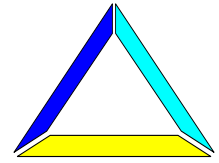




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## Policy Paper No.18

### Financing and institutional set up of agricultural advisory services in Europe – Lessons for Ukraine

#### Disclaimer:

This paper was prepared by the author using publicly available information and data from various sources. All conclusions and recommendations included in this paper in no circumstances should be taken as the reflection of policy and views of the German Federal Ministry of Food, Agriculture and Consumer Protection.

## Background

On January 1, 2005, the Law of Ukraine "On Agricultural Advisory Activities"<sup>1</sup> entered into force, providing for a legal basis for the delivery and financing of agricultural advisory services in Ukraine. According to article 5 of this law, advisory activities in Ukraine may be performed at the expense of state and local budgets, and customers, as well as at the expense of grants, international technical aid, funds of international programs and projects, charity contributions of natural and legal persons, and of other sources that are not prohibited by law.

Further, the law "On Agricultural Advisory Activities" distinguishes between socially-oriented services and other services. Socially-oriented services are those services which are financed by state and local budgets. They shall be specified in a state purpose program of agricultural advisory activity to be prepared by central authorities. Apart from that, local governments can name additional socially-oriented services to be financed by local budgets. Socially-oriented services shall be contracted to advisory services providers in a tendering procedure. Advisory services which are not envisaged by the state purpose program shall be rendered at the expense of their customers (article 6 of the above law).

On July 11, 2007, the Cabinet of Ministers adopted the relevant resolution "On adoption of the state purpose program of agricultural advisory activity until 2009"<sup>2</sup>. According to the authors, the aim of the program is the creation of an effective and accessible network of agricultural advisory services in Ukraine to meet the needs of agricultural producers and rural population. The approximated value of state budget expenditures for the implementation of the program accounts for UAH 31 510 000 in the years 2007-2009.

**Table 1: Calculated value of budget expenditures for the state purpose program of agricultural advisory activity according to the newly adopted resolution**

| Source                | 2007              | 2008              | 2009              | 2007-2009           |
|-----------------------|-------------------|-------------------|-------------------|---------------------|
| State budget (UAH)    | 10 000 000        | 10 500 000        | 11 020 000        | 31 510 000*         |
| Local budgets (UAH)   | 1 660 000         | 1 730 000         | 1 830 000         | 5 220 000           |
| <b>In total (UAH)</b> | <b>11 660 000</b> | <b>12 230 000</b> | <b>12 850 000</b> | <b>36 730 000**</b> |

\*After adding the amounts from previous columns, it makes UAH 31 520 000.

\*\*UAH 36 740 000 then.

The Ministry of Finance, while drafting the state budget, shall take into account budget expenditures for the financing of the state special purpose program of agricultural advisory activity. The issue of the funds allocation is then subject to a separate resolution of the Cabinet of Ministers. For the year 2007, 9,3 million of UAH is earmarked in the state budget for the financing of extension and advisory services. The relevant resolution on their allocation in 2007 was adopted by the Cabinet of Ministers on September 19, 2007.

By establishing above-mentioned legal framework, Ukraine chose the way it wants the agricultural advisory system to work – with non-public service provision and public financing of socially-oriented services. The costs of other services shall be covered by their customers. In this situation, the question for Ukraine is not any more about choosing between either public or

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<sup>1</sup> Law of Ukraine No 1807 of 17 June 2004.

<sup>2</sup> Resolution No 927 of 11 July 2007.

private agricultural advisory system but rather about the amount of state subsidies to support the chosen model.

### **Aim of the note**

Based on the request of the Head of the Department of agricultural education, science and extension at the Ministry of Agricultural Policy of Ukraine, Dr Tetyana D. Ischenko, this note gives information on the amount of state budget expenditures allocated for agricultural advisory services in a few European countries: Denmark, Poland and Germany. As there is no single German model, models of agricultural advisory will be presented in the case of four German states. Also, we describe in brief the institutional setting that is in place in the respective countries to show how and where the funds are flowing. This analysis allows us to draw conclusions as regards the financing of agricultural advisory in Europe and to develop some recommendations for Ukraine on this basis.

### **Denmark**

Denmark has a unique privatized agricultural advisory system, where farmers are both the owners and users of the system. The Danish Agricultural Advisory Service is a partnership made up of two levels: the Danish Agricultural Advisory Center located in Aarhus and local advisory centers across Denmark.

The Danish Agricultural Advisory Center (National Center) serves as "advisor to the advisors", playing the role of a development center, as its primary task is to provide technical know-how and services to the local advisory centers. It provides direct advice to farmers only in a few special fields where it would not be profitable to engage specialists at the local level, e.g. horse breeding.

There are 46 local advisory centers in Denmark, advising farmers on a direct basis on technical, economic, educational, IT and social issues. They are owned and managed by the local organizations under Danish Agriculture – the national farmers' organization. Each center sets up a committee which prioritizes its professional tasks. The members of these committees are farmers who have been elected by farmers' organizations and who in that way are involved in the everyday work and management of the advisory center. Moreover, farmers and heads of departments from the local advisory centers participate in drawing up a strategy for the National Center. It is also farmers who prioritize the tasks to be performed for the grants received by the National Center.

According to the 2007 annual report of the Danish Agriculture Advisory Service, the Danish advisory system employs a total of 3 500 staff, of whom 481 are employed at the National Center in Aarhus. To meet their educational needs, a special training academy was founded in 2006.

The independence of the Danish advisory system from the state can be noticed best when looking at its financing model – since 2004 agricultural advisory services are not financed from the state budget. Instead, the expenses are covered by farmers. It should be noted that this market economy approach led to the situation where the local centers compete not only with private consulting companies but also with each other. Each of them has an own budget and their assignment to a certain region is not as tight as earlier.

As of 1 January 2004, the government grants for the agricultural advisory services ceased. We list the other sources of income of the Danish Agricultural Advisory Center in Aarhus.

**Table 2: Receipts of the Danish Agricultural Advisory Center<sup>3</sup>**

| Source of income<br>Year      | 2004              | 2005                   | 2006              |
|-------------------------------|-------------------|------------------------|-------------------|
| User fees and sales (Euro)    | 29 731 183        | 30 322 148             | 36 671 141        |
| Tax reimbursement fund (Euro) | 11 895 161        | 12 389 262             | 12 563 758        |
| Project funds (Euro)          | 8 857 527         | 10 697 987             | 12 885 906        |
| Danish Agriculture (Euro)     | 1 841 398         | 1 838 926              | 1 932 886         |
| Extraordinary income (Euro)   | 0                 | 1 140 940 <sup>4</sup> | 0                 |
| <b>In total (Euro)</b>        | <b>52 325 269</b> | <b>56 389 263</b>      | <b>64 053 691</b> |

As can be seen above, the turnover of the Danish Agricultural Advisory Center has increased over the last three years and amounted to EUR 64 053 691 in 2006. Most of the income comes from user fees and sales. It stems from the local advisory centers in connection with their purchase of services such as IT programs and advice. A considerable part of income derives from project funds for tasks the National Center was awarded a contract for or tasks were it sought funds for a certain activity – in both cases on the domestic market as well as in the EU. The next source of income are tax reimbursements, which are derived from pesticide taxes and earmarked for research, trial, development, education and information projects. To be funded by tax reimbursements, the projects must either be of benefit to an entire branch of production or to all farmers. Finally, a small part of the National Center's income comes from grants from Danish Agriculture – the national farmers' organization. To put it another way, in 2006 the user fees and sales represented 57% of the total income of the National Center, tax reimbursement – 20%, project funds – 20% as well and the grants from Danish Agriculture 3%. Such income distribution has not changed much over the last three years.

As already mentioned above, 46 local advisory centers have their own budgets. The main source of their income are fees paid by farmers for the received services. Additionally, the local centers sell services to the National Center in Aarhus. The value of such services amounts to approximately EUR 5 100 000 per year<sup>5</sup>. This amount covers payment for advisory services in connection with participation in development projects, reporting data to be used in databases, participation in trial work, etc.

## Poland

Poland has a state agricultural advisory system. In 2004, it underwent a reform to make the system adjusted to the new conditions resulting from the Polish EU accession. Since then, the tasks of advisors include assistance to farmers in applying for EU structural funds and direct payments. The new law "On agricultural advisory bodies", initiating the reform, was adopted by the Parliament on October 22, 2004, and entered into force on January 1, 2005. According to this law, the agricultural advisory system in Poland is composed of the Agricultural Advisory

<sup>3</sup> According to the Annual Reports for 2005, 2006 and 2007 of the Danish Agricultural Advisory Service, National Center. The amounts in DKK were exchanged into Euro at the official exchange courses of December 2004, December 2005 and December 2006 (source: National Bank of Denmark).

<sup>4</sup> It is a capital transfer from the Danish Association of Horticultural Producers because the National Center took over the advisory function and magazine works from the association.

<sup>5</sup> According to the Annual Reports for 2005, 2006 and 2007 of the Danish Agricultural Advisory Service, National Center.

Center (National Center) located in Brwinów and its branch offices in Poznań and Kraków and regional agricultural advisory centers on district level.

The Agricultural Advisory Center reports to the Ministry of Agriculture and Rural Development. Its role is to coordinate agricultural advisory services in Poland. The Center develops and distributes to the regional centers information and training materials, organizes training for advisory centers' staff, establishes and administers the information systems and databases and organizes conferences and seminars in the field of agriculture and rural development. Additionally, it is responsible for certification of agricultural advisors and maintaining of a relevant register. Generally, it does not provide direct advice to farmers.

Agricultural services to farmers are provided to the customer by the regional advisory centers operating in every voivodship. They do have their local teams of advisors also at the local levels of a powiat and gmina. Farmers can influence the way the center carries out its activities through the participation in special committees that advise the center's director.

In Poland, approximately 5 350 persons are employed in the state agricultural advisory units, of which 4 400 are advisors and specialists. The Agricultural Advisory Center has approximately 250 employees.

According to the law "On agricultural advisory bodies", there are two main sources of income of the state advisory centers in Poland: state budget/budget of the voivodship and EU funds. The Agricultural Advisory Center in Brwinów is financed directly by the national state budget whereas the regional centers receive funds from the voivodships' budgets, that is local budgets.

Additionally, the law "On agricultural advisory bodies" provides that the state advisory centers are legal persons and can charge fees for their services. However, the list of such services is strictly regulated by law. It includes inter alia support in accounting and in the promotion of agri-tourism. Other services are provided to farmers free of charges.

**Table 3: National state budget expenditures on the agricultural advisory system<sup>6</sup>**

| Year                | 2004       | 2005      | 2006      |
|---------------------|------------|-----------|-----------|
| Expenditures (Euro) | 45 929 227 | 2 633 817 | 2 664 569 |

It is important to note that the year 2004 was the last one before the reform. In this year, the state funds were directed not only to the national advisory center in Brwinów and at this time its nine branch offices (EUR 8 818 599) but also to the regional advisory centers (EUR 37 110 628), which are financed by the voivodships' budgets now. It gives an explanation to the fact why the state funds decreased so sharply in 2005.

The Polish Accession Treaty with the EU foresaw the possibility of co-financing of agricultural advisory services in the framework of the European Agricultural Guidance and Guarantee Fund (EAGGF) under the Sectoral Operational Program for Agriculture. Thus, since the accession both the national and regional centers apply successfully for EU funds. The value of all projects, carried out so far by the National Center, is more than EUR 2 000 000<sup>7</sup>. Training for farmers can be supported by EU funds too.

<sup>6</sup> Data received upon request from the Agricultural Advisory Center in Brwinów. The amounts in PLN were exchanged into Euro at the official exchange courses of December 2004, December 2005 and December 2006 (source: National Bank of Poland).

<sup>7</sup> Data received upon request from the Agricultural Advisory Center in Brwinów.

In Poland, agricultural advisory services are provided also by the Chambers of Agriculture, which act in accordance with the law "On agricultural chambers" of 14 December 1995. These are farmer-controlled organizations, located in each of 16 voivodship, financed by the members' contributions and fees. Additionally, the cost of the official duties the Chambers performs for the government is refunded from the state budget.

## Germany

Each of the sixteen German states is responsible by federal law for agricultural advisory services. For this reason, agricultural advisory systems have a different organizational set-up in each state. All states can be broadly grouped into three main organizational forms of agricultural advisory. There are Chambers of Agriculture in the north and northwest of Germany while in the south agricultural advisory is the responsibility of the state ministry of agriculture. In Eastern Germany various private-oriented advisory systems predominate. After unification the new federal states had to cope with re-privatization of large agricultural holdings. It created a great demand for advice on legal and structural issues, which could have been covered in a short-term by private companies only. It would have taken time to install the chambers of agriculture, and the states feared investing too much in an uncertain environment as it was unclear as to the types of farms that remain viable after the reforms. Although agricultural advice in Eastern Germany is provided by private organizations, in each case the state maintained a role in subsidizing the costs of advisory provision. Additionally, advisory rings are complementary to the above-mentioned three models in many German states.

### Chamber of Agriculture in Rheinland-Pfalz

One of the main providers of agricultural advisory services in Rheinland-Pfalz is the Chamber of Agriculture Rheinland-Pfalz. It is a public corporation, performing its functions in line with the law "On the Chamber of Agriculture Rheinland-Pfalz" of 28 July 1970. Members of the Chamber are farmers, winegrowers, horticulturists and forest owners from the state Rheinland-Pfalz. The main decision-making body of the chamber is the annual general meeting. It is composed of democratically elected representatives of the agricultural sector, who work on a voluntary basis. The Chamber employs about 300 agricultural experts.

The law "On the Chamber of Agriculture Rheinland-Pfalz" states that the Chamber can take over a range of official duties from the responsible state Ministry. Their costs are to be refunded by the state.

**Table 4: State budget expenditures from the budget of Rheinland-Pfalz directed to the Chamber of Agriculture as refunding for official duties<sup>8</sup>**

| Year                | 2004      | 2005      | 2006      |
|---------------------|-----------|-----------|-----------|
| Expenditures (Euro) | 5 870 000 | 5 733 587 | 5 430 000 |

For other kinds of services, including advice on farm management, the Chamber charges fees from farmers. Apart from that, members of the Chamber pay contributions dependent on the basis on which the land tax is calculated. It should be noted that the budget of the Chamber for the year 2007 foresees the total receipts amounted to EUR 24 310 000.

Apart from the Chamber, there are six state Service Centers for Rural Areas in Rheinland-Pfalz with 1 600 employees (2004), who are responsible for agricultural schools, trials, plant

<sup>8</sup> Data received upon request from the Ministry of Economy, Transport, Agriculture and Viniculture of the state Rheinland-Pfalz.

protection as well as advice on production technology and nutritional consultation. Due to such wide spectrum of services, it is impossible to specify what part of the state funds directed to the Centers is earmarked for agricultural advisory. The responsible Ministry does not conduct such statistics.

**Table 5: State budget expenditures from the budget of Rheinland-Pfalz directed to the Service Centers for Rural Areas<sup>9</sup>**

| Year                | 2004       | 2005       | 2006       |
|---------------------|------------|------------|------------|
| Expenditures (Euro) | 75 551 300 | 73 448 900 | 73 927 400 |

### **State Agricultural Offices in Bavaria**

There is a public agricultural advisory system in Bavaria. 47 agricultural offices across Bavaria, financed by the state, offer free of charge advisory services to farmers. The state system in Bavaria employs about 550 advisors, who, along with advisory, carry out many non-advice duties related to agriculture as auditing of support measures or teaching. According to the Ministry of Agriculture and Forestry in Munich, every advisor invests about 30% of his time into the advisory related activities. One should bear in mind that with the state funds all services provided by the state advisors are financed, and for that reason the sum of funds earmarked for the state advisory system can not be stated. Again, the responsible Ministry does not conduct such statistics. The farmers' organizations, which provide agricultural advisory services to farmers particularly in the fields of organic farming and horticulture, were supported by the state with the amount of EUR 4 500 000 in average in the last three years<sup>10</sup>.

While the chambers of agriculture receive state funding only for certain activities they carry out for the government, the state subsidies in case of the Bavarian offices flow into their budgets regardless of the kind of service/advice provided. That means that farmers in Bavaria receive free of charges advisory services with an area-wide offer. In Germany, such system remained in place in Bavaria only.

However, other trends can be noticed as well. In its new concept called a joint advisory system (Public Private Partnership, PPP), the state foresees the involvement of non-governmental and private advisory providers in the existing advisory system. The private partners for the PPP system will be chosen under a special selection procedure. State advisory teams (located at the agricultural offices in the various counties) will take over leadership and control functions within the PPP system.

### **Private organization in Mecklenburg-Vorpommern**

Among the new federal states with predominantly private advisory systems, Mecklenburg-Vorpommern is a special case as the state decided to establish an own company, which would provide competent agricultural advisory services for affordable fees to farmers. The LMS GmbH – Center of Agricultural Advice Service for Mecklenburg-Vorpommern-Schleswig-Holstein Ltd, founded in 1991, is a publicly-limited company. It belongs to the state Mecklenburg-Vorpommern (64,8%), the farmers' association of Mecklenburg-Vorpommern (25,2%) and the horticulture association (10%), so it is part government-owned and part privately-owned. It has its head office in Bad Doberan and four branch offices.

<sup>9</sup> Data received upon request from the Ministry of Economy, Transport, Agriculture and Viniculture of the state Rheinland-Pfalz.

<sup>10</sup> Data received upon request from the Ministry of Agriculture and Forestry of the state Bavaria.

The LMS provides a wide range of charged services to farmers including inter alia carrying out of a full economic analysis of the farm, advice on production technology, supporting the implementation of quality standards, transition process into organic farming, etc. First counseling interview is free of charges and can be requested via Internet.

Also, similarly to the chambers of agriculture in other German states and on the basis of the law, the LMS performs official duties for the government of Mecklenburg-Vorpommern, which include inter alia advice on land protection and control of biological waste circulation. The costs of these tasks are refunded by the state. Apart from that, the state subsidizes advice to farmers inter alia in the fields of the environmentally sound horticulture, immission control, organic farming and introduction of quality assurance measures. The fields of advice to be subsidized are determined together by the LMS and the responsible state authority and adjusted on a regular basis. Additionally, professional socio-economics assistance to farm enterprises which experience social and economic difficulties are subsidised by the state to 100% of the costs. As a result, such advice is provided by the LMS for farmers free of charges.

In 2006, the amount of state budget expenditures directed to the LMS amounted to EUR 930 000<sup>11</sup>. This amount does not include the refunding of the costs of official duties. According to the Ministry of Agriculture, Environment and Consumer Protection of the state Mecklenburg-Vorpommern, the amount will not change much in the next years.

### Advisory rings in Schleswig-Holstein

Advisory rings as a form of farmers' organization exist alongside other providers of agricultural advisory services: the state, Chambers of Agriculture and private companies in many German states. Advisory rings are incorporated associations of farmers with similar farm enterprises or similar problems who group together to employ one or several agricultural advisors. An advisory ring must be registered and is required to have a board, elected by the members. The task of the board is to contract an advisor, negotiate on salary and resources and to supervise his job.

In the state Schleswig-Holstein, there are nearly 50 advisory rings with 100 advisors and approximately 4 900 farm enterprises as members (2007).

Their members pay a financial contribution to finance the system. It can be determined depending on the size of the farm or the number of animals, or the members may pay a fixed fee regardless of the size of the enterprise. Finances are supplemented by fees charged for services above a basic provision. Until 2004, the advisory rings in Schleswig-Holstein received financial support to staff and resource costs from the state budget.

**Table 6: State budget expenditures from the budget of Schleswig-Holstein directed to the regional advisory rings<sup>12</sup>**

| Year                | 2002      | 2003    | 2004    | 2005 | 2006 |
|---------------------|-----------|---------|---------|------|------|
| Expenditures (Euro) | 1 091 100 | 989 000 | 244 000 | 0    | 0    |

As there was no financing in 2005 and 2006, we included the year 2002 and 2003 in the table to make the picture full. As can be seen, the trend was to decline the funds from year to year, and in 2005 the state ceased to support the advisory rings.

<sup>11</sup> Data received upon request from the Ministry of Agriculture, Environment and Consumer Protection of the state Mecklenburg-Vorpommern.

<sup>12</sup> Data received upon request from the Ministry of Agriculture, Environment and Rural Areas of the state Schleswig-Holstein.



## Conclusions

The countries and regions described above can be grouped into various models of agricultural advisory systems' organization. In the first one, we have public financing of advisory services delivered by public bodies (Poland, Bavaria) or at least public co-financing (the Chamber of Agriculture in Rheinland-Pfalz) whereas in the second one both the provision and financing of advisory services are private (Denmark). The third model is characterized by private provision of advisory services but the state maintains its role in subsidizing their costs (Mecklenburg-Vorpommern).

### The above analysis leads to following conclusions:

- 1) There has been a trend, perceptible throughout various advisory systems, of multiple partners in providing of agricultural advisory (diversification), leading to greater competition on the market for agricultural advisory services.
- 2) There is also a trend towards farmer-controlled organizations. The basic idea is that farmers should determine the provision of services according to their demand and have a voice in organization and management of the advisory system. Farmers are involved in the management of agricultural services providers both in the private and public system (see for example the relevant committees in Denmark and Poland) or they set up their own organizations (e.g. advisory rings in Germany, chambers of agriculture in Poland).
- 3) It can be observed that the role of the state in the provision of agricultural advisory services has been reduced. Even in countries with small-scale farm structures this trend can be observed. Bavaria is in a process of rethinking its system of state agricultural advisory services. However, the state advisory centers remain the main provider of agricultural advisory in Poland.
- 4) Development of new forms of financial support for advisory services and the trend to mixed sources of funding can be noticed. It is not all about EU funds as additional source of funding. For example, law makers in Poland enabled the state agricultural centers to charge fees for certain services, that is to act as private companies.
- 5) Experience of Denmark and the Netherlands shows that all agricultural advisory services can be privatized with benefits for farmers and the state budget at the same time. However, in Western Europe many services of this kind remain subsidized by the state also in cases where the state is not an advisory provider. The trend in Western Europe is towards public financing for those services that are of direct concern to the public and towards direct charging for specific individual services with direct return for the farmer (in the form of improved income).
- 6) It is recognised that larger farms can afford to pay for agricultural advisory services and it is recognised as well that public financial support of agricultural advisory systems guarantees easier access to advice for smaller agricultural enterprises that otherwise would not be able to afford advisory services. In this way disadvantaged groups are not alienated. Thus, advisory services contribute to achievement of socio-economic and rural development objectives. Such measures are of importance particularly in countries or regions with rural poverty.

By adopting the law "On Agricultural Advisory Activities", Ukraine already committed itself to a non-public (non-state) agricultural advisory provision with partly public financing. Provision of certain services, called socially-oriented services, will be financed by the state. As a result, certified private organizations will apply for the funds under a tendering procedure and then

provide agricultural advisory services to their customers free of charges. Other services will be rendered at the customer's expense.

As regards the amount of public subsidies earmarked for agricultural advisory services, there is 9,3 million of UAH foreseen for this purpose in the Ukrainian state budget for 2007 and 19,5 million of UAH in the draft budget<sup>13</sup> for 2008. How does this compare to Western Europe?

Mecklenburg-Vorpommern subsidized agricultural advisory services with EUR 930 000 in the last year, equivalent to about UAH 6 593 700<sup>14</sup>. Taking into account that there are approximately 5 230 farms over two hectares in the state of Mecklenburg-Vorpommern, it makes UAH 1 261 per farm. To reach such a number in Ukraine, with about 43 000 households and private family farms and about 20 000 corporate large scale farms, the state would have to subsidize its system with about UAH 79 443 000<sup>15</sup>. This does not yet include about 6 million households with land plots up to 2 hectares.

In the short term, we recommend making the legislative basis for the provision and financing of agricultural advisory services in Ukraine complete as still an order (prikaz) on the terms of the tender procedure is missing. It should be adopted as soon as possible by the responsible Ministry of Agricultural Policy as it is a prerequisite for disbursement of the public funds. The resolution of the Cabinet of Ministers on the allocation of the funds for the year 2008 should be adopted without delay. It should be noted that the Ukrainian policy makers can increase the public funding directed to the agricultural advisory system and still remain in line with WTO requirements. Agricultural advisory services fall under Green Box measures which means that no restrictions exist for such a type of support of agricultural producers.

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<sup>13</sup> Draft Law of Ukraine "On the State Budget of Ukraine for the year 2008" of 14 September 2007

<sup>14</sup> Exchange rate to Euro of 10 October 2007 – 7,09 UAH.

<sup>15</sup> The estimation is near to the estimation of the National Association of Agricultural Advisory Services of Ukraine Dorada. According to the association, nearly UAH 74 000 000 are needed for the support of extension and agricultural services in Ukraine in 2007.

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