

**Funding Development-Oriented Agricultural Research and Extension  
GTZ/ DSE Workshop in Feldafing, Germany - December 2001**

**Executive Summary of Workshop Results**

**1. Introduction into theoretical and conceptual aspects of service funding**

The workshop included a series of presentations on the principles of funding and design of individual funding arrangements. The principles of public funding and a decision guide to alternative funding options for rural extension was complemented by treatments of special arrangements, viz. privatisation/ private payment, contracting, competitive funding, and cost-sharing with service beneficiaries. Besides the practical cases introduced by the participants, World Bank presented its strategies for funding research and extension. These papers are available in the workshop documentation.

**2. Overview of funding arrangements**

- Most participants presented brief descriptions of funding situations they are involved in. All cases involve some aspect of institutional reform or represent conscious choices of a funding arrangement. The sample may be small, yet it provides an overview of the evolution of funding systems in agricultural development. The most important funding arrangements that were mentioned in the workshop are budget funding, competitive grant funds and service contracting between public agencies and service providers. The table below categorises the cases (also see the overview table for a detailed listing).
- The funding sources still are predominantly public, with few exceptions. There are only few examples of arrangements funded with private money. Probably this is due to the fact that agricultural development remains to be a domain of public action, in the first place.

	<b>Number of cases</b>	<b>Category of Funding Arrangement</b>	<b>Working Group</b>
1	5	Budget funding of public research and extension agencies (with measures to improve the efficiency and effectiveness of funding)	Group 1
2	7	Competitive grant funds (CGF) for research and technology development	Group 2
3	6	Service contracting between public donors or government, and service providers, especially NGOs	
4	3	Private payment of technical services, veterinary services and contract research	Group 3
5	3	Cost-sharing between donors and farmers in the framework of development projects	
6	2	Levies on particular export products used by producer associations to contract services or pay for own services	./.
7	(1)	Sponsoring of a public information centre by the private sector	./.

**3. General observations on current funding practice**

- The trend clearly points to alternative ways of channelling and managing public funds, rather than raising private money. The reform of public funding systems appears to be

more prominent than the mobilisation of private money. This may have an influence on the tasks of development policy.

- The interest in funding arrangements is motivated by the public funding crisis, and the review of government functions. Nevertheless, public funders hardly expect to actually save money and reduce state financing.
- Typically, private payment of services is focused on veterinary services and input supplies. In research and extension, farmers only cover full cost of services in cases of highly commercial and export products. In these cases, funds are predominantly channelled through producer associations, partially with a contracting arrangement (e.g. contract research of a commercial farmer association).
- This means that a great majority of farmers in low-income countries would not bear the full cost of services but only a share of it. The most interesting arrangement involving financial participation of farmers thus is cost-sharing. The variety of cost-sharing examples is great. Many arrangements are set up within the framework of development projects using funding conditions as an incentive. Some are linked to farmer associations paying for services (see below).
- The contracting principle is at the core of any of these arrangements. Except small-scale marketable services (soil test, vaccination etc.), provision of R&D services is framed in a contract. This also applies to competitive grant funds, which always imply contracting the implementation of grant projects. Contracting is faced with sometimes difficult problems concerning the administration and enforcement of contracts.
- There is a clear trend to conceive funding arrangements as a development instrument in order to achieve greater client orientation, efficiency and accountability. However, introducing a new funding arrangement adds to the complexity of development projects. Conflicts may arise between the conditions of a funding arrangement (e.g. contracting out service provision to NGOs or consultants) and the achievement of public goals (e.g. conservation of natural resources).

#### **4. Future perspectives for the development of funding arrangements.**

- A general observation is the increasing pluralism of organisations in rural development producer organisations and the private sector receive growing attention. Similarly, there is a trend towards more flexible ways of organising the co-operation between development partners. Donor-funded projects co-operate with NGOs, private sector and government agencies likewise.
- *Reform of budget funding:* The bottomline is the limited availability of funds and unsustainable donor support. The general trend leads towards cutting public service provision and/or cost recovery and the restructuring of public extension agencies. Donor pressure for reform is strong. Today, government policies normally recognise farmer associations and NGOs as providers of extension services. However, although viewed with sympathy by many stakeholders, it is extremely difficult to create cost recovery or user-paid service systems.
- *Perspectives of competitive grant funding:* Competitive agricultural technology funds (CATF) are the dominant means of funding research at present, but their future is unclear. Most CATF are clearly donor-driven and depend on continued external funding.
- *Trends in service contracting:* Contracting arrangements are of increasing importance, as more and more aid agencies turn to charging local organisations with the implementation

of programs. The same applies to co-operative implementation agreements and funds provided through international conventions.

- *Trends in private payment and cost-sharing:* The growth of commercial agriculture ensues the development of private service markets, a trend supported by policies to increase private sector participation. Thus, private payment is a high potential, yet risky arrangement. The attention is focused on commercial farming enterprises in the first place, though local cost-sharing arrangements involving smallholders may be more relevant from development point of view.

## **5. General problem issues**

- A general observation is the widespread capacity constraints in operating funding arrangements. Problems may concern the whole management cycle of service provision, from demand assessment and budget planning to fund allocation and accounting.
- The reliability and sustainability of the flow of funds is another critical issue. This is true in the case of public funding from government or donor sources as well as in the private sector depending on the economic situation.
- Other critical issues mentioned by participants regard the client participation in planning and funding decisions - the representation of client needs wherever decisions have to be made on the allocation of funds from public sources.

## **6. Ways of addressing the constraints of specific funding arrangements**

- *Budget funding (working group 1):* Problems of budget funding that are encountered worldwide include diminishing and erratic funds, unclear priorities and ever shifting policies, bureaucratic procedures and weak accounting for resources and results. The current payment and incentive structures result in low motivation. The recommendation is to support development of more rational strategies for agricultural research and extension services. This would include, first of all, a policy on public and private goods, for which different modes of funding and service provision would apply. Research and extension services producing direct and tangible benefits for well defined groups of users would be classified as private goods and should not be financed from public funds. The long-term view of the group was that such goods are to be provided by the private sector (or by the public sector and at full cost recovery). It is clear that both the formulation of the policy and its implementation require sufficiently powerful and knowledgeable people to initiate and lead the transition process. A stepwise process would start with a classification of the public service portfolio according to the characteristics of the services provided (public or private good nature and possibility to contract out their provision). It is expected that this classification would require an economic framework of analysis and a series of negotiations with relevant stakeholders. Policies would be designed with a view to raise the level of cost recovery according to the degree of private interest. In the long run services with a high degree of private interest would be produced according to the users' willingness to pay. For services of a public good nature, some form of priority analysis would be required on which to base budget funding decisions. The detailed modes of funding and delivery are negotiated with the stakeholders. The key is to give clients a role in problem definition and agenda setting. Implementation of this policy is contingent on a set of skills, competencies, and information that will allow for appropriate stakeholder involvement, adult education, market information, and business development.

- *Competitive grant funds (working group 2)*: Participants identified a number of common constraints in CATF and came up with potential strategies to counter them:
  - (a) Many CATFs are weak in responding to client needs. Also, CATF procedures often do not ensure that research results are made available on a broad basis. Besides involving farmer representatives in the selection process, one option to mend the problem is to call on farmers to propose subjects to be treated and organise the fund into farmer need-specific lines for funding (Bolivia). Another suggestion is to decentralise the CATF and the fund management, so that decisions on allocation are taken at district (or local) level (Benin). In general, CATF should stipulate the co-operation with users (extension agents, projects, farmer groups and other rural organisations) as a prerequisite for funding and clause in the grant contract. In any case, clients should receive support so that they can articulate their needs.
  - (b) CATFs may imply conflicts between different policy goals and stakeholder interests. The point is to create transparency on the criteria and procedures of proposal selection. The quality of funding decisions can be improved by a fair representation of stakeholders in the panel, and the credibility of panelists.
  - (a) On the issues of proposal and project quality and relevance, the recommendation is to invest in capacity building. Any CATF scheme should devote a considerable proportion into training and assistance to the participants in the scheme. In addition, preference should be given to proposals that include partnerships with other actors in development. Each project would have to carefully study its potential contribution to development by specifying hypotheses on uptake / impact pathways.
  - (b) The biggest threat to CATF is the problem of funding sustainability. CATF managers have to make sure, the portfolio of grant projects is of high quality. Political support has to be sought by demonstrating success. Potential institutional solutions include to build up a capital stock (endowment) and to find the CATF an institutional home in a private foundation or NGO.
  
- *Service contracting (working group 2)*: Contract management faces a series of difficult tasks, viz. the appropriate selection of service providers, supervision of contracts and of service quality limiting administrative costs incurred by contracting, enforcement of contracts and the avoiding of corruptive practices. Another important issue is the capacity and qualification of service providers, their ability to actually perform. A potential strategy to enhance the compliance of service providers at reasonable cost is investing into the social context surrounding a service contract: Create transparency on the service market, involve clients in supervisory tasks and devote sufficient time and effort to guiding the contractors.
  
- *Private payment of services and cost-sharing with farmers (working group 3)*: Private service markets are largely self-regulating and public supervision may be limited to quality control. From a development strategic point of view, a more interesting arrangement is cost-sharing between projects, public agencies and private enterprises. Cost-sharing is one among several mechanisms to transfer technology 'on the shelf' to the client. The design of cost-sharing arrangements should follow a series of systematic considerations: (a) assessment of the legal and policy framework, (b) situation analysis of the service in question, in terms of conditions of the farmers and the farming enterprise, the needs and demand, (c) definition of the service product, (d) design and planning of service organisation, collaborative arrangements, equipment and staff and assessment of the costs of provision, (e) determination of tariff and fee structure. The "ideal cost sharer" has the following characteristics: He/she produces a commercial commodity with good market prospects, is well organised into an association, willing to expand commercial activities, and able and willing to pay for services. Development co-operation should support the arrangement backstopping and (re)training extension service providers.

## **7. Implications for development co-operation**

- There is a general consensus on the development interest in introducing new funding arrangements that deviate from the conventional budget funding. It is motivated by the objectives to develop institutional capacity, involve farmers and strengthen participation, set more development-friendly incentives and enhance efficiency.
- Specific recommendations for linking funding arrangements and development strategies concern the institutional development aspects in the first place. Reforming funding arrangements or introducing new ones requires training, and a close co-ordination with other services needed to promote innovation. Funding issues are embedded in a wider development perspective and have to be linked to other policies, especially the public sector reform, decentralization and business development.
- The basic considerations and criteria for making decisions on funding arrangements are available - the need is for application. The presentations provide the basic guidelines how to improve funding practice. What is missing, is a collection of good practices and examples of success stories (as well as "failure stories") for development practitioners to refer to. And there is a considerable training need, on issues such as project development and proposal writing, contract management, and project management by contractors.

(A. Springer-Heinze)

## Summary Table:

### All cases of service funding arrangements mentioned during the workshop

Case Nr	Country	Service(s)	Funding Arrangement	Detailed Description
1	Egypt	<b>Extension</b> (fruits and vegetables)	<b>Public budget funding</b> of the central administration for extension and development	See table by H. Saleh and J. Amend
2	Malawi	<b>On-farm research</b>	<b>Budget funding</b> (by government and donor) of a government service agency	n.a.
3	Nigeria	<b>Training</b> of public sector extension agents	<b>Budget funding</b> through DfiD and the Ministry of Agriculture for the cooperative extension centre	See table by Ms. A.V. Ode
4	Nigeria	<b>Advisory services</b> for horticulture production	<b>Budget funding</b> through World Bank loan (NARP) and the Ministry of Agriculture for universities and research institutes	See table by I.O.O. Ayielaagbe
5	Zimbabwe	<b>Agricultural Research and Extension</b> (DRSS and Agritex)	<b>Budget funding with cost recovery fund</b>	See country paper by M. Connolly incl. table
6	Nicaragua	<b>Technical extension</b> and training courses for farmers	<b>Service Contracting</b> between external donors (funders) and NGOs (service providers)	See country paper by B. Krause
7	Kenya	<b>Adaptive research</b>	<b>Contract research (service contracting)</b> for Kenya Breweries and flower-exporting company (Osarian)	n.a.
8	Nigeria	<b>Extension and farmer training</b>	<b>Service Contracting</b> between external donors or private company (Nestlé) and service providers (university)	See table by I.O.O. Ayielaagbe
9	Uganda	<b>Extension</b> (and other village development services)	<b>Service Contracting</b> between sub-county administration and various service providers	n.a.
10	Madagascar	<b>Extension</b> (and other village development services)	<b>Service contracting</b> between farmers' associations and individual technicians laid off by public agencies and projects	n.a.
11	Zimbabwe	<b>Extension and know-how transfer</b>	<b>Service Contracting</b> between International donors and national and international NGOs	See country paper by M. Connolly incl. table
12	Bénin	<b>Adaptive research</b>	<b>Competitive agricultural research fund</b> with local committees	See country paper by A. Matthes and D. Arodokoun
13	Peru	<b>Adaptive research and extension</b>	<b>Competitive grant fund</b> (World Bank)	n.a.

<b>Case Nr</b>	<b>Country</b>	<b>Service(s)</b>	<b>Funding Arrangement</b>	<b>Detailed Description</b>
14	Bolivia	<b>Extension and adaptive research</b>	<b>Competitive Fund</b>	See summary table by the Chaco project
15	Azerbaijan	<b>Technology development</b> for medium and large farmers	<b>Competitive grant fund</b> (World Bank) used by public research institutes	n.a.
16	Kenya	<b>Adaptive research</b>	<b>Agricultural research fund</b> (ARF)	See table in country paper
17	Kenya	<b>Extension and information supply</b>	<b>(Competitive) Fund</b> for community-based organisations and NGOs (ATIRI)	n.a.
18	Zimbabwe	<b>Agricultural research and extension</b>	<b>Competitive Fund</b> (Agricultural Research and Extension Fund – AREF)	See country paper by M. Connolly incl. table
19	Ghana	<b>Technical extension</b> of solar-drier technology to small-holder farmers (incl. marketing assistance)	<b>Cost-sharing</b> between development project and small private entrepreneurs	See country paper by P. Asibey-Bonsu und H. Posamentier
20	Zimbabwe	<b>Farmer-to-farmer extension</b>	<b>Cost-sharing</b> between donor (seed money) and farmers	n.a.
21	Cambodia	<b>Farmer-to-farmer extension</b>	<b>Cost-sharing</b> between donor subsidies and farmers	See table by G. Deichert and K. Salorn
22	Azerbaijan	<b>Advice</b> on the use of inputs sold to farmers	<b>Private payment</b>	n.a.
23	Kenya	<b>Various analytical services</b> (land surveys, soil analyses, others)	<b>Private payment</b> of commercialised laboratories (e.g. KSS)	n.a.
24	Cambodia	village-based <b>veterinary and livestock services</b>	<b>Private payment</b> by livestock owners	See table by G. Deichert and K. Salorn
25	Malawi	<b>Technical Extension</b> and adaptive research for commercial horticulture and tobacco	<b>Levies</b> (on exports) to fund services of the tobacco producer association	n.a.
26	Zimbabwe	- <b>Technical Extension</b> - <b>adaptive research</b> on tobacco	<b>Levies</b> (on tobacco exports) to fund services of the tobacco producer association and contracts with research organisation.	See country paper by M. Connolly incl. table
27	Ghana	<b>Information provision</b> at a rural information centre	<b>Sponsoring</b> by local private sector	n.a.