water pollution, pesticide residues in crops),
- facilitating conservation of biodiversity or forest resources,
- production increases in staple crops for national or global food security.

If the relevant level does not have the necessary funds, a solution consistent with the principle of empowerment enunciated above, would be for the external provider of funds to channel money to the demand-side, i.e. to the body representing the public at the respective level (e.g. community organisations, local government councils), rather than directly to a service provider) and for that body to then pay the service provider(s).

The degree of financial participation of users. The share of cost to be paid by the clients must be determined in a transparent way, by negotiation, and should not be imposed arbitrarily. It should be based on the actual cost, the value which users attach to a service, the actual benefits, and the degree of public interest in that service.

Financial participation of other stakeholders. If there are other stakeholders who benefit, they should contribute to financing the respective service in accordance with the level of benefit.

3. Ensure that financing mechanisms take care of public interests

Financial participation, demand-side financing, and different forms of private extension services all tend to encourage the provision of services that result in quick economic benefits to the clients and, in the case of private commercial firms, in higher profits to the service providers. **Services with a longer-term perspective, for poor client segments and disadvantaged areas, and services that promote ecologically sound practices do not fall into this category.** Therefore when introducing empowering financing mechanisms, the representatives of public interests must keep a watchful eye on the effects of the new financing mechanisms and pay special attention that their public interests are taken care of.

Financing mechanisms and the poor

It is sometimes questioned whether poor and vulnerable groups benefit from extension services at all. In general it can be said that they can benefit in many ways provided that the services offered take into account their particular needs and constraints. E.g. training women in vegetable growing has improved the nutritional status of many children in Bangladesh, training farm labourers in specific skills can help them to secure higher wages.

The introduction of financial participation raises the complex issue of access to extension services of poor and vulnerable groups and in remote, low-potential areas. In societies and states which consider equitable opportunities and the reduction of regional imbalances a goal and thus a public interest, it is justified to finance a major part of the cost of extension for disadvantaged groups and regions with public funds. They should be preferably channelled via the demand-side.

Financing extension in disadvantaged areas may require broad public funding, whereas in more dynamic regions the public funding can be targeted specifically to the disadvantaged groups. This requires that the poor and vulnerable groups are identified and strengthened in their capacity to formulate demands and negotiate the services they need.

Foto Moussa Sanogo, Mali

It is often said that poor people cannot pay for extension services. However, experience in different places shows that for services which are truly and obviously useful, poor and vulnerable people are willing and able to pay a certain amount in many cases. The empowering effect of financial participation is so great that it is worth to apply it also in case of poor and vulnerable groups.

The arrangements and the degree of financial participation have to be adapted to the capacity of these client groups. Payment for services deferred until harvest time, payment in kind, or payment in instalments, or group services to spread costs are options which help to ensure that the cost of extension does not lead to increased vulnerability or deter disadvantaged people from using services. Within set-ups of producers or sub-sector organisations financial participation indexed according to the volume of produce or landholding size is an option to distribute cost in an equitable manner among producers of different economic size.

On the other hand the designers of financing mechanisms have to be aware that financial participation may exclude certain poor people from access to extension services, and that financial participation for extension can compete with increased financial participation in other services like health and education. Specific measures to mitigate negative effects of financial participation on disadvantaged groups may need to be designed.

Linking new financing mechanisms and poverty reduction requires redistribution of resources from better-off sub-sectors, regions and categories of producers to disadvantaged ones, not only within the agricultural sector but also from other sectors to the agricultural sector. Such redistribution can take place only with the support of a state concerned with equitable opportunities.

Financing mechanisms and ecological sustainability

The new financing mechanisms which favour services with quick economic benefits bring about the risk that the promoted practices are ecologically and economically not sustainable. There should be a local, national and international public interest that farming and natural resource management practices are sustainable in the long run, i.e. that they do not deplete the resource base. Therefore, when introducing new financing mechanisms,

Foto B. Minder, Switzerland

measures should be taken to counteract this tendency. This may happen through legislative means and their enforcement by impartial bodies, and by publicly funding services which promote sustainable practices, and increase knowledge and awareness about ecological problems.

Paying farmers for actions contributing to ecological sustainability which benefit their local or the global community (environmental services) is a very effective means to support farmers in marginal areas, and to foster their self-esteem as providers of environmental services to the wider society. Such services may for instance be soil conservation measures on slopes to prevent silting of downhill water supply schemes, or giving up logging and hunting in a protected forest area to conserve biodiversity.

Overview of key financing mechanisms

Some important financing mechanisms and situations in which they are feasible are presented in the following. Note that in practice, often different financing mechanisms are to be combined[5].

1. Mechanisms dominated by private funds

Direct payment for services

This form of payment is suitable for services that are mainly in the private interest of the user. The service provider can be from the private sector or a public extension organisation. The users are very much in the role of clients. Direct payment for services, even if it covers only part of the actual cost, strongly fosters accountability of service providers to the users, since no user will pay for bad services.

Foto SDC

Individual advice may be too costly for individual producers, in particular if the payment is supposed to be a major part of the extensionists' income. Cost spreading mechanisms, e.g. group extension events or training courses, are a way to reduce cost for the individual and at the same time allow reasonable cost recovery.

It is acceptable that the payment for services does cover only part of the actual cost when there is a certain degree of public interest in the service.

[5] The "Guide to Decision Making for Financing Extension" presents more information on the effects, necessary frame conditions and good practice related to different financing mechanisms.

However, if the service is purely in the private interest, then too low prices mean unfair competition with private sector service providers which are not publicly subsidised.

Financing of services through member contributions

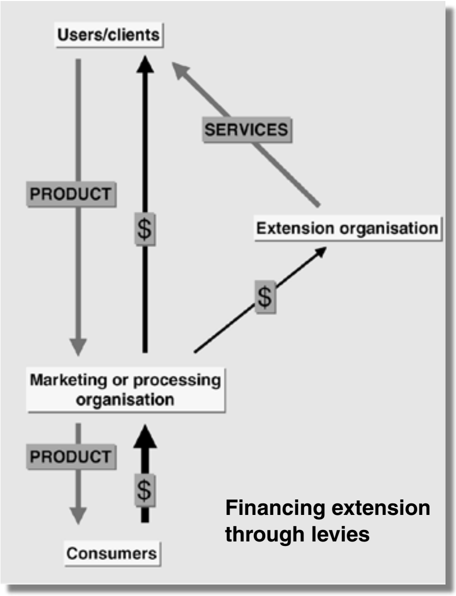
Members of producer or sub-sector organisations pay an annual membership contribution. These funds are used to finance the operation of the organisation. Extension and advisory services may be included in their services to members. Financing through member contributions promotes real ownership, provided that the organisation functions in a democratic and transparent manner.

The strength of extension arrangements of producer and sub-sector organisations is that they can really represent the interests of producers and other sub-sector players. However, they are bound to neglect public interests where they do not coincide with the interests of the members. Therefore, if such arrangements are funded partially with public funds, the representatives of the public interest have to pay attention that the extension set-up remains accountable to the public to a reasonable extent. This is achieved by attaching adequate conditions to funding.

Financing of extension through levies on produce

Financing through levies means that the cost for extension are deducted from the price which the farmers get for their produce.

Levy financing is possible for any organisation or enterprise which markets or processes farm products, e.g. producer organisations, processing companies, contract farming arrangements etc. A pre-condition for such an arrangement is that all the produce passes through a bottleneck somewhere along the commodity chain where the levy can be collected.



Financing extension through levies

Levy systems are sometimes operated purposefully in an obscure manner, which makes producers feel exploited.

A transparent levy system where farmers are well aware of what they pay is empowering. Well organised farmers have better chances to ensure fair levy arrangements than small scattered contract growers of a large agro-industrial company.

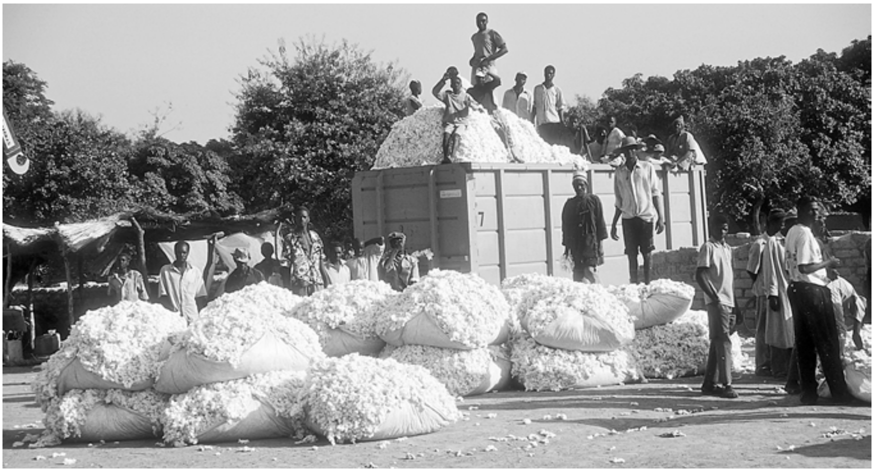


Foto Helvetas

The choice of the institution (a producer organisation, a private company or a para-statal body) responsible for managing the levy system can strongly influence the confidence of the producers in the setting and their perception about the quality of its functioning.

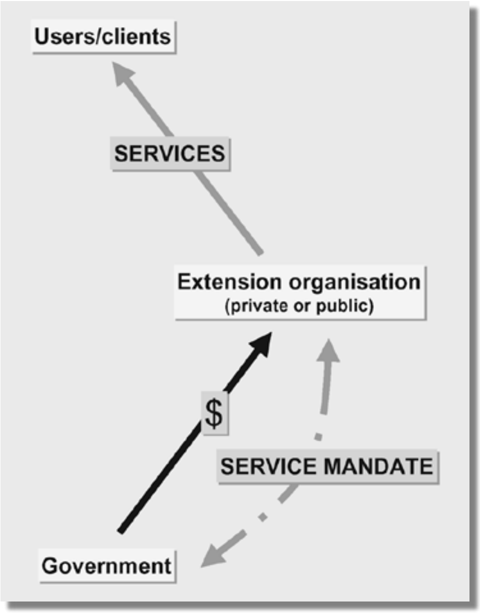
Levies on produce are usually used to finance extension around the product for which they are collected. However, levies can be also redirected to less favoured sub-sectors and regions to finance extension activities there. For instance levied funds may be directed towards an agricultural development fund. In this way levies become a tool that allows redistribution of resources towards more equity.

Earmarked taxes

Export taxes, trade or road taxes collected by a public body can be earmarked for the financing of extension. Such a system needs to be transparent if producers are to appreciate that they in fact finance extension and have the right to have a voice. Of course, earmarked taxes can be used as a redistribution mechanism in the same way as levies.

2. Mechanisms dominated by public funds

Service mandates



A government contracts extension organisations and mandates these to offer specified services to a specified clientele (this may be a specific area or a specific population segment). Such service mandates are usually concluded with private organisations – for-profit enterprises, NGOs, producer associations or community-based organisations. Service mandates are also possible between the public administration and independently operating public extension organisations, e.g. in decentralised settings. Service mandates allow the use of public funds for services in the public interest (e.g. the promotion of environmentally sustainable practices, poverty reducing activities) without maintaining a public delivery system. They also can promote more effectiveness and efficiency of public extension organisations.

Service mandates are particularly suitable for services with a relatively high degree of public interest. For services with a high degree of private interest a financial contribution of the clients needs to be included. With service mandates, like with any contracts between public institutions and the private sector, the risk of corruption is a concern.

Demand-side financing mechanisms

Demand-side financing (channelling public extension funds via the users) fosters demand-orientation and effectiveness. It is appropriate in the case of services with a rather high degree of private interest in addition to the public interest involved, like for instance production or marketing advice for poor farmers. It has an empowering effect on the clients and ensures accountability of extensionists to producers. It has little distorting effects on market relations, and on financial relations between farmers and extensionists.

There is no crowding out of potential private commercial suppliers, and the development of a market for extension services is promoted.

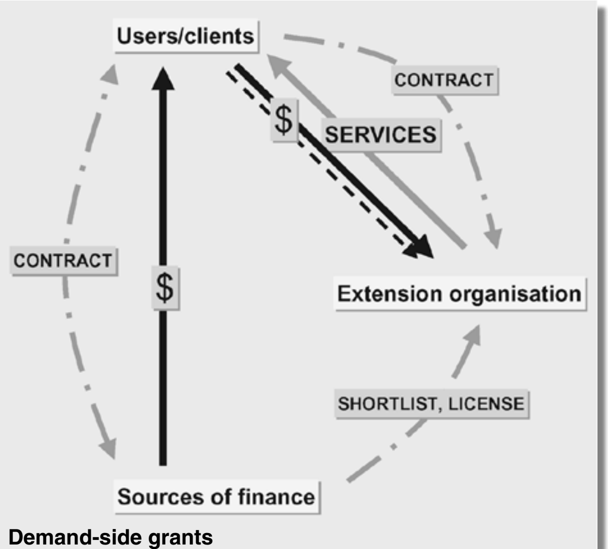
Demand-side financing must include some financial participation and have a good control system in order to motivate for effective use of the funds and minimise corruption incentives.

Certain issues have so far limited the use of demand-side financing:

- As the funds must be distributed to a vast number of places, the administration and control of such systems is fairly complex. It is much easier to channel donor funds to one or two rural development NGOs and control their use, than to several dozen local level organisations.
- Along with the purchasing power, other powers are also transferred to producers, and donors as well as governments may feel uncomfortable with the loss of control associated with demand-side financing.

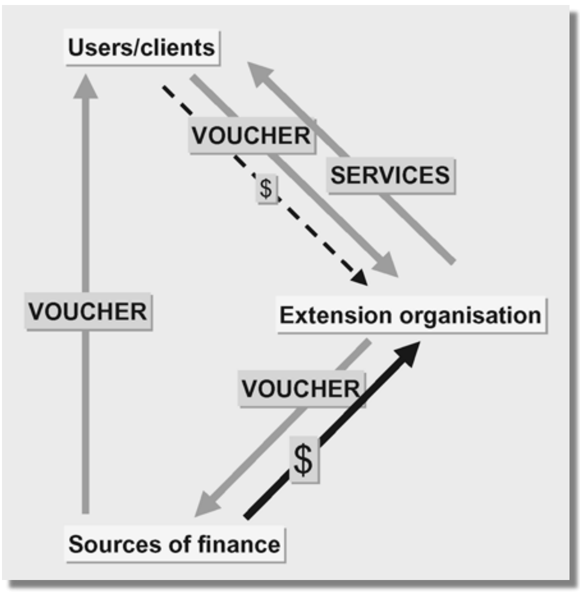
There are different mechanisms to put demand-side financing into practice. The most important ones are demand-side grants and voucher systems.

Demand-side grants. Producers or their organisations conclude a contract with a source of public funds for the financing of specific services and activities. With the funds the producers then purchase the services of an extension organisation to get professional support. It is also possible that the extension organisation and the producers jointly elaborate a project and then apply for funding. Agricultural extension or development funds, for example, usually operate in this way.



Demand-side grants

Voucher systems. Vouchers are another way to put the concept of demand-side financing into practice. The clients obtain vouchers from the public funding source which entitles them to specified extension services from an extension organisation. They pay with the voucher for the services obtained. After service delivery the extensionist submits the voucher to the government and gets paid. Often the admissible extension organisations are shortlisted or licensed.



Practical implications

1. Accompanying the introduction of new financing mechanisms with capacity building

Empowering financing mechanisms can only unfold their potential if producers can articulate their service requirements and if extension service providers are able to offer services answering these requirements precisely. These capacities are in many places insufficient. Thus new empowering financing mechanisms must often be accompanied by substantial investments in capacity building among the producers, their organisations, the extensionists and the extension organisations, as well as the supervisory and regulatory government institutions.

Supporting producers' organisational and professional capacities

Well organised producers and rural communities are in a better position for negotiations with government and other relevant players. Rural development activities are facilitated if they can be implemented in partnership with capable local organisations, and with democratic local governing structures. This requires producer organisations with good organisational and management skills, which are able to gain access to useful information and knowledge.

Foto Helvetas

Thus, governments and donors should invest in training and capacity building of producer organisations and support for local democratic processes.

More generally, efforts are needed to improve the dialogue among actors. Such efforts are often underfunded, even though they are crucially important. They include e.g. strengthening of farmers' capacities to formulate demands vis-à-vis extension organisations, and to lobby for favourable policies and regulations vis-à-vis higher level decision makers.

Mutual trust is a condition for successful collaboration between donors and producer organisations. If donor funds are channelled through institutions in which the producers have little trust, the trust in the donor agency is at stake. Therefore donors must choose an implementing agency for their programmes which is generally trusted by farmers.

Investing in capacity building of extension service providers

Innovative financing mechanisms can achieve their objectives only if there is a sufficient number of competent and self-confident extension service providers available. They must be able to understand the farmers' realities and requirements well, and have the competence to design and offer services that respond precisely to these requirements. With increasing market integration, also of small farmers, extensionists require more and more competencies beyond production technology, e.g. in marketing, organisational development, environmental issues, process facilitation and coaching.

Although capacity building is a continuous need, it needs concerted efforts in training and coaching at the beginning of a change process. These concerted efforts are of limited duration and thus suitable for donor investment without discouraging the development of local structures. Where there are no or not sufficient service providers, donors and government have to find stimulating mechanisms to create an offer of services in rural extension. In this regard, mechanism such as competitive grant funds, linked to appropriate capacity building initiatives can be helpful.

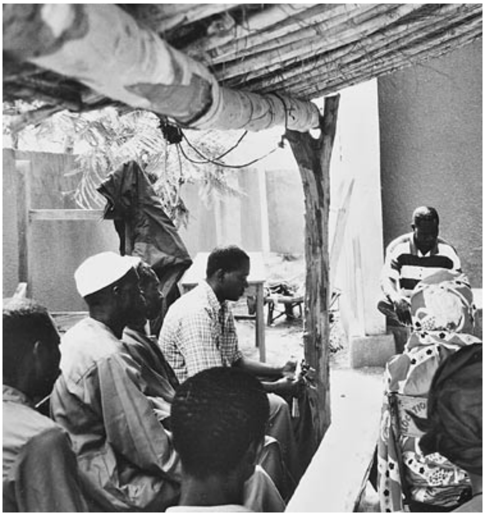


Foto Christine Etienne, Switzerland

2. Ensuring pluralistic, but consistent financing mechanisms

The diversity of contexts, services and organisational forms demands that the pluralism in extension service providers must be accompanied by pluralistic financing mechanisms. However, although the financing mechanisms operating in a location may be diverse, they should be compatible with each other, in order not to sabotage the functioning of some of them. The conventional free-for-everybody services may hamper the establishment and functioning of other forms of financing mechanisms. Therefore the involved development planners and programme designers must coordinate the financing mechanisms of their programmes to ensure that the financing mechanisms which operate in a location are consistent.

A feasible way to achieve consistent financing mechanisms for extension and other agricultural development activities is via a “basket” grant fund, namely a fund through which grants from different donors dedicated to a particular purpose (e.g. research and technology development, extension services, professional training) are channelled. Organisations engaged in work which the fund aims to support (such as producer organisations, extension providers, research institutions) can access the fund by bidding for allocations to pay for specific activities or programmes. The criteria for the allocation of funds then should include adequate financing mechanisms.

3. Adapting the time frame of external support to the objectives

Donors often finance functions and activities for limited time, after which the financial responsibility is handed over to government or other local institutions which are then often unable to carry on with the funding. This threatens the sustainability of the changes achieved by interventions.

Donors should therefore fund functions:

- **which are needed only for a certain period of time.** During an intervention many functions are carried out that help to change things, which do not need to be performed anymore once changes have been achieved.

- **whose longer-term financing from local sources is secured.** Various experiences show that it is very unlikely that functions which have been introduced with subsidies continue to be performed once subsidies are stopped. Generally the respective activities just disappear.

- **which are intended to show new ways of doing things (pilot activities).** In this case donors have to bear in mind the fact that their initiatives may not be adopted by the local decision makers.

- **in which there is a long-term interest on the side of the donor or the international public.** In such cases long-term funding commitments from donors are necessary, and there is no point in insisting to hand over the financial responsibility to national and local actors.

Functions which are to be funded from national or local public or private sources must be financed by the respective source as soon as they are beyond an experimental stage. Otherwise, it is likely that they will never be financed by these sources!

4. Financing change and transition processes

Changes in systems require a higher level of financial resources during the transition period. For successful changes it is necessary to invest in slow transition processes which allow for an adaptation of approaches to local conditions. Building demand-driven, financially viable extension systems requires iterative learning and change processes. Also scaling-up of successful extension approaches needs the replication of learning processes rather than just replication of the set-up. These change processes need competent process coaching and methodological assistance. Once the transition is complete the level of funds required goes down to normal. Therefore, transition processes lend themselves for donor funding.

Foto SDC

5. Financing extension is not enough

Investing in extension alone – even if optimally adapted to the needs of the clients – is not enough. Extension cannot be effective unless a set of frame conditions is in place:

- international and national policies which impact on agriculture and land use systems must be adequate,
- a research system which is able to facilitate the development of adapted innovations must operate,
- producers must have access to means of production and markets,
- adequate education opportunities for future agricultural professionals as well as producers are necessary.

Where these frame conditions are not met, public investment to enhance them needs to complement investments in extension. In some situations, a sector-wide approach may be useful for guiding and co-ordinating donor and in-country public investment, not only for extension but for all relevant sector functions.

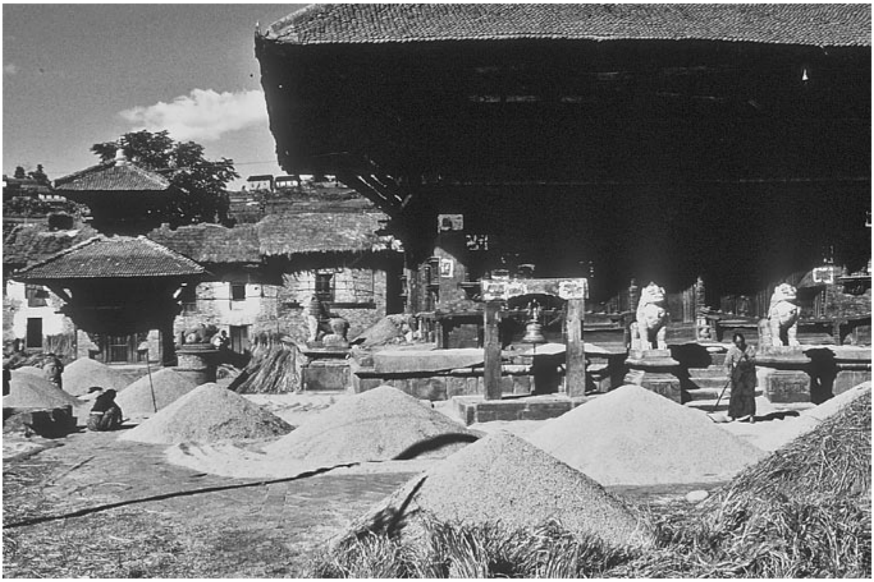


Foto SDC

The Technical Centre for Agricultural and Rural Cooperation (CTA) was established in 1983 under the Lomé Convention between the ACP (African, Caribbean and Pacific) Group of States and the European Union Member States. Since 2000, it has operated within the framework of the ACP-EC Cotonou Agreement.

CTA's tasks are to develop and provide services that improve access to information for agricultural and rural development, and to strengthen the capacity of ACP countries to produce, acquire, exchange and utilise information in this area. CTA's programmes are designed to: provide a wide range of information products and services and enhance awareness of relevant information sources; promote the integrated use of appropriate communication channels and intensify contacts and information exchange (particularly intra-ACP); and develop ACP capacity to generate and manage agricultural information and to formulate ICM strategies, including those relevant to science and technology. CTA's work incorporates new developments in methodologies and cross-cutting issues such as gender and social capital.

CTA is financed by the European Union.

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An informal group of representatives of bilateral and multilateral cooperation agencies and institutions involved in agricultural development in the countries of sub-Saharan Africa was set up in 1995 out of a meeting hosted by the Swiss Agency for Development and Cooperation in Neuchâtel, Switzerland.

This group comprises representatives of the cooperation agencies of Austria, Denmark (Danida), France (MAE), Germany (GTZ), the Netherlands (DGIS), Sweden (Sida), Switzerland (SDC), UK (DFID) and the USA (USAID), as well as representatives of the FAO, the IFAD, the European Commission (EC/DGVIII), the CTA (Technical Centre for Agricultural and Rural Cooperation) and the World Bank.

Through a series of case studies and joint reflections, this 'Neuchâtel Initiative Group' is helping to bring a measure of convergence to thinking on the objectives, methods and means of support for agricultural extension policies.

CTA

partageons les connaissances au profit des communautés rurales

sharing knowledge, improving rural livelihoods