

THE DEVELOPMENT OF ADVISORY SERVICES IN ARMENIA: COST RECOVERY ISSUES

Ian Houseman

Agriculture and Rural Development Consulting, 6 Old Plough Close, Chearsley, Aylesbury,
HP18 0BU, UK. Telephone/Fax: +441844202991. E-mail: ian.houseman@btconnect.com

SUMMARY

Advisory Services have been established in Armenia for nearly 15 years and for the last four years have been supported by a second World Bank project, the Rural Enterprise and Small-Scale Commercial Agriculture Development (RESCAD) Project. The project component on strengthening of advisory services proposed to raise the cost recovery performance from an initial level of 10% to 30% by the end of the project in 2009. The advisory services operate as 10 Marz (Regional) Agricultural Support Centres (MASCs) with the assistance of the national level Republican Agricultural Support Centre (RASC). The centres are all state-owned joint stock companies operating under the aegis of, and supported by, the Ministry of Agriculture. This paper analyses their performance to date and discusses the issues that faced the advisory services in trying to achieve their targets. An analysis of work plans, costs and income for 2006, 2007, 2008 and 2009 is presented along with a review of funding sources and recent attempts to segment the market for advisory services. The need for long-term core funding from the state is highlighted. A description of the work of the RESCAD project advisory services component is also presented including some aspects of the Technology Assessment Programme (TAP) and the demonstration activities.

1. WORK PROGRAMMES AND COSTS

Over the past four years the MASCs have been involved in the following activities:

Activity	2006 Actual	2007 Actual	2008 Actual	2009 Plan
Training events	2762	2720	2739	2515
Consultations	31176	33704	29004	20659
Demonstrations	292	351	206	327
Field experiments	381	404	390	249

In addition, the MASCs also carried out a large amount of information dissemination activity, provided assistance on marketing and business planning, established groups and other organisations, carried out surveys and investigations and contributed to the development of the Armenian agricultural knowledge and information system (AKIS).

In 2006, the running cost budget for the 10 MASCs was USD 630,000 (USD 63,000 per MASC), giving each MASC a 10% cost recovery target of USD 6,300. In 2007, costs rose substantially due to increased salaries for the advisers and the total cost was USD 780,000 giving each MASC a target of USD 7,800 (at a cost recovery rate of 10%). The MASCs were originally achieving a cost recovery rate of 10% but then found it difficult to raise additional income. There are around 340,000 Armenian farmers but the majority are very small with less than 1 hectare of land and they are unwilling to pay for advisory services. Many of them are poor and are simply unable to pay. The MASCs are being encouraged to segment their markets and are being assisted to develop more robust business plans against which their financial performance can be monitored.

2. COST RECOVERY MECHANISMS

2.1 Costs Needing to be Recovered

Before choosing the most appropriate cost recovery mechanism it is sensible to have a clear idea of the type of costs which relate to the service under consideration and, more particularly, their relative importance.

Normally in advisory services the main cost is that relating to the time an adviser or consultant will be involved in providing the service.

Typically other costs can be:

- Travel costs
- Management
- Administration
- Overheads such as office, utilities etc.
- Work completed by others
- Production of materials such as brochures and leaflets
- Use of land, livestock, farm machinery for demonstrations etc.

2.2 Types of Mechanism

a) *Time Based Charges*

These have the advantage that all the cost of consultant time can be recovered if all the costs have been built into the charge out rate (this is particularly so for a daily rate charge). Farmer clients, however, may dislike this arrangement because they do not have a clear idea of the likely total cost of the service and in the situation of daily rates may feel that the consultant is not providing a full service throughout the day. This method of servicing requires accurate time recording against the client's account.

(b) *Fixed Fee - Time Based (Contract)*

The services to be provided to the farmer are set out in a contract schedule with a price negotiated and agreed between the two parties. The advisory service and consultant will need to have a clear idea in advance of what the exact cost will be in providing the service. It is easy to under-estimate the cost of providing for example, a 12 month service. Equally, over the period, the farmer may place more demands on the consultant than was originally intended or agreed.

(c) *Fixed Fee - Objective Based (Payment by results)*

This is a nice idea in principle, which offers potential advantage to the farmer and substantial motivation to the consultant. However, it does require that the objective criteria are clearly defined and the performance can be accurately measured. There are relatively few agricultural situations where this is so.

Also the cost of the risk from other influencing factors, for example the weather, which may prevent the objectives being met, may need to be covered by the advisory service.

(d) *Competitive Tender Bid*

Before bidding, the advisory service will need to have a very clear understanding of the customer requirement and its capability to deliver successfully and the costs of delivering the service. The competitive element introduced by the bid process may tend to force the advisory service to bid below the cost of delivering in order to win the work. The formulation of the bid can be very costly and hence an assessment needs to be made in advance of your chances of winning the business. This type of approach is often required for donor funded work.

(e) *Service Subscription Fees*

The initial fixing of the subscription fee and definition of the level of service provision needs very careful consideration from the outset. There tends to be price resistance to raising the subscription fee in following years. Once started, because of its group nature, it is often very difficult to close such a service down.

The profitability of this arrangement is very dependent on the number of subscriptions.

(f) *Club Membership Fee*

Comments as in (e) above. This service tends to have a broader base of service provision and becomes more difficult to define. The influence of club members may be difficult to handle.

(g) *Support Funding*

This is a very valuable source of funding. The provision of funds would normally be attached to various conditions and these would need to be consistent with the commercial objective. Government or other organisational support for specific programmes or work can be successfully attracted. This can be in the form of direct payments or through other schemes e.g. using vouchers or other instruments, to be paid for work done.

(h) *Other Methods*

In some situations, advisory services can become involved in the supply of other goods or services. These might be for the provision of inputs (seed, fertiliser, pesticides, feedstuffs, medicines etc.), machinery and other specialised services (e.g. artificial insemination), marketing services, access to loans and other finance and legal services. The advisory service can be paid some fee commission for the successful delivery of the goods or services i.e. the advisory service acts as an **agent**. In other situations the advisory service may actually act as a **trader** for the goods and services i.e. it takes title to the goods. As an **agent**, the advisory service's liability is limited to its activities as an agent. As a **trader**, the advisory service must accept full liability for the delivery and performance of the goods and services. In this instance, the rewards may be higher but so are the risks.

2.3 Payment Method

Payment would normally be through money, but in some circumstances it might be possible to receive payment in kind. For example, payment through the provision of seed to enable a demonstration plot to be planted, and for which a subscription payment was agreed from groups of other farmers.

Also the different cost recovery mechanisms will have different features relating to the payment period. This has a major influence on the cash flow of the advisory service business. For example, a fixed fee (contract) may have to be charged retrospectively whereas a club membership fee could easily be charged in advance.

3. CALCULATION OF THE COST PER DAY OF AN ADVISER

All advisory services need to manage their costs and it is useful to calculate the average cost per adviser day so that calculations can easily be made of the cost of staff resources. This is especially so when advisory services have to recover all or part of their costs. The starting point is to calculate the number of days available for work with farmers (Available Work Days – AWD). This is calculated by subtracting from the number of days in the year (Total Days – TD) by weekends (usually 52 or 104 days), national holidays, annual leave and an allowance for sickness leave (usually 5 to 7 days). The remainder is the number of days available for all work (Total Work Days – TWD). From the TWD there is a subtraction of the number of days an adviser would spend on administration (usually 1 day per month) and training and professional development (usually between 10 and 20 days per year – say 15 days).

So the calculations are:

$TWD = TD - \text{weekends} - \text{national holidays} - \text{annual leave} - \text{sick leave}$

Example: $TWD = 365 - 104 - 11 - 24 - 5 = 221$

$AWD = TWD - \text{administration} - \text{training}$

Example: $AWD = 221 - 12 - 15 = 194$

The next calculation is to determine the number of advisers in the organisation. This might just simply be a straightforward headcount but often not all advisory service staff are engaged directly in the advisory process, giving advice and training to farmers and providing information.

There are other staff such as administrators and drivers who are in the advisory service but not directly involved in the process. The aim is to calculate the number of staff years (SY) engaged in advisory work. Some staff will be engaged full time and others on a part time basis, some of the managers or directors, for example, who have other duties to fulfil. The final figure in the equation is the total budget (TB) of the advisory service which includes salaries, taxes, office costs, communication and transport, demonstration and training costs, etc.

The calculation of the cost per adviser day (CAD) available for advisory work is very useful in a cost recovery situation and the calculation is made as follows:

$$\text{CAD} = \text{TB}/\text{SY} \times \text{AWD}$$

Occasionally, it may be necessary to know the cost of an average staff day (CAS) for all staff and based on the Total Work Days. This would assist in budgeting for a piece of work or calculating the cost of a project or a demonstration programme that has been delivered but this is dependent on all staff recording their time appropriately.

This calculation is similar:

$$\text{CAS} = \text{TB}/\text{TWD} \times \text{TS}$$

Where TS is the total number of staff in staff years i.e. adjusted for staff who are employed on a part time basis.

In 2006 the cost per adviser day (CAD) was, on average, USD 12.80 but for 2007 and 2008 the average had risen to USD 16.80 and the annual cost per adviser had risen from USD 2476 in 2006 to USD 3255 in 2007/8.

4. CURRENT FUNDING SOURCES

The RASC/MASC network was being funded by the RESCAD project with some support from the Republic of Armenia Ministry of Agriculture. There was also support for the village advisers through the provision of village advisory offices where the village councils cover the office and utility costs. Some farmers have paid fees but, as stated above, generally they are unwilling or unable to pay for services. The RESCAD project has also funded the purchase of some field testing and laboratory equipment and this was to be used as a basis for the development of fee-paid services. In addition, the RASC produces an agricultural newspaper which is distributed to the MASCs and sold to farmers which brings in a modest income.

The current situation faced by the MASCs highlights the necessity for long term core funding from the Government of Armenia. Without this there must be a serious concern that the RASC/MASC network will not be in a position to fulfil its mission of modernising Armenian agriculture. Recent changes in the Government of Armenia have provided a firmer base for longer term, core funding. However, the recent financial crisis has impacted heavily on the Government of Armenia's budgets.

5. THE RESCAD PROJECT

The project was based on a loan of USD 20 million in the form of an International Development Agency (IDA) credit and it was supported by a Japanese Technical Assistance (TA) grant of USD 1.755 million. The project had a number of components including that of strengthening the advisory services. The project also had a seeds and sapling component, a veterinary component, a competitive grants scheme for small infrastructure projects and a micro-credit component. The advisory services component also sought to develop and assess new technologies through the Technology Assessment Programme (TAP). The results of this work were disseminated by means of information sheets throughout the MASC network. The TAP was supplemented by a comprehensive demonstration programme. The TA grant was used to provide support, guidance and training to the RASC and MASC directors and staff. A contract services manual has been prepared and assistance with extension methodology, business planning, market segmentation and farm management was provided.

Note: The views expressed in this paper are solely those of the author and do not necessarily represent the official position of the World Bank or the Government of Armenia.