

# **Agricultural services – current state of the policy debate**

By Elisabeth Katz, AGRIDEA

This article is based on learning resources developed for PASS Livelihoods (programme of advisory and support services to DFID on livelihoods). It provides an overview of the current debates on agricultural services between market orientation and public investments, looking first at agricultural services in general and in a later part focusing on agricultural advisory services.

## **Introduction**

### **Agricultural services and pro-poor growth**

Agricultural services have been and still are being criticised for ineffectiveness, supply drivenness, lack of sustainability and inability to offer services which benefit the poor. There are controversial views on the rates of return of public investment in agricultural services. Investments in research and development are reported to have usually high rates of return, although it is likely that these rates of return are not attributable solely to the R&D activities, but are complemented by other services which support dissemination of the research results. Reported low rates of return in agricultural services can very often be explained by ineffective services systems.

Nevertheless, it is widely acknowledged that agricultural services are crucial to improving the livelihoods of many rural poor people. Even the best policy environment will not result in pro-poor agricultural growth, if the concerned rural people do not have access to adequate services – be they knowledge services, or more tangible services such as inputs, water or marketing. Access to agricultural services is a pre-condition for pro-poor agricultural growth. Pro-poor agricultural development needs innovation – new things and ways that work – which may come from R&D and other sources. To adapt and

adopt innovations, agricultural actors need new know-how, and often new – purchased – inputs, other new materials and investment capital. Access to services on the output side – processing, packaging, marketing etc. – will also usually be necessary. Thus, where fostering pro-poor growth through agriculture is chosen as a focus of public investment, this needs to be complemented by investments in building functioning agricultural services systems. Agricultural services are a crucial resource to improve the livelihoods of poor rural people. Broadly speaking these services will have the twin objectives of pro-poor growth and vulnerability reduction.

### **Defining agricultural services**

As agricultural services we understand all non-financial services taking place within the agricultural sector. This means that agricultural services reach far beyond what is commonly understood as extension or advisory services. This includes tangible material services, as well as non-tangible knowledge services, i.e.:

- Advisory services and training (anywhere along rural value chains; including cropping systems, animal husbandry, forestry and other natural resource-based enterprises)
- Services on the output side (processing, transport, marketing etc.)
- Material services (seed and input, animal health, other materials like farm equipment, small-scale irrigation equipment etc.)

This range of services implies that the users of agricultural services are not only farmers, but also other actors in the sector, and that the commonly made distinction between extension services for the agricultural sector and Business Development Services (BDS) for enterprises is increasingly blurred.

## **Current trends in agricultural services**

### **A look at the past**

Until fairly recently formal agricultural knowledge services for medium and small producers were seen as largely public tasks, to be provided by government agencies and funded with government and donor funds. Large, monolithic and bureaucratic extension organisations, funded to a large extent on donor money, were the result in many countries. Donor-funded services provided by NGOs were, and still are, also very common. In francophone Africa and Latin America, development efforts often focused on strengthening producer organisations as a means for empowerment and access to services. The large-scale commercial production sector has been and is often served by private service providers. Material services on the input side, as well as output-side services, are considered to be private sector tasks in most places. Apart from such formal services, many informal services, often embedded in commercial transactions, took and take place from farm level all along the value chains.

### **The current situation with agricultural know-how services**

The public extension organisations have been criticised for ineffectiveness and high cost. Criticism and the inability of governments to afford funding them, resulted either in moves towards privatisation or in diverse reforms of the public sector delivery system. A broad range of countries have abolished their public extension system (particularly in Latin America). Interestingly, in a range of transitional economy countries, efforts to build up country-wide public extension systems are underway, often supported by the same donors who advocate(d) abolition and privatisation in other places.

Nowadays the trend is towards private sector services, demand-orientation, pluralistic service delivery landscapes, service market development, and less reliance on public funds. Common aspects of most reform undertakings are: accountability of service providers to users, more private sector participation, a focus on learning processes instead of one-off advice, participatory and people-centred way of working, renewed emphasis on organisation development as a means for empowerment, attention

to marketing and other services along value chains. Earlier, services concentrated on productivity increases; now more emphasis is laid on improving incomes and thus on services related to value increases. The role of the public sector then becomes more that of a regulator, facilitator and contributor of finance. In many Latin American countries public institutions have completely withdrawn from service provision, in Africa reforms reach from the introduction of participatory ways of working to full-scale privatisation and decentralisation. In Asia where the public services have comparatively better records, reforms are going towards decentralisation, increased accountability and better demand-orientation. Some efforts to harmonise donor support to services are taking place.

There is much talk about privatisation of services. A closer look reveals that there are many different things running under the privatisation label. It is important to understand that funding and delivery of services can be privatised separately. It is possible that farmers and other private actors pay for services delivered by public delivery agencies, and that public funds are used to pay for services delivered by private (commercial, non-profit or cooperative) service providers. Further, it makes a difference whether public service provision is just abolished, or whether privatisation is actively supported. Where public services have been simply abolished, donor-funded NGOs have filled the gap to a large extent, and not, as expected, private commercial service providers, i.e. privatisation at a closer look in fact resulted in NGOisation.

Some degree of decentralisation is part of most reform efforts. It involves a transfer of responsibility for services to local government level. Service provision may remain public, or become private. Different mechanisms to make services effective and demand-responsive are being developed. Demand-side funds are a mechanism to direct public funds towards promising services and service providers (on patterns similar to competitive grant funds for agricultural research). Farmers or their groups work out demand for services, and then suitable service providers (mostly non-public) are contracted directly by users or by the local government. Such funds may be established at national, regional or local level. Funds for which the local government has a major responsibility

(together with other local actors), are particularly suitable as part of efforts to build up local self-sustaining service landscapes with a mix of private and public funding. Demand-side funds can also be used to promote local action research to identify and develop innovative economic activities which offer direct or indirect opportunities to poor people.

## Key elements for pro-poor agricultural services

### Public investment or reliance on market forces?

The extent to which public funding of agricultural knowledge services is justified is still a source of debate. Some argue that these services serve mainly private interests and should be purely privately financed; others are in favour of public funding as long as the services are vital for pro-poor rural growth and environmentally sound practices, and thus are in the public interest. The arguments used are partly ideology-based, but also relate to the very practical insight that governments do not have enough resources to perform all their potential obligations and may not select agricultural services as a priority, and that in the longer term, local self-sustaining service systems are much more likely to reach large numbers of poor people with useful services.

We think that there is a justification for public investments in agricultural know-how services, but that it is as well necessary to rely on private funds and provision wherever possible. When talking public funding, distinction between investment to build up structures which later function on a self-financed basis, and the longer-term public funding of public tasks is essential. Therefore, public funding for agricultural services can be used on two lines: a) to support the building up of local, self-sustaining basic services systems which are on a longer term to be financed from local - private and public - funds; b) to fund on a longer term more complex innovation, R&D-type, and process accompaniment services, as well as basic services for very poor people, and services with environmental benefits.

There is a fair amount of consensus that input and output services ought to be a private sector domain; public funds should only be used for building up private sector systems and for regulatory and quality control functions. Subsidies on inputs like fertiliser and pesticides have notoriously not reached the poor, and ought to be discouraged. Where the use of chemical inputs is not economical at market prices, soil fertility and plant health management constraints may be better addressed with low-external input practices, than with price subsidies.

### Opportunities for the poor

Many poor rural people are actors with economic and innovation potential, who can benefit from agricultural services. However, agricultural services are only useful for poor people if they offer services which help in improving their income and livelihoods. When looking at who are the poor, it is helpful to distinguish between poor people in relatively dynamic and integrated areas (which make up only a small proportion of the population), and weakly integrated, often geographically remote and climatically difficult, areas (in which a large proportion of the people are poor). In the former situation, services will seek opportunities for the poor to get a better share in the benefits of the existing dynamics, while in the latter case, opportunities for whole regions need to be created and supported. Particularly the latter is much easier said than done: although simple things like access to quality seed and fertiliser and the corresponding know-how can bring improvements, particularly in terms of food security, the challenge is to find and develop economic opportunities in which the concerned area is competitive which at the same time involve low risk and are locally manageable.

Identifying and developing such opportunities for poor people is in itself a service, but one which requires difficult, complex, longer-term combinations of activities and service processes (a kind of R&D), where public funds are well invested, since such processes are unlikely to be fully funded on local private resources. A major challenge lies in building the capacity of local actors to undertake such complex interventions.

Opportunities may lie in services which reduce transaction cost, increase return to labour, increase the return to land and other natural resources, strengthen the bargaining power of poor people, enable poor people to meet quality standards for higher value markets, enhance water control, help them to acquire productive assets, skill development to enhance employability, etc. Note that opportunities for the poor may not only lie in production/marketing by the poor themselves, but also in services to other actors which result in more employment opportunities, higher labour wages, lower food prices, micro-business opportunities, stabilisation of food and farm output prices, etc.

### **Differentiation between dynamic and weakly integrated areas**

The needs and opportunities for public investment in pro-poor services differ between economically more dynamic and remote, weakly integrated areas, not only as mentioned before in terms of opportunities for poor people, but also in terms of service systems. In the former, service markets have good prospects, and public investments may focus on enabling the access of the poor to these services, upgrading capacity, and ensuring that environmental aspects are taken into account. In weakly integrated areas, service markets are much less likely to function; the demand for services is too dispersed, useful services with economic profits for clients too difficult to provide, the clientele's ability to pay for services too limited, and the transaction cost and working conditions too unfavourable. Thus, public investments in such areas should concentrate on supporting the identification and development of economic opportunities, building knowledge, input and market links between these areas and relevant actors in more accessible places, and, again, capacity building on the service demand and supply side, as well as with the local government.

### **Service systems that include the poor**

**Targeting the poor.** In any service system services to the poor need to be very carefully targeted, since very poor people tend to be left out by opportunities feasible for mainstream segments of rural people. Participatory de-

mand identification at community or producer organisation levels are particularly prone to go for services which offer little benefit to the poorest members.

**Pluralistic service markets.** Ideally, public investment supports the building up of pluralistic service markets or landscapes, funded with local – public and private – resources. This implies on the one hand to support local government in developing its role as a facilitator, regulator and partial financier of services, and on the other hand, to foster existing or new private service providers setting up business through capacity building, coaching, linkage building etc. In general, it ought to be accepted that formal service provision cannot reach out to all villages and hamlets. Small rural towns may be the nodal points of the service landscape where the professional service providers interact with para-advisers from outlying villages and producer organisations who provide the link to the dispersed rural population. One stop shops in small towns providing access to advice, training, input services, ICT and marketing have better prospects of financial viability or need less public resources than attempts to bring all these services to the remotest hamlets. Another possibility to make services reach more remote areas is to encourage downstream actors in value chains to provide services to poor producers.

Pluralistic service provider landscapes require networking, learning and linking mechanisms to ensure that service provider knowledge can be regularly upgraded, and experiences and innovations are capitalised. This can be in the shape of resource and training institutions or through professional organisations and networks.

**Para-professional service providers.** Public and private professional service providers rarely manage to reach out deeply into remote areas. Generally speaking, it is sensible to accept this fact and concentrate public efforts on building up village-level service providers who form the link between the dispersed village community and the “outside” agricultural knowledge and information system. This approach which is used very commonly for animal health services, but also for cropping practices and marketing, is not new and has seen successes and failures. The para-service providers may act as in-

dependent micro-businesses, be “employed/owned” by communities or producer organisations, or by processing cooperatives or companies (e.g. milk processors). What is of crucial importance is that the local concerned actors decide on the status and form of remuneration of these service providers. Donors should never directly fund or subsidise their services, also not with a view of gradual transition to more local funding! Public money is, however, well spent on capacity building, organisational development and on building links to the wider system actors (markets, research, policy makers, input supply etc.).



*Distribution of seed potatoes of a new variety by women service providers in Nepal.*

#### **Embedded services as private commercial solution.**

Embedded services are services which are bundled into, and their cost integrated into, some sort of commercial transaction. A common example is advice on fertiliser and seed use by input stockists; another example is advice to producers on how to achieve the right quality by a processing or marketing company. Embedded services are often part of contract growing agreements. Many embedded services are informal and little visible, like price information casually provided by a trader to a producer. For many poor producers, embedded services are the only ones ever reaching them. Public interventions may encourage and enhance the provision of embedded services, particularly along value chains in which poor producers are involved, because embedded services have the potential for sustainable access to private sector services. However, care has to be taken that the interests of the poor and the involved commercial actors are congruent and that the poor have adequate bargaining power, to avoid arrangements which are exploitative.

**Information and communication services.** Market and other relevant information is an important service element. It contributes to enhancing the bargaining power

of poor people vis-à-vis market actors. The collection and provision of such information may be a business opportunity for young local people (e.g. in India through mobile phones and internet). Community communication centres are also a possibility, which show however often ownership and maintenance problems. Wider access to ICTs in rural areas also opens up possibilities for exchange of experiences and ideas between poor people in different locations.

**Outcome-orientation of services.** Existing private and public services providers do often have insufficient competencies for effective services, particularly for the poor. This may concern technical, economic, methodological and managerial aspects. Areas where competence levels are often poor include process facilitation and accompaniment skills, as well as marketing, commercialisation and other services along value chains.

Public investment in capacity building and coaching of service providers is important, as well as in building linkages to sources of innovation and knowledge. Differentiation between limited time capacity building support and the development of local backstopping and training service organisations and markets is necessary. In a func-

tioning service market, the training and backstopping function should be partly funded by the users of these functions; nevertheless there is a public interest in these functions which justifies partial public funding.

Poor producers have limited exposure to new things that might work for them and thus a limited view on possible services. Capacity building that enables users to plan their demands for services will enhance agricultural service utilisation.

### **Empowerment through organisation?**

Lack of bargaining power and voice vis-à-vis market actors and public institutions, and lack of economies of scale, are major constraints of poor rural people. They also often do not have sufficient experience and ideas to fully understand what services could be truly useful to them, and/or they do not have the voice and power to demand them.

The development of rural organisations is often advocated as the way forward to empowerment of poor rural people. Many resources have gone into the establishment of producer associations – with mixed results, both, in terms of durability and of inclusiveness. Nevertheless, the trend is currently again for more or less formal organisation as the most promising way for empowerment. This despite the fact that there are no clear insights on how to foster inclusiveness, and on whether the heavy investments in organisation development finally pay off. The establishment of viable producer or value chain organisations requires substantial resources and a time horizon of more than a few years. On the other hand, well-established inclusive producer or value chain organisations are highly beneficial for their members, and may even be able to employ their own professional advisers fully at their own expense. Informal time-bound groups around clear common interests are sometimes a better choice than formal associations. In some places community organisations have been formed with the purpose of taking care of the economic interests of their members; however, community organisations are suited to take care of local public interests, while for the economic interests of individuals, producer groups are a better choice.

Where the roles and interests of groups are not clear, sooner or later conflicts of interest and questions of legitimacy will arise.

Challenges in this area include the identification of approaches that make longer-term sustainability of organisations more likely, that reliably strengthen the voices of the poor within mainstream producer organisations, and a better understanding of the conditions where public investment in developing organisations makes sense.

### **Issues for pro-poor livestock services**

An increase in demand for livestock products in developing countries offers opportunities for the large numbers of poor livestock keepers, provided they have access to adequate services. These services need good targeting to avoid crowding out poor keepers by large enterprises. Discussions on livestock service systems often focus on veterinary services only, though advisory and training services (e.g. on feeding and husbandry practices) are now recognised to be equally important. Services for market access are also important. As with the delivery of agricultural services, the trend with livestock services is also to move from public to private provision. Where provision is public, increasingly fees are being introduced – the willingness to pay for veterinary services has been high even among the poor. Village and community para-veterinarians and livestock advisers have a long tradition and there are many success stories, particularly in making services available in remote areas. It is important that with such systems the government carries out its quality control responsibility well, and that links to other actors are functioning. An important public task concerns prevention and control of livestock epidemics – an issue which is particularly important in areas with long-distance, international migration of herds/flocks. Since women usually have important roles in livestock management, livestock services constitute an opportunity to contribute to women's empowerment and improved gender balances. Conflicts between pastoralists and settled farmers regularly become violent, particularly in Africa. Here mediation services may result in agreements acceptable to both sides.