

NOTE 29: Private Sector Provision of Rural Advisory Services

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The Global Good Practices Initiative aims to facilitate access to information and know-how on agricultural extension for a wide audience of practitioners. It does so by providing Good Practice Notes, which are descriptions of key concepts, approaches, and methods in an easy-to-understand format. They give an overview of the main aspects, best-fit considerations, and sources for further reading. The notes are openly available at www.betterextension.org. To download, use, disseminate, or discuss this note, access it online by scanning the QR code in the bottom right corner. Feedback is highly appreciated.

Introduction

Rural advisory services (RAS) provide farmers with training and information on agronomic and business best practices to help them maximise yields and profits. Such services can and should be offered by numerous stakeholders, including government, cooperatives, nongovernmental organisations (NGOs), and agribusinesses. In developing countries, traditional extension services offered through government agencies are often poorly funded and administered, leaving poor farmers to rely on other forms of technical advice, or none at all. The purpose of this note is to highlight the emergence of private sector-delivered RAS that aim to address the gaps in traditional government extension. Private sector RAS can serve a company's business goals while also providing farmers with the essential agronomic and business knowledge needed to be more productive and earn higher incomes. It is in the private sector's interest to engage with and improve their clients' farming practices in order to achieve increased company revenues and profits. This enables them to ensure commercial viability, resulting in long-term mutual benefits for farmers, employees, and shareholders.

Philosophy and principles

Private sector agribusinesses such as input companies, service providers, and offtakers exist to create value by offering products and services demanded by the agricultural community. One critical way for these companies to capitalise on business opportunities and increase revenues is to build the capacity and skills of their clients. Farmers who grow and expand their on-farm operations will not only be more valuable clients, but also will help raise awareness among late adopters in their communities. Lagging farmers who see their neighbours improving their livelihoods will take notice and, in some cases, change their practices to mimic this witnessed success.

In this note we highlight examples of agribusinesses that have decided to offer and embed agricultural services as a complement to their core business products and services. Private sector agribusinesses are seeing the value in expanding their RAS to poor farmers. Such approaches include organising and financially supporting demonstration plots, farmer field schools, education on good agricultural practices (GAP), and business and financial literacy training; providing links with markets and financial institutions; and showcasing model farms. Some agribusinesses have experimented with IT or mobile phone-based technologies to share and transfer technical information.

Agribusinesses that realise the value of RAS, and want to offer such services to their clients, must decide how to monetise them or otherwise recover the added costs. Some larger multinational companies cover these costs through corporate social responsibility or foundation contributions. Companies may also charge fees directly to clients by embedding these costs in product/service fees, or charging them through other cost centres such as marketing and promotion budgets.



Implementation

Agribusinesses have unique business models, with product and service offerings that align with the realities of the environment and markets they serve. In this note we group agribusinesses into three broad categories, enabling us to discuss similarities in their RAS approaches and methodologies.

Agricultural input supply companies

These are businesses focused on manufacturing, distributing, and/or selling agricultural inputs needed by farmers to cultivate crops and manage livestock. Such inputs include seeds, fertilisers, crop protection products, vaccines, and equipment such as tractors and irrigation systems. Input companies are motivated to provide embedded RAS to ensure farmers use their inputs correctly, benefit from links to off-takers and financial institutions, and realise the yield and productivity benefits of their products, under the premise 'a happy client is a returning client'. (An example is shown in Box 1.) Common RAS approaches include demonstration plots and farmer field days where a product is compared with traditional practices. The downside of this arrangement, from society's perspective, is that the incentive for sales may override alternative approaches that do not include the company's inputs. Also, agricultural input suppliers may not properly address environmental and health concerns related to their products.

BOX 1: MULTI-PRODUCT SUPPLIERS IN INDIA

Large, multi-product agricultural input suppliers, such as Hariyali Kisaan Bazaar and Tata Kisan Sansar in India, offer seeds, pest management products, fertiliser, soil testing equipment, and credit, in addition to in-house extension advice. Both companies have extensive retail distribution networks and diverse product offerings, resulting in sales volumes that can justify the cost of the additional services.¹

Service providers

A wide variety of service providers operate in the agricultural sector. Examples include financial institutions that provide loans to buy inputs or invest in farm assets, and commercial consulting firms and farmer cooperatives that provide training to farmers. Service providers may offer RAS either directly for a fee, or embedded within their other service provision. An interesting example is Opportunity Bank's work with smallholder farmers in Malawi and Mozambique, where it couples financial products with face-to-face advisory services including GAP and financial literacy training (Box 2). Opportunity Bank found that default rates were lower among borrowers provided with RAS than among loan recipients who had not received RAS.

BOX 2: SERVICE PROVIDERS IN MALAWI AND MOZAMBIQUE

Opportunity Bank in Malawi and Mozambique contracted third parties UT Grain Management, Greenbelt Fertilizers, and Catholic Relief Services to provide smallholder farmer training on GAP. In collaboration with these organisations, the bank also provided complementary financial literacy training to improve farmers' understanding of savings-and-loan products. This resulted in lower default rates on loans provided to over 15,000 farmers.

Off-takers

Off-takers such as intermediary bulkers or food processors buy harvested commodities from farmers with the intent of adding value such as drying and cleaning, storing, packaging and processing, marketing, and distribution. A critical factor for their success is to ensure the consistency and quality of the commodities they procure, so they naturally have an interest in improving the quality of produce and the productivity of their farmer clients. Advisory services may include providing GAP training, improving inputs, and facilitating product aggregation. These are most often embedded services that the off-taker builds into their cost of doing business, or that will be deducted when a farmer delivers a product for sale. An example is given in Box 3.

BOX 3: OFF-TAKERS IN BENIN

Tolaro Global is a cashew nut processor in Benin. It provides advisory services to 2,300 members of two farmer cooperatives. The services include agronomic training on weeding techniques, tree pruning, organic composting, fertilising, intercropping rotation, nut quality, and cashew harvesting and storage. Tolaro benefits from establishing a close relationship with its suppliers that results in more and higher-quality product. The farmers benefit from a 15% price premium from fair trade certification, and larger nut sizes.

Capacities and costs required

In deciding if providing RAS to farmer clients is a worthwhile investment, agribusinesses must make critical decisions on the type and extent of the services they will provide, the human resources and equipment needed, and whether it is more cost-effective to build capacity in-house or to outsource the services. While designing and implementing these services using in-house resources may make long-term strategic sense, it can be very expensive and time-consuming. Alternatively, there may be existing firms on the market with the capacity to provide better services at lower cost. In either case, significant internal management and oversight will be required.

¹ AFAQS. 2015. Godrej Aadhhaar launches agri-services cum rural retail stores in Gujarat. *Company News*, 27 June. Available at: www.afaqs.com/news/company_briefs/index.html?id=8986_Godrej+Aadhhaar+launches+agriservices+cum+rural+retail+stores+in+Gujarat; Ferroni, M. and Zhou, Y. 2011. *Review of agricultural extension in India*. Basel: Syngenta Foundation for Sustainable Agriculture.



Critical skills and expertise that agribusinesses need to develop when providing RAS are:

- training provision in agronomy, business management, and financial literacy
- community mobilisation.

Some critical cost drivers for implementing RAS include:

- personnel
- land availability for demonstration plots
- facilities for training
- agricultural inputs/equipment
- development of training materials
- transportation
- monitoring, learning, and adjusting services in response to what has been learned.

Strengths and weaknesses

Private sector companies must analyse the following strengths and weaknesses to determine whether they should provide RAS to farmers.

Strengths

- Potential to develop relationships with and loyalty of farmer clients, resulting in increased and more reliable future sales of products and services.
- Marketing and distribution capacity, providing opportunities to enter new markets more efficiently and with a greater chance of success in establishing a brand.
- Many technical RAS subjects may be already developed and understood in-house, making it relatively easy to roll them out to external clients.

Weaknesses

- Upfront and ongoing costs of RAS can be high, and the company may not realise a return on its investment in sufficient time to justify the expense.
- There may be a perception that RAS is purely for product promotion, particularly for agricultural inputs, to drive sales revenue.

- Additional investment in human resource development may be needed to implement and manage RAS activities effectively.
- Small-scale businesses may not see benefits from providing costly RAS.

Best-fit considerations

Private sector agribusiness-led RAS have the most impact on farmers' and businesses' efficiency and profitability where publicly supported extension services are absent or ineffective. Private sector-led RAS are most likely to be effective for both provider and client where there is a demonstrated need and demand for these services, and in areas where donors and/or NGOs are actively supporting private companies' RAS development and implementation.

Companies may be successful in areas with few existing RAS by becoming a market leader that offers these additional services; but they may also find success in markets with existing RAS offerings by following the lead of other companies or providing complementary services. Other factors affecting agribusinesses' decision to provide RAS to small-scale farmers include their willingness to engage farmers over the long term, the proportion of supply that the small-scale farmers control, and whether side-selling (farmers selling to other offtakers) is a problem.

Governance

Governments must create an enabling environment where multiple stakeholders are encouraged and financially incentivised to participate in RAS. RAS work best when the public and private sectors work together to improve farmers' capacities. While government may not be in a position to provide RAS, they can provide other support services such as improved power, water, road, and market infrastructure; reliable market information; and access to higher education and agricultural research services. The public sector can also ensure that environmental and social priorities are not neglected.



Evidence of impacts, sustainability, and scalability

To justify investment in RAS, private sector agribusinesses must see that this additional investment has a positive effect on their bottom line. They must be able to attribute improved farmer performance, increased product sales, and better brand recognition/loyalty directly to the RAS provided. Costs incurred for RAS must be considered a cost of doing business.

As well as increased sales revenue, there are a number of other ways in which companies can recover the costs associated with RAS and thus ensure sustainability. A company can charge farmers a service fee, but this is difficult for smallholders with limited capital who struggle to invest in production costs in the first place. More commonly, companies offer short-term production credit through, for example, an agrodealer, and recover the cost at harvest. These trade loans may be internally financed, or a company could partner with a financial institution or donor-funded programme to defer their RAS costs. The downside of using the donor option is that these programmes are short term and therefore are not sustainable

Further reading

Kaegi, S. and Schmidt, P. 2016. *Rural advisory services and international cooperation*. Bern: Swiss Agency for Development and Cooperation. Available at: https://assets.helvetas.org/downloads/rural_advisory_services_and_international_cooperation_2016.pdf

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