

Financial Participation in Practice

Experiences with Participation of Clients in the Financing of Extension Services

by Elisabeth Katz, LBL

Participation of client farmers in the financing of extension services is rapidly becoming a paradigm in discussions of rural development policy, and consequently a variety of attempts to put this concept into practice are underway. In recent years, considerable although not yet very mature experience with client-funded services has been gained.

Financial participation may come in the form of cost-sharing of small percentages up to 100% user financing in entirely privately funded and delivered services. This article analyses a couple of practical experiences with partial financial participation.

1. Why financial participation?

Financial participation is advocated by different people for very different reasons. We have come across the following motives and expectations (in literature as well as in discussion with concerned persons):

- reducing public expenditures for extension, ensuring effective, demand-oriented, high quality services, better adoption rates, and accountability of service providers to clients,
- ensuring the use of public funds for public interests,
- fostering empowerment and farmers' ownership of services,
- improving the chance of financial sustainability of services.

At the end of this article we will draw conclusions on whether these expectations from financial participation are justified.

2. An experience from Nicaragua

INTA (Instituto Nicaraguense de Tecnología Agropecuaria) is a public organisation responsible for research and extension in Nicaragua. In 1996 extension services for payment by farmers delivered by public agents were initiated on an exploratory basis. Later this pilot programme was expanded and became one of three main INTA extension programmes. The following observations and conclusions reflect the process until approximately the year 2000.

Financial and service delivery arrangements

The extensionists make contracts with farmer groups. In the contracts the type of services (so far mostly support concerning a specific crop during one growing season), including frequency of farm visits and payment modes, are specified. Payment is based on two aspects: one is the services and the other is the effect of the services on crop yields/incomes (compared with usual yields).

Prices for specific services are either negotiated between the extensionists and the client farmer groups, or may be fixed regionally e.g. per visit. The payments made by the farmers, directly increase the salary of the extensionists.

Observations and insights

Change management

The idea of financial participation initially met with strong resistance. A lot of efforts were undertaken by the initiators to gain support for the idea at all levels from the farmers and field extensionists to producer associations, the higher levels of INTA, and policy makers. Consultations and discussions focused on different issues at each level:

Policy makers, managers and high level representatives of farmer associations

Focus on the rationale for financial participation:
• accountability, • user orientation, • increasing the income of farmers as the main purpose of extension

Field extension staff

Discussions on what they have to offer to farmers, how their services benefit farmers, and the possibility to earn additional income

Farmers

Floating the idea of financial participation, discussing the value of extension services, foster the willingness to pay for services that really increase the income

After a several months process to prepare the ground financial participation was introduced in a few places.

After the first round of contracts more farmers and extensionists joined, and later the programme was further expanded to cover the whole INTA system.

The careful and transparent change management process was certainly one of the key success factors.

Extensionists' view

Initially the extensionists did not feel that their services were worth of being paid and were therefore the most sceptical about the practicality of the new approach. The prospect of earning additional income convinced them finally, and now many of them are happy with the additional income they earn.

The increased income was for some of the extensionists so much of an incentive that they neglected their other extension tasks which they are supposed to do within their regular salary.

In low-potential areas, the extensionists find it difficult to find an adequate number of paying clients and have now lower incomes than their colleagues from more dynamic areas.

Clients' view

The participating farmers feel that their relation to the extensionists has changed, that the extensionists now really show interest in them, and that they gain benefits from the services.

On the other hand, some clients reported that the main benefit they gain from the services for which they pay is not increased profits, but that through the relationship established with the extensionists and their links to other players they gain access to credit and donor-funded activities.

Client selection

Extensionists have to search for clients that are willing to pay and find them in relatively commercial, not very poor, rather privileged farmers. Most contracts are concluded in dynamic areas.

It is not clear to what extent disadvantaged farmers are excluded from the programme, but there is an indication that they may be little willing or able to pay, because in low potential areas it is obviously difficult for the extensionists to find an adequate number of paying clients.

Price setting

Price setting turned out to be delicate. Prices should be high enough for farmers not to be indifferent, but not too high. The total amount paid by a group should be sufficient to be an incentive for the extensionist. In some cases the prices negotiated were very low when compared to the yield increases achieved as a result of the services.

In several cases the measurement of results (after the services were provided), indicated a decrease in yields and profits, while the farmers were very positive about the services. It was thought that the mode of payment encouraged the farmers to report too high usual yields and to measure too low actual yields.

3. Experiences from Honduras

PASOLAC, a programme for sustainable agriculture on hillsides in Central America, works in partnership with local NGOs, extension enterprises and producer associations. The programme supports extension services related to sustainable land use practices to small farmers with limited financial resources and access to markets. Most services are provided to groups.

The services offered were well used, however, it was observed that the adoption of the suggested practices was low, and that the same farmers attended courses on very similar topics often year after year. Thus the programme was searching for a new approach which would allow to identify the real demand for services, lead to better quality services, increase the

adoption of extension contents, and strengthen the farmer groups.

Therefore from 1999 onwards several of the programme partners introduced financial participation for extension services on a pilot basis.

The insights presented here have been gained mainly from the experiences of two cases in Honduras. More recent experience from other cases in Honduras, El Salvador and Nicaragua complement the insights.

Financing and service delivery arrangements

The financing and service delivery arrangements in the two examples are different. The key difference is that the programme funds in example 1 flow from PASOLAC directly to the service provider (supply-side financing), whereas in example 2 the programme funds go to the clients (a producer association) and from there to the service providers (demand-side financing or “reversed flow of funds”).

Example 1 – SERTEDESO

Sertedeso (Empresa privada de Servicios Técnicos de Desarrollo Sostenible) is a private extension enterprise. The steps of the service and financing delivery arrangement looks as follows:

1. Sertedeso identifies interested farmer groups. Their demand for extension services are worked out in a participatory process, and their willingness to pay something for the services is assured.
2. Sertedeso submits a project proposal to the PASOLAC programme.
3. When the project is approved, the programme transfers funds to Sertedeso which cover however only about 90% of the costs.
4. Sertedeso and the concerned farmer group sign a contract where the services to be delivered, the financial contribution of the farmers and other mutual responsibilities are specified.
5. Sertedeso carries out the agreed services and the farmer group pays for them (about 10% of the total costs).
6. The programme evaluates the services with the farmer groups as well as with Sertedeso.

Example 2 – APAS

APAS (Asociación de Productores de la Sierra), is a second-level association of producer cooperatives. With APAS the steps of the financing and delivery arrangements are different:

1. APAS identifies the extension needs of their member cooperatives.
2. Then APAS formulates a project proposal and submits it to PASOLAC.
3. After project approval APAS gets approx. 90% of the cost from the programme.
4. APAS contracts service providers.
5. The service providers deliver the agreed services to the cooperative members.
6. APAS pays the service providers with the funds obtained from the programme and the farmers who participate in the activities.

Observations and insights

More effectiveness of services

With the new approaches service quality and effectiveness obviously has improved:

- The clients clearly perceive the benefits of the practices suggested in training and advisory services, and the adoption rate of the suggested practices is between 65 and 85%.
- Training courses have become practical and include documentation.
- The service providers do not offer the same or very similar training services to the same clients year after year any more. They either have to expand their operations to new areas to find other clients or identify new extension contents and develop new service offers.

Changes in demand

Services for commercial crops like coffee, vegetables and fruits are much more demanded than for staple crops, and demand for services related to processing and marketing has risen quickly. Services with little income increasing potential and a high degree of public interest (soil and water conservation, gender) are little demanded.

In general, farmers are more interested in services of a technician than of farmer extensionists (promotores). However some of the latter are now also getting paid for their services.

The response of the service providers to the change in demand is not clear. Some broadening of the offer has been observed, but it appears that the capacity of service providers to meet the new demands may not be sufficient. So far the appearance of new service providers as an effect of the new approach has not been observed.

The users of the services, in particular in the case of individual payment, are mainly relatively better-off farmers with a certain economic development potential.

Empowerment – from beneficiary to clients

The status of farmers has changed from a beneficiary to a client. Farmers and extensionists have a more equal level relation. This empowerment is illustrated by certain changes in the attitude of the service providers: They have become punctual and reliable. Services are offered also on weekends and other times that are convenient to the clients.

Management and demand articulation capacity

The often low capacity of farmer groups to formulate their demand for services is limiting real demand-orientation. Farmers lack clear criteria to prioritize their needs. The services demanded have mostly a short-term perspective and are not particularly innovative. Often farmers are not aware of the full range of available offers. The development of proposals is a lengthy process and the groups need extensive support.

Preference of demand-side financing

The people involved in the programme find the demand-side financing mechanisms used with APAS and with other producer organisations more appealing than the supply-side mechanism of the Sertedeso case. The main reasons for this preference are:

- Demand-side financing has stronger effect on enhanced accountability and demand-orientation than financial participation only.
- The positive effects of demand-side financing on management and organisational capacity building of the involved producer organisations are considered important.

Direct or indirect payment?

In some cases individual farmers pay directly for the services, whereas in other cases the payment comes from common funds of the producer organisation. In principle, both modes of payment have positive effects on effectiveness and demand-orientation. But in some cases, the organisation members were unaware that in fact it is them who pay for the offered services, and consequently they did not exert their influence. Thus with indirect payment, transparency and awareness are key factors for the achieving the desired effects of cost participation.

Effects on dissemination of knowledge

No extension service can reach all potential clients and thus the impact of extension is enhanced if there is exchange of new knowledge between farmers. What are the likely effects of financial participation on farmer-to-farmer diffusion of knowledge? In some cases it was observed that farmers who had obtained services passed the gained knowledge on to others against a small fee. It appears that financial participation may obstruct free dissemination of knowledge. Where payment for service is from collective funds the risk of barriers to diffusion may be smaller.

4. An experience from Ecuador

The fruit programme of INIAP, a public research institution in Ecuador, attempted to introduce cost sharing for extension services related to fruit production in the mid 1990ies. It however failed to do so. The following likely reasons were identified by various involved players:

- Participation of farmers in defining the contents of the services was insufficient.
- The services offered were not sufficiently valuable for the farmers, because they were largely production-related and did not respond to the main problems that related to marketing alternatives, small margins, irrigation and access to credit.
- Transparency and preparation for the introduction of payment was insufficient.
- The extension methodology applied was sometimes not adequate for the farmers.

5. Conclusions on critical issues in financial participation

Willingness and ability to pay

In general, farmers – also poor ones – are willing to pay for extension services if they are sure to get added value that exceeds the cost in a reasonable period of time, and if the expenses do not compete with other immediate needs. However, it is the farmer's perception of value and cost that is relevant and not the monetary values that are more obvious to outsiders.

On the other hand, the effects of financial participation are never neutral. Some people are likely to be excluded, because not all people are willing and able to pay, even if the services in question would contribute to improving their livelihood. For the poorest people payment of even small amounts is often simply

not possible, because there are always more pressing needs for their scarce resources.

Types and quality of services

Financial participation is likely to provoke changes in the types of services that are demanded.

Services that result in short-term economic benefits, and that deal with cash crops rather than staple food crops are favoured. In some cases a shift from production related services to services for processing and marketing took place.

Services with little potential for immediate impact on income, but a high degree of public interest, are not much demanded. This concerns mainly services related to social justice or sustainable resource use, but also services for innovation development.

Frame conditions

A number of frame condition factors determine the ease or difficulty with which financial participation can be introduced. Unfavourable frame conditions do not mean that financial participation is not possible, but rather that some difficulties may be encountered and that financial participation needs to be accompanied by work towards changing the frame conditions.

In India a study on willingness to pay for extension services was conducted. It revealed that willingness to pay is greater:

- where satisfaction with the available sources of advice is low,
- with commercially oriented farmers,
- with better-educated farmers,
- where there are forms of pressure such as small land-holdings or barely irrigated land,
- where off-farm work does not pay well compared to farming.

In a programme in Mali the following obstacles that make the introduction of financial participation difficult, were identified

- uncertain profitability of crops due to unfavourable climate,
- weak farmer organisations,
- weak savings and investment culture,
- competition from free services of NGOs and public organisations,
- service providers are used to be paid by donors and not to address the clients for payment.

The table below shows a summarised view on favourable and unfavourable frame conditions based on a various experiences:

FRAME CONDITIONS	
FAVOURABLE	UNFAVOURABLE
Pressure on farmers (scarce resources)	Satisfaction of farmers with existing services
Some degree of commercialisation of the farming system	Competition from free services
Organised farmers	Risky agro-ecological environment
Short-term benefits of services	Cultural difficulties to ask for payment for extension services
Competent and self-confident extensionists	Weak savings and investment culture
Confidence of farmers in service providers	Unfavourable rules and regulations
Private service providers	

Incentives for extensionists

There are two options for allocating additional income from payments for services:

- a) the money paid by farmers goes directly into the pocket of the extensionist,
- b) the payment goes to the extension organisation and adds to the income of all extensionists.

There are arguments in favour of both options, and discussions about the better option are guided by beliefs rather than objective criteria. The following table lists arguments for and against both options.

Additional monetary benefits ...	
... individual extensionist	... the whole organisation
<ul style="list-style-type: none"> • Strong incentives for extensionists to offer good services 	<ul style="list-style-type: none"> • Promotion of corporate identity
<ul style="list-style-type: none"> • Development of competitive spirit between extensionists 	<ul style="list-style-type: none"> • Facilitation of horizontal learning through sharing of knowledge and experience
<ul style="list-style-type: none"> • Risk that extensionists are less motivated to provide services, and serve clients, for which they get no additional income 	<ul style="list-style-type: none"> • Allows services in the public and the private interest to be provided by the same organisation

6. Conclusions for good practice in financial participation

Assess feasibility and desirability

Before taking a decision to embark on introducing financial participation, one has to be clear about the motives for doing so. Then all the above issues – i.e. the likely effects of introducing financial participation, type and quality of services, and framework conditions – must be analysed, and an assessment must be made of whether financial participation is feasible and makes sense under the prevailing circumstances, and for what services.

Preparation of the ground

Careful preparation of the ground is needed to lay a foundation for the introduction of financial participation. Transparency, open information, discussion of the underlying concepts with all parties concerned, and taking fears seriously are crucial.

Building confidence

The confidence of farmers in the usefulness of the services for which they pay, and confidence in extensionists and extension organisations, needs to be developed. One way to do this is to ask for payment only once the benefits of a service are apparent. A fair assessment of benefits requires careful recording of data, particularly economic data, before and after, and with and without the service.

Confidence of extensionists in the quality and value of the services they offer needs to be built. An analysis of all the functions, activities and services fulfilled by extensionists could be a start in this direction, followed by a discussion of the impact of the services. Consequently, it can be determined which activities directly benefit users, and for which it would be possible to ask for payment. In such a process also gaps in the services that the extensionists are capable of offering can be identified.

Starting with small-scale pilot activities

Convincing people about the appropriateness of something new and unknown is frequently much easier if the effects can be shown by a practical example. Therefore, financial participation may be introduced first on a pilot scale, in a limited area. In such a case care has to be taken to handle problems that may arise from unequal treatment of adjacent areas in a sensible way.

Designing useful services

Designing services that clearly and obviously result in benefits for the clients, and address their main problems and constraints is a major challenge for financial participation.

Sometimes it may be sufficient to gather existing information and knowledge and arrange it in a suitable form. Often, however, it may be necessary to identify or develop new profitable opportunities, before useful services for a wider range of clients can be offered.

Capacity development for extensionists and users

To have the desired effects, financial participation requires different competencies than the usual free public services, on the part of the extensionists as well as the users.

Extensionists may need additional training to be able to provide services of the required high degree of usefulness, or additional extensionists may have to be trained. The users' abilities to precisely identify their needs and articulate their demands may need to be developed.

The required investments in training and coaching may be high, but they are often a justifiable investment for the future. Such capacity development should be seen as measures that accompany financial participation and not as a pre-condition for its introduction.

Negotiation of amount and form of financial participation

Determining users' cost share is a tricky matter, as it can make the difference between success and failure in introducing financial participation. The users' share should be negotiated between the extension organisation and the users, and not be decided by outsiders.

The following factors are the basis for negotiations on the cost of a service:

- the actual cost of a service,
- the degree of public interest in the service,
- the value that users attach to a service.

The mode and timing of payment must be feasible for the users. Sometimes payment in kind or a delay in payment until harvesting time may be more appropriate than immediate cash payment.

Experience shows that it is helpful to initially determine the amount of payment only when the benefits of the service can be assessed by users and extensionists

(i.e. after harvesting and marketing the crop), at least until some confidence in the cost-sharing system has developed on both sides.

This may require that data on production cost, yield and market revenue are collected and analysed, maybe in a kind of comparative trial between the farmers' usual practices and those promoted by the extensionists. However, there is a risk of secret harvesting to make the benefits appear to be lower.

Watching for undesired effects and take corrective measures

Financial participation favours services in the private interest, and this often has negative effects on matters of public interest. Therefore the bodies representing the wider public interest have to be watchful for undesired effects and ensure that corrective measures are taken if necessary.

Excluded potential users

As mentioned above, some former or potential users will not use services for which they have to pay (any more) for a variety of reasons. Where social justice is considered to be a public concern, it is necessary to watch for potentially excluded users and determine whether they are actually unable to pay and whether measures that allow them to use the services anyway should be taken. Inability to pay may be overcome by measures that target specifically those potential users who would benefit from using the services, but are unable to pay. This could be done by transferring purchasing power through demand side financing, credit for services, or by deferring payment until the time when benefits accrue.

Negative impacts on the environment

With services that are expected to have short-term economic benefits, there is obviously a risk of adverse environmental impacts due to the promotion of unsustainable practices.

When financial participation is introduced, the consequences for the ecological soundness of land use practices need to be observed. Services that promote sustainable practices or mitigate negative impacts may have to be made available through public funding.

Lack of innovation

The demand-orientation promoted by financial participation mostly leads to demand for services with proven impact. This can affect the development of in-

novations, because the benefits of innovation development (e.g. adaptive research, participatory technology development) are in general not obvious enough and do not come quickly enough for clients to be willing to pay for them.

Therefore public funding is often necessary to ensure adequate development of useful innovations. An alternative to public funding of innovation development are various forms of groupings, f. ex. producers with a common interest in specific issues who jointly pay for experimentation on these issues.

Some practical advice

Ensure that clients pay their share

Financial participation only brings the desired effects if it is actually implemented, and the arrangements must be designed accordingly. The payment of the public funds share should be made conditional on that the service provider actually collects a contribution from the clients.

Without this conditionality the motivation to collect the clients' share may be small, because it is easier and more profitable to offer services free of cost (because cost participation may reduce the number of clients).

Gradually increasing financial participation has very poor records

It has been attempted in various places to start financial participation with a small contribution by clients and then gradually increase the share to be paid by clients for the same services. Such a process has worked only in very few cases, and is not recommended.

Introduce financial participation for new things, not old hats

Financial participation should be introduced for services which have new aspects or improvements compared to previous free services. It is discouraging if financial participation is introduced for the same services that were free before, or for services that are less useful than those which are free.

7. Does financial participation live up to the expectations mentioned in the beginning?

Does it reduce public expenditures for extension?

There are no studies that definitely support or contradict the view that financial participation reduces public expenses for extension.

However, a pre-condition for even nominal financial participation is extensionists who can provide services that result in clear and obvious benefits for the clients. Often, extensionists will have to undergo substantial capacity building and training to be able to offer such services.

A farmer who pays a substantial amount for a service wants to get very useful services, requiring the extensionist to give him/her a great deal of attention in time. In consequence the number of users that can be served by one extensionist may be reduced.

Financial participation often has to be accompanied by investments in capacity building that exceed the amount that can be recovered through financial participation, and thus it is unlikely to be an effective means to reduce public expenditures for extension, at least in the short and medium term, and in the case of extension organisations working mainly with small, semi-commercial farmers.

Does it ensure effective services, better adoption rates, and accountability of service providers to clients?

The experiences from Nicaragua and Honduras presented above, and experience in other places show that financial participation really does result in accountability and more effective services.

Does it ensure the use of public funds for public interests?

Financial participation certainly can help to avoid untargeted subsidising of private interests, provided that users can be charged for the private interest part of services, and public funds are used only for the public interest part.

Does it foster empowerment and farmers' ownership of services?

Many of the experiences with financial participation show that it really does promote empowerment and a sense of ownership. The transformation from a beneficiary to a client is certainly empowering.

Financial participation in services of a business-like extension organisation in which farmers do not participate in either steering or management leads more to a client relationship than to ownership.

Linking financial participation of farmers with their involvement in strategic management and steering of the extension organisation, promotes real ownership.

This can be achieved through true farmer representation in supervisory or steering committees, or through producer organisations having their own extension set-up.

Does it improve the chance of financial sustainability of services?

If there is a small percentage of user financing and the bulk of financing comes from a single public source, the contribution of the users does not much change the dependence of sustainability on that source. Financial participation only increases the chances of financial sustainability if it covers a substantial part of the cost and the contribution from the public source is not indispensable.

For some extension organisations the introduction of financial participation has triggered the recognition that they can earn money themselves. This new awareness can be a first step towards relying less on funds from outside.

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