

Tools and Methods Series

Reference Document N° 5

EuropeAid

Sector Approaches in Agriculture and Rural Development

October 2008 - Short version



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Luxemburg: Publications Office of the European Union, 2010

ISBN 978-92-79-11428-1

doi: 10.2783/34441

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Printed in Belgium

PRINTED ON WHITE CHLORINE-FREE PAPER

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ACKNOWLEDGEMENTS

The document was prepared by Désirée Dietvorst, in the frame of the Aid Delivery Methods Programme. Preparation was coordinated by the Natural Resources Unit in Directorate E (Quality of Operations) of EuropeAid. We are grateful for the contributions from staff at EuropeAid and various EC Delegations who helped improve the document by sharing their valuable experience and extending their advice.

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ABBREVIATIONS

ARD	Agriculture and Rural Development
ASDP	Agriculture Sector Development Programme (Tanzania)
CSO	Civil Society Organisation
CSP	Country Strategy Paper (EC)
DGIS	Directoraat Generaal International Samenwerking (the Netherlands)
GDP	Gross Domestic Product
GDPRD	Global Donor Platform on Rural Development
M&E	Monitoring and Evaluation
MFI	Micro Finance Institution
MTEF	Medium-Term Expenditure Framework
NAADS	National Agricultural Advisory Services
PBA	Programme-Based Approach
PEAP	Poverty Eradication Action Plan (Uganda)
PFM	Public Finance Management
PMA	Programme for the Modernisation of Agriculture
ProAgri	Agriculture Sector Programme (Mozambique)
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development (Ghana)
SA	Sector Approach
SBS	Sector Budget Support
SEA	Strategic Environmental Assessment
SIP	Sector Investment Programme
SP	Sector Programme
SPA	Strategic Partnership with Africa
SPSP	Sector Policy Support Programme
SRA	Strategy for the Revitalisation of Agriculture
SWAp	Sector-Wide Approach
SWAP	Sector-Wide Approach Programme
WDR	World Development Report

Part I: Sector approaches in agriculture and rural development

As awareness builds up of the contributions that agriculture and rural development (ARD) can make to poverty reduction, ARD is again becoming central to national and international development agendas. In line with this, European Commission (EC) support for these sectors has increased substantially. Where possible, the EC favours the use of sector approaches in support of nationally owned sector development programmes. Whereas good results have been recorded in health and education, sector approaches in ARD have proved more challenging, in particular because of the importance of private investment and the essential role private/non-state actors play in the field of input and service provision and ARD's inherent dependency on natural resources. By building further on the EC Guidelines on Support to Sector Programmes this Reference Document offers guidance on how to introduce the necessary flexibility in the use of sector approaches in ARD and on how this may benefit sector development and outcomes.

1.1 Basic concepts and definitions

Conceived as a process that leads to closer partnerships between government, development partners and other key sector stakeholders, sector approaches most importantly seek to broaden government and national ownership over public sector policy and resource allocation within the sector. Effective management, sustainable sector development through increased coherence between policy, spending and results and — where relevant — the reduction of aid-related transaction costs are important concerns for the successful implementation of sector approaches.

A major advantage of sector approaches is that a thorough assessment of seven areas is carried out in order to capture the sector 'broad picture' and overall outlook: (i) the sector policy and strategy, (ii) the sector budget, (iii) sector coordination, (iv) institutions and capacities, (v) performance monitoring, (vi) the macro-economy and (vii) public finance management, with the first five areas considered as the core elements of a sector programme and forming the basis for this Reference Document.

When conceiving a sector approach the first crucial question concerns the size and scope of the sector ('How wide is "sector-wide"?'). Though already a demanding question when dealing with the agricultural sector it becomes even more challenging when rural development is considered as the appropriate scale of involvement. By linking the concept of 'sector-wide' to the original purpose of 'what needs to be addressed

together to avoid fragmentation and increase efficiency and output', the paper aims to offer the necessary guidance. This also means that 'sector-wide' at policy level may be wider in scope than what is aimed for at implementation level: agriculture or rural development policies need to capture inter-sectoral constraints and opportunities but at some point overarching policies may well need to be broken down into mutually supporting and coherent (sector or sub-sector) programmes to become workable.

Sector approaches and sector programmes can be supported by donors through various financing arrangements: sector budget support, pooled funds or project support or a combination of these. Sector budget support may for example be well suited to assist government in its endeavour to improve 'public good'-type outputs whereas non-state actors may best be supported through project support to strengthen rural services delivery. It should also be clear that the project mode, when used in the framework of a sector development programme, will be different in purpose from conventional and stand-alone projects.

1.2 What is different in agriculture and rural development?

One of the main differences relates to the roles played by private/non-state actors in providing finance, productive investments or even guaranteeing certain key rural services. This need, to operate in a multi-institutional and multi-organisational context, clearly constitutes a second set of challenges for sector approaches in ARD. As solutions have to be adapted to local conditions, the potential for scaling up and fostering best practices cannot easily be realised in ARD. Due to ARD's dependency on natural resources, climate change and sustainable natural resource management will pose a set of specific challenges. Meeting such challenges thus necessarily requires the adoption of a multi-layered and strategic approach to sector development that requires (i) incorporating political economy-type analysis and tools; (ii) integrating relevant actors' perspectives (as too early or too strong a focus on government may well result in unwarranted crowding-out of key private actors); and (iii) integrating issues to do with local governance and decentralisation; (iv) integrating environmental issues and climate change. Reducing sector approaches to discussions on the use of selected aid delivery instruments may well lead to a confusion of means and ends, losing sight of the fundamental issues at stake and missing out on certain

key constraints to sector development (a near-exclusive focus on the public budget as development ‘driver’ may well become counterproductive for sectors where the government is not a dominant service provider).

1.3 Policy and strategic frameworks

Macro-level policy frameworks are important as they stimulate inter- and intra-sectoral coordination; any assessment of sector policy thus has to start with an analysis of the macro-context. At the level of the sector itself, the issue of ‘policy alignment’ is even more critical. As ARD are influenced by a great many policies, some of which not aligned or even conflicting, it is important to start from what exists to formulate a set of coherent policy principles rather than embarking on an ambitious policy formulation exercise. Applying a ‘policy compliance’ criterion may be very useful when the sector is characterised by many development interventions (carried out by both state and non-state actors). Rather than designing specific policies down to the last detail, a clear consensus on a common set of policy principles may enhance flexibility and creativity for designing innovative and locally appropriated solutions (e.g. implementation of sector policies by different sets of actors per region). Principles may seek to clarify relationships and responsibilities between government, the private sector and non-state actors or the role of local governments in implementing sector policies. When government, geared towards securing social outcomes, has to play a role well beyond its limited ‘public goods provision’ role, its actions should be non-distorting in nature while remaining focused on the creation of an environment in which private solutions become viable. The development of specific policies aimed at ensuring pro-poor growth will of course be highly specific to each country.

1.4 Sector budget and public finance management

The quality of public budgeting and of spending also constitutes critical factors for agricultural and rural development. As the role of public investment is to leverage and ‘crowd in’ the private sector, investment should be targeted. Sector Budget Support should accordingly closely relate to agreed government roles, investment priorities and tasks. As support for a specific sector is still frequently provided ‘off-budget’, governments will have to match resources with sector priorities (a key objective of the sector approach) while progressively bringing this support ‘on-budget’.

Another key objective of the sector approach is to strengthen country systems, structures and procedures. This not only requires that country budget processes are respected but also means that the budgeting

process as such may need strengthening. Therefore sector financing needs to be aligned to the Medium-Term Expenditure Frameworks (MTEFs) and to the budget process. In the context of multi- or cross-sectoral ‘sectors’ this essentially means choosing between an ‘administratively’ delineated budget structure or a thematic, result-oriented budget. Depending on the scope of the sector programme and its budget and the strength of inter-ministerial coordination a number of alternatives can be worked out, from comprehensive but stand-alone all-encompassing sector programme budgets, managed outside country structures and systems, to fully integrated MTEFs.

Support for sector programme budgets should be predictable over the medium to long term and therefore aligned with budget cycles. This holds not only for sector budget support, but also for the other financing arrangements. Overall quality of public finance management (PFM) is also important. It should be assessed at both sector level and macro level as sectoral PFM shortfalls often relate to overall PFM weaknesses. In assessing PFM it is also important to look at the revenue side too; by improving revenue collection systems sector budgets can be ‘weaned off’ donor support, offering a chance to enhance accountability towards national constituencies.

Finally, in supporting ARD, donors have to accept that building up sector capacity, strengthening local ownership and (economic) growth will take time and that aid can also be effective through fostering new ideas and alternative ‘ways of doing’. In comparison to high public investment sectors, agriculture and rural development are rather considered to be ‘slow disbursement’ sectors with a higher ratio of expertise/money than in other ‘SWAp-able’ sectors (e.g. health and education).

1.5 Sector and donor coordination

Coordination has often been difficult during the design and implementation of agricultural sector programmes, but when interventions are extended to ‘rural development’ this becomes even more challenging. Whereas the coordination of many different stakeholders in the framework of a single programme is often highly complex, the coordination of stakeholders around a common vision for the sector is often a more feasible pathway to sector development. The added advantage of starting such a vision is that it can then be captured in a proper sector-wide policy that once formulated will become an instrument for coordinated implementation. Such a policy can then be implemented through a series of programmes that take their orientations from the existing sector-wide policy. Translation of policy into manageable programmes can be done according to (i) coordination needs, i.e. the more activities need to be

implemented in parallel or sequentially the higher the likelihood that they should be covered by a single programme, and (ii) coordination feasibility, i.e. where coordination is a problem, programmes should be made smaller (rather than coordination mechanisms bigger).

For ARD, certain key coordination tasks will likely have to be assumed by central-level government entities (e.g. Ministry of Finance and/or Planning). First, because it is difficult for one technical ministry to coordinate the activities of another one (Ministries of Agriculture have found it notably hard to align Local Government, Trade, Land, etc. behind 'their' sector programme) and, second, because ARD programmes are often carriers of political agendas (e.g. privatisation of parastatals, devolution of power) which may run contrary to the interests of the ministry responsible for programme implementation. Only with a strong guiding hand and championship from central level can such programmes be coordinated and carried through.

However much donor coordination mechanisms have their place and purpose in supporting sector development, donor coordination efforts should not overshadow nationally driven sector coordination. Donors operating outside existing sector development programmes should however be brought on board by requiring their interventions to be progressively made compliant with the sector policy.

1.6 Institutions and capacities

Institutions and capacities are at the heart of the sector approach: weak sector capacity has a ripple-out effect, be it in policy formulation areas, financial management, sector coordination or performance monitoring. Capacity development should be balanced across these areas: too strong a focus on one aspect (e.g. financial management) may lead to lopsided capacity development processes.

One of the advantages of using an Open Systems Institutional Model is that it fosters the use of an 'actor perspective' during the analysis. Working backwards from policy objectives and outcomes towards the delivery of necessary outputs will inevitably lead to detailed characterisation of the actors responsible for those outputs and services. Proceeding this way also helps in averting the risks of narrowing down too soon on a specific actor and a particular set of activities. Neither should capacity strengthening be understood too narrowly as 'the capacity of the lead institution to implement the sector programme' or 'the capacity of the ministry to manage the donor funds entrusted to it' but rather as a process aimed at building capacity of all actors and stakeholders responsible for sector development. In supporting capacity development attention

should be given not only to the supply side (e.g. sector ministry better able to provide quality services) but also to the demand for that capacity to develop (e.g. service users ask government for quality services).

1.7 Performance monitoring and accountability

The type of monitoring (for management purposes or for accountability reasons) determines the type of information collected. In the context of government-donor interactions, the purpose of monitoring has to be clear: whereas a focus on sector outcomes will support the quality and depth of policy dialogue, a focus on agreed performance indicators will be oriented towards progress verification and variable or fixed 'tranche' disbursements in the context of budget support.

Although policy and conditionality dialogues are interconnected, it may be important to keep them conceptually separate to allow for a frank analysis of progress and to avoid a bias in implementation towards attaining certain 'trigger' indicators, and thus confusing indicators with results and objectives. In general, donors must make sure that their monitoring needs do not dominate national monitoring efforts so as to avoid a situation where 'accountability circles' in a country are pushed upward and outwards towards donor head-offices rather than downward towards constituencies.

Monitoring systems in ARD programmes tend to display two shortfalls: (i) a 'missing middle' (e.g. measuring improvements in service provision) and (ii) a lack of indicators measuring changes to the enabling environment. Where a sector programme is measured chiefly in terms of outcomes (e.g. agricultural production, rural income, food security), it is difficult to establish a link between public investment in the sector (i.e. input) and growth of the sector (i.e. outcome), because the latter is highly dependent on private sector investments as well as external factors such as climatic conditions. Thus, monitoring systems have to follow suit on the necessary steps 'in between' to create an enabling environment for private sector initiatives (i.e. by looking at key output indicators). It should thus be remembered that in productive sectors the way in which goods and services are provided is critical to the developmental outcomes to be achieved.

1.8 Conclusions

Supporting sector approaches and programmes in ARD will always be a complex exercise. Sector development in ARD means balancing support between public and private sector investments, between government and non-state actors and between central and local levels.

Sector approaches in ARD are less about THE programme and THE budget, and more about strengthening government-driven frameworks for private-led rural growth with frameworks to be implemented by a range of state and private/non-state actors.

Time and effort are required to understand a complex and politically charged sector; to build sensitivity and creativity into the design of support programmes that are both flexible and balanced; and to capture momentum where it develops when mobilising a vast group of actors and stakeholders. This may be a tall order, but it is an exciting challenge that deserves to be taken up. Or, as so aptly stated by the World Development Report 2008, *'where the powers of agriculture and rural development can be unleashed, this will provide high payoffs, towards the Millennium Development Goals and beyond'...*

Part II: Key Messages

2.1 Policy and strategic frameworks

Help strengthen macro-sector linkages. Clear and conducive macro-level policies are needed to drive and coordinate sectors that are complex and cover multiple institutions. Sector policies have to be anchored onto clear pro-poor rural growth poverty reduction strategies.

Acknowledge existing policies: At the start of a sector approach, allow time for comprehensive mapping of relevant and sector-related policies. This can provide the basis for delineating the scope of an eventual sector policy or programme(s) and it highlights potential policy conflicts and the need for 'sector-wide alignment' action.

Use sector-wide policy dialogue to understand and address inter-dependent constraints. The programme approach looks at the big picture. In the case of agriculture and rural development this needs to be multi-sector wide. This allows an understanding of linkages across sectors and the formulation of (mutually supporting) programmes such that inter-dependent constraints are addressed in different sectors (e.g. production of marketable surplus linked to feeder roads development).

Foster clarity on public and private roles. A minimum requirement is that policies are clear and unambiguous about the division between public and private roles (esp. in agriculture) and between central and local responsibilities (esp. in rural development). They also need to remain clear in the long term: strong analytical foundations, widespread ownership and quick wins may all help to protect against policy U-turns. Private sector development needs policies that are stable in the long term.

Help strengthen the analytical work underpinning policies. A weighing of the cost, feasibility and long-term impact of different government- or private sector-driven service delivery scenarios should be at the root of policy formulation in productive sectors. With respect to past policies, an understanding of what worked, what didn't and why is a prerequisite for future policy making.

Ensure Environmental sustainability. Necessary analytical work should also address environmental dimensions¹. To ensure that environmental issues are appropriately addressed, on par with economic and social considerations, ARD sector approaches should benefit from an SEA at an early stage (optimally prior to Policy, plan and programme formulation)².

Foster 'policy compliance'. Aligning behind a policy also implies remaining policy-compliant "on the ground".

Thus, donors should avoid subsidising government to perform tasks that are meant to be undertaken by the private sector. Donors themselves should refrain from service provision where this is not 'policy-compliant'. Donors and NGOs who do not fund the sector approach may still need to be included in the policy dialogue, or at least their actions need to be 'policy-compliant'. Ensuring 'policy compliance' allows government-led coordination of wide-ranging interventions under a sector policy whilst also allowing flexibility for actions to be adapted to local circumstance.

Government role not limited to public goods measures. Conventional approaches based on 'public goods' measures for government (and donor) support to expand markets are likely to lead to poorly designed support. Especially in rural areas of developing countries, market failure and government failure combine to create such pervasive and complex obstacles to marketing that it is unrealistic to assume that the 'free' market can provide adequate solutions to the problem.

There is a private sector role even in 'public good'-type services. Even in traditional public responsibilities such as marketing information and standards and grades a role can be played by the private sector by ensuring that information and grades reflect concerns and needs of the market.

2.2 The sector budget and public finance management

Public finance management should be addressed at country level first, and at sector level only after. This is because a lot of the PFM weaknesses at sector level can only be addressed at country-wide levels. However, even if existing PFM systems are regarded as weak, countries can accede to budget support if they can evidence commitment to implement policies that provide pertinent answers to identified PFM weaknesses³.

Fund government for government tasks and avoid making government responsible for funding policy objectives such as strengthening farmer associations, organising commodity associations and building capacity in the private and civil society sectors. Putting support for state and non-state actors into one programme under government management may result in tensions.

Look for 'best fit' scenarios to link sector policy to sector budget/MTEF. Where sector performance depends on different ministries as well as actors outside

(1) Environmental integration Handbook for EC Co-operation-EuropeAid-2007

(2) In order to integrate climate change challenges in ARD a set of tools is in process of being finalized.

(3) EC Guidelines on the Programming, Design & Management of General Budget Support, pp30-31

the government, a weighing of options for the budget that funds the sector policy is required. Whether the budget is divided over different agencies and actors (e.g. in the form of sub-programmes), or whether the budget stays intact but different agencies and actors can ‘draw’ from it (e.g. in the form of a budget classification system) is a decision that needs careful consideration on a case-by-case basis.

Pay due attention to revenue streams including non-tax revenue systems. Improvements in the collection or use of revenue collection can boost government resources while improving domestic accountability. Local revenue collection that is linked to local budgets can provide an impetus for local growth based on clear and short links between service use and service fees.

Avoid focusing too heavily on the central level and on government. Sector approaches can display re-centralising tendencies by their focus on government and the public budget as main vehicles towards poverty reduction. In productive sectors, drivers of pro-poor growth are found close to the ground, e.g. smallholder farmers, small and medium-sized enterprises and local government. Sector approaches need to be aware of this and balance support between state and non-state actors and between national and sub-national levels.

Public support may need to be provided by donors directly to the private sector, especially when support via government encounters capacity constraints or diverging interests. Where donors support private actors directly, this should be non-distorting and aligned with the sector policy.

Balance support between money and ideas. For productive sectors, public budgets have often not been used optimally and may thus not have acted as a leverage to stimulate private sector growth. More money is unlikely to do more good when policy and institutional frameworks have not been improved first. Public finance management in agriculture linked with ongoing decentralisation processes is also very challenging; capacities will thus have to be strengthened first.

2.3 Sector and donor coordination

Strengthen the role of central government in sector coordination. This is particularly important in multi-sector contexts, and where sector ministries do not have a clear coordinating mandate over sister sector ministries. Second, it is important for those programmes or programme components that deal with politically sensitive issues such as institutional reform, privatisation of parastatals and the deconcentration or decentralisation of power and resources.

Support the involvement of non-state actors. In their role as donors, by extending donor coordination mechanisms in order to include also non-governmental donors who work in the sector, but also in their role as partners-in-development (contracted by government or donors), and even as recipients of direct support, provided this support is aligned to the national policy for the sector and abides by principles of strengthening local (country) systems.

Support the elaboration of a shared ‘policy compliance’ concept and its mainstreaming in all operations to coordinate actors within the sector programme but also beyond. This possibly allows for smaller and more feasible programmes, whose joint policy direction ensures that the sum is more than the parts.

Avoid parallel sector programme coordination structures that override country structures. Coordination mechanisms that cut across existing country structures may divert attention from existing systems. This should be avoided at all costs as programme-based mechanisms in all likelihood have only a temporary existence.

The feasibility of coordination should be a determinant of the size of the sector programme. Coordination difficulties have to be taken into account when delineating the sector programme or sector sub-programmes. Multiple-ministry programme frameworks may need to be broken down into units of fewer players to allow decision making to take place. Coordination of these (sub-) programmes can then be guided by a single policy framework, rather than a single programme framework. If the policy is clear on direction and on roles, then programmes under the policy should be able to support each other.

Foster demand-driven coordination. For example by creating awareness, supporting access to consultation platforms and information sources and building capacity among interest and lobby groups of importance to sector development. When supporting stakeholder consultation, do not only focus on surveys, policy fora, and client monitoring (as supply-driven mechanisms) but also look at supporting farmer unions, commodity organisations and similar organisations around (sector) stakeholder concerns (rather than around programme implementation mechanisms).

View donor coordination as a stepping stone towards improved sector coordination (do not let donor coordination ‘crowd-out’ sector coordination). For example in aid-dependent countries, where donor coordination is both urgent and complex, much attention may need to be devoted to this in the initial stages of a sector approach. However, by allowing donor coordination to move towards country systems (through increased alignment) it can be made to serve the ultimate objective of stronger country systems and better performing sectors.

2.4 Institutions and capacities

First, look at the sector as a whole and at implementation of the sector programme within that. Capacity assessments should address in what way and to what extent capacity in the sector as a whole is an asset for or impediment to sector development. Assessments should not be limited to the capacity of the lead ministry to coordinate the sector programme or manage donor funds.

Capacity development should be a mainstream sector policy objective where sector capacity is weak. A situation where ambitious policies are translated into ambitious sector programmes with add-on capacity development components to fill the capacity gap will lead to disappointing implementation. It is better to follow an incremental but feasible route from the start, based on what is there and on what can realistically be developed.

Add an actor perspective to capacity assessments by starting from the policy objectives and working backwards via outputs contributing to the objective and the actors that are responsible for these outputs. This comprehensive overview of key actors and their outputs will lay the foundation for a sector-wide capacity development framework (see below).

Base capacity development efforts on a holistic vision of the sector: Mapping of actors and capacity needs for the sector as a whole can help identify where capacity is a critical limiting factor, or where unlocking capacity potential would have greatest sector benefits. Also, such mapping clarifies inter-related capacity needs, e.g. it not useful to help backyard processors manufacture speciality coffee when it cannot then be graded and certified as such; a government-negotiated trade agreement will help the sector only if producers know of the opportunity and can fill up the quota.

Link capacity development efforts to outputs that contribute to policy objectives. Where capacity is weak, pay attention to human resource management issues to help ensure that 'capacity developed' translates into 'capacity used'.

Explore the scope for joint donor capacity development frameworks. Based on a vision of capacity needs for the sector as a whole, and the identification of main bottlenecks or opportunities for change, donor coordination and joint government-donor cooperation can help ensure that priority areas are addressed early, inter-related capacity needs are addressed together and capacity development efforts follow an incremental path.

Understand the political economy that shapes sector development and the chances for equitable rural growth. Explore the scope for political economy analyses that (i) are carried out and owned by country stakeholders, (ii) look in particular at the agricultural or rural sector

and (iii) translate findings into sector-level operational implications.

2.5 Performance monitoring and accountability

Link the indicator type to the purpose of monitoring. At the policy level, outcome indicators may show whether the policy is right; at the programme level, however, indicators have to show whether the programme does what it should. Too great a focus on outcome and impact indicators will not yield enough information for day-to-day management of the sector programme and its budget. Programme implementation is a step-by-step process and indicators have to reflect that.

Keep track of core public goods delivery. A key function of government is the provision of public goods and services, such as policy and legislative framework, health and plant-health regulation, but also aiming for socially desirable, equitable and environmentally sound outcomes in a market economy. Government should identify indicators that can show progress in these core functions over the long term.

Keep track of progress in the enabling environment. Government's responsibility in agriculture and rural development is about creating the right framework conditions for equitable rural growth, and sector programme indicators need to include those that measure the enabling environment. Where institutional reform of the government is part of creating an enabling environment for private sector growth, programme indicators also need to refer to that.

Support joint monitoring databases not only as a means towards reducing the transaction costs of aid, but also as a vehicle towards improved inter-sectoral coordination. This is especially relevant in rural development, which depends on coordinated action and synergies across sectors.

Ensure that mutual accountability does not override domestic accountability. The sector programme is only a means towards sector development, and accountability downwards is more important to sustainable development than accountability upwards to donors.

Recognise that performance monitoring is first and foremost a management tool. Aligning to national systems means that information systems are respected as a *management* tool rather than a donor control instrument. Donors should be careful not to mobilise data collection or (limited) statistical capacity around their own information needs.

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European Commission

Sector Approaches in Agriculture and Rural Development - Short version

Luxembourg: Publications Office of the European Union, 2010

2010 — 20 pp. — 21.0 x 29.7 cm

ISBN 978-92-79-11428-1

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