

PART III

Agriculture

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Executive Summary

Agriculture's central role in stimulating pro-poor growth

In most poor countries, agriculture is a major employer and source of national income and export earnings. Growth in agriculture tends to be pro-poor – it harnesses poor people's key assets of land and labour, and creates a vibrant economy in rural areas where the majority of poor people live. Agriculture connects economic growth and the rural poor, increasing their productivity and incomes. The importance of agriculture for poverty reduction, however, goes well beyond its direct impact on rural incomes. Agricultural growth, particularly through increased agricultural sector productivity, also reduces poverty by lowering and stabilising food prices; improving employment for poor rural people; increasing demand for consumer goods and services; and stimulating growth in the non-farm economy.

A positive process of economic transformation and diversification of both livelihoods and national economies is the key to sustained poverty reduction. But it is agricultural growth that enables poor countries, poor regions and ultimately poor households to take the first steps in this process.

A more challenging context for agriculture growth

Today, rural households face challenges much different than those faced by the “green revolution” producers who achieved sustained gains in agriculture productivity only a few decades ago. Over the past 20 years there has been a substantial decline in public sector support for agriculture and many producers have lost access to key inputs and services. While public sector provision of these services was not very efficient, it often provided the sole linkages to markets for poor rural producers. Today, such links are tenuous and complicated by much greater integration of the global economy. Smallholder producers now compete in markets that are much more demanding in terms of quality and food safety, and more concentrated and integrated than in the past. OECD agricultural subsidies further distort many of these same markets.

Economic integration is accompanied by other challenges that further weaken the socio-economic position of the rural poor. In parts of the world, especially in sub-Saharan Africa, rural areas are hard hit by the HIV/AIDS pandemic, which is disrupting the transfer of knowledge, destroying traditional land allocation systems, and dramatically changing the demographic composition of many rural communities. Climate change with growing population density is increasing pressure on an already fragile natural resource base that

is the mainstay of rural livelihoods. Conflict conditions, many of which result from, or are provoked by poverty, are further eroding the livelihood systems and resilience of rural poor women and men.

The urgency of a new agenda

Attention to agriculture in terms of policy commitments and investment levels has declined in both international donor and developing country policies and programmes, despite the demonstrated high rates of return and the reductions in poverty that come from such investments. Yet achieving the internationally agreed poverty reduction targets will depend on establishing higher rates of economic growth, which equates to growth in agricultural sector productivity for the majority of countries where these targets are relevant. And a more robust agriculture sector will need to be framed within a new agenda that not only matches today's rural and global realities but engages and enables poor households to generate sustainable livelihoods.

Principles of the new agenda

This report identifies four principles of engagement at the core of the new agenda. These principles are essential in defining how the new agriculture agenda should be promoted, and how the investment and policy options proposed under the new agenda should be articulated. These principles are:

- Adapt approaches to diverse contexts.
- Build institutions and empower stakeholders.
- Support pro-poor international actions.
- Foster country-led partnerships.

Adapting approaches to diverse contexts...

Current reality in rural areas is defined by a highly diverse range of stakeholders involved in agriculture – with considerable variation in their assets and access to markets and the way institutions promote or constrain their interests. To address the needs of the rural poor, policy needs to be informed by the dynamics in these processes. That, in turn, needs to be based on an understanding of the place of agriculture in the rural economy and in people's livelihood strategies, in the productive potential of the land and labour involved in agricultural production and the opportunities for agricultural enterprises.

A typology of five “rural worlds” can guide policy makers in understanding the diverse rural and agricultural systems and dynamics and respond with appropriate pro-poor policies. These rural world categories are not mutually exclusive. The typology of rural worlds is used throughout Part III as a guide rather than a rigid framework for differentiating rural households. By using a more differentiated analysis based on people's livelihoods, it makes clear that poverty is located unevenly across and within rural populations, that policy in and for agriculture affects different groups in different ways and that the actions of one rural group can improve or impair the livelihoods of others.

- Rural World 1 – large-scale commercial agricultural households and enterprises.

- Rural World 2 – traditional agricultural households and enterprises, not internationally competitive.
- Rural World 3 – subsistence agricultural households and micro-enterprises.
- Rural World 4 – landless rural households and micro-enterprises.
- Rural World 5 – chronically poor rural households, many no longer economically active.

Local contexts vary in their agro-ecological potential and in the accompanying economic transformation – the contribution of agriculture gradually declines as the economy diversifies. Public policy linked to agriculture should be tailored to a country's agro-ecological potential and the stage of transformation that it has attained. Policies need to be flexible enough to adapt to success and allow for resources to be transferred to other areas of the economy.

Building institutions and empowering stakeholders...

Much of the failure of agriculture to achieve its potential is institutional. Support by the state has been unresponsive to the needs of the poor and inefficient in marketing producers' output, sometimes preventing the natural development of markets for producers. Public institutions need to be strengthened in their capacity to develop an appropriate blend of policies, regulatory frameworks and investments to re-launch the agricultural sector. At the same time, the role of private sector institutions needs to be strengthened to help address a range of problems including: limited access to financial services including credit and risk management instruments, to key inputs such as seed and fertiliser, and to output markets. These problems are often magnified for female producers.

A strategy to strengthen institutions must also develop the skills, the capacity, and the organisation of poor rural producers to maximise their input in the policy processes and ensure accountability of policy makers. A major challenge, particularly in public extension and research services, is the capacity of the institutions themselves to deliver client-focused services for households in Rural Worlds 2 and 3. Years of under-funding and relative neglect have greatly weakened these institutions to deliver in the new agricultural environment, which requires a demand-led rather than supply-led approach.

Supporting pro-poor international actions...

Three important processes can have major impacts on the successful implementation of the new agenda for agriculture. One is the global trade negotiations to reduce agricultural subsidies. A second is a major scaling up of aid in response to the challenge of meeting the Millennium Development Goals. A third is the multi-donor commitment to improve aid effectiveness, as set out by the Paris Declaration of March 2005. On agriculture specifically, G8 heads agreed to support the New Partnership for Africa's Development (NEPAD)-inspired, comprehensive set of actions to "raise agricultural productivity, strengthen urban-rural linkages and empower the poor". The way these processes play out in the short and medium terms will have an important bearing on conditions for enabling pro-poor growth through agriculture.

Fostering country-led partnerships...

The Paris Declaration calls for an ambitious reform in the way aid is managed and donors should be guided by these principles in helping countries unlock agriculture's potential contribution to pro-poor growth. National poverty reduction strategies (PRs), the

main point of reference at the country level for operationalising the aid effectiveness agenda, are critical for implementing the new agenda for agriculture. But agriculture and rural development have been neglected in past PRSs, largely due to an inadequate understanding of the agricultural and rural dimensions of poverty. A key challenge is to redress the imbalance in the PRSs – to raise the profile of the productive sectors in general, and of agriculture in particular. More specifically, attention must be given to effective monitoring frameworks in supporting improved decision making, flexible implementation, and increased accountability. Development processes are the outcome of power, knowledge and information relationships. It is therefore important to promote the participation of all PRS stakeholders, including rural producers and their organisations, in the development of policies and investments with the aim of influencing and eventually re-orienting their implementation.

Priorities for action in the new agenda

Efforts to stimulate agriculture's role in pro-poor growth should, on the basis of the principles above, be used to guide renewed attention to three priority areas. These are to:

- Enhance agricultural sector productivity and market opportunities.
- Promote diversified livelihoods on and off the farm.
- Reduce risk and vulnerability.

Enhancing agricultural sector productivity and improved market opportunities...

Improving sector productivity and expanding market access is at the core of a more robust agricultural economy. Productivity gains will depend upon a supportive policy environment that enables rural producers to use the resources available to them more efficiently and sustainably. Secure and equitable access to land and water resources, rangelands, fisheries and forests is a key ingredient of this policy environment. The development of rural financial services is equally important to allow for purchases of inputs and equipment in order to increase the productivity of land and labour and stimulate income-generating activities. Productivity gains will also depend upon access to information and technology developments framed by a demand-led and multidisciplinary approach. Market access will depend on improved physical access and reduced transactions costs, particularly through appropriately targeted infrastructure and better transport services. Support for producer associations will enhance capacity to engage in market places dominated by increasingly large food processing and modern food retail industry such as global supermarket chains.

Promoting diversified livelihoods...

The connections between the agricultural and non-agricultural rural economies are key drivers of diversified livelihoods. A thriving agriculture sector underpinned by improved productivity will expand the rural economy and influence wages and food security. Traditionally, agricultural policy has focused on increasing agricultural production, neglecting investment in post-harvest enterprises and non-agricultural assets for more diversified rural livelihoods while treating as socially undesirable those household strategies involving movement out of rural areas. To reverse this trend,

governments and external partners should improve their understanding of labour markets and migration patterns and incorporate that understanding in national policies; establish functioning land markets, so that people are more able to move to new forms of economic activity; promote entrepreneurship; and tailor investments in infrastructure, education and health services to new livelihood patterns.

Reducing risk and vulnerability...

Poor households with livelihoods dependent on agricultural production face numerous shocks and stresses, some potentially catastrophic. The level of risk facing poor rural households has risen with increased market exposure linked to globalisation matched by the retrenchment of the state for the direct provision of services such as those provided through state marketing boards, subsidies and price controls. Domestic shocks, such as the HIV/AIDS pandemic, have further weakened the position of many poor households. Reducing levels of risk, where possible, and provision of instruments to reduce vulnerability has to be a central element of pro-poor agriculture policy. This not only provides social protection for poor people, but enables them to undertake new, viable but more risky livelihoods, increase their participation in markets and generate pro-poor economic growth.

Managing the change process

In the real world the transformation from a system wholly dependent on low-productivity agriculture and a weak agricultural sector to one that is diverse and dynamic and that presents broader opportunities to poor people is not entirely virtuous. The main challenge is that poverty persists in communities with poor market access, poor natural resource endowments and little political capital. Many rural households remain vulnerable to shocks of various kinds, and their livelihoods are exposed to high levels of risk. Pro-poor policies must remove and relax the barriers and constraints faced by poor households as well as provide new incentives and support for their sustainable participation in more equal, market-based relations and exchanges. This does not mean that policies in and for agriculture should become social policy. But it strongly suggests that economic policy, including agricultural policy, should be consistent with social objectives and, where possible, address them directly.

Against this background, donors will need to find ways to work effectively with their partners to promote sustainable, country-driven and programme-based development that recognises the important contribution of agriculture to pro-poor growth. Donors can help build research and institutional capacity to underpin and inform the change processes. They can facilitate the involvement of rural stakeholders in shaping these policies, institutions and investments to ensure that they respond to livelihood needs. They can foster dialogue and support efforts to establish open, participatory monitoring frameworks. And they will need to do this in a way that responds to the partner country's long-term vision for agriculture in a pro-poor growth context.

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Foreword

Promoting pro-poor growth – enabling a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth – will be critical in achieving a sustainable trajectory out of poverty and meeting the Millennium Development Goals, especially the target of halving the proportion of people living on less than one dollar a day. Developing and sharing good practice in advancing this agenda has been the focus of the Development Assistance Committee (DAC) through its Network on Poverty Reduction (POVNET) since 2003.

The DAC Guidelines on Poverty Reduction, published in 2001, show that poverty has multiple and interlinked causes and dimensions: economic, human, political, socio-cultural, protective/security. The work of POVNET since then has given priority to addressing strategies and policies in areas that contribute to pro-poor economic growth, with particular attention to private sector development, agriculture and infrastructure. POVNET has sought to build consensus on the key underpinnings of pro-poor growth and to explore recent thinking on risk and vulnerability and ex ante poverty impact assessment.

This compendium summarises the conclusions and recommendations coming out of POVNET's work on growth and poverty reduction. The key messages are as follows:

- Rapid and sustained poverty reduction requires pro-poor growth, as described above.
- Policies to tackle the multiple dimensions of poverty, including the cross-cutting dimensions of gender and environment, are mutually reinforcing and should go hand-in-hand.
- Empowering the poor is essential for bringing about the policies and investments needed to promote pro-poor growth and address the multiple dimensions of poverty.

For donors, the pro-poor growth agenda is not business as usual and more of the same will not be sufficient. This compendium provides specific guidance to donors on how to make their support to pro-poor growth more effective in the areas of private sector development, agriculture and infrastructure.



Richard Manning
DAC Chair



James T. Smith
POVNET Chair

*In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the **Development Assistance Committee**, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.*

The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

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Acronyms

ACP	Africa, Caribbean and Pacific countries
ADB	Asian Development Bank
AdI*	<i>Aguas del Illimani</i>
AFD*	French Development Agency – <i>Agence Française de Développement</i>
AKFED	Aga Khan Fund for Economic Development
AU	Africa Union
BDS	Business development service
BLT	Build-lease-transfer
BMZ*	German Ministry for Economic Co-operation and Development <i>Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung</i>
BOT	Build-operate-transfer
BOOT	Build-own-operate-transfer
CAADP	Comprehensive African Agriculture Development Programme
CARICOM	Caribbean Community
CEDAW	Convention of the Elimination of All Forms of Discrimination against Women
CEPA*	<i>Comision Ejecutiva Portuaria Autonomo</i>
CGAP	Consultative Group to Assist the Poor
CIDA	Canadian International Development Agency
COMESA	Common Market for Eastern and Southern Africa
CSO	Civil society organisation
CUTS	Consumer Unity and Trust Society
DAC	Development Assistance Committee
DCI	Development Cooperation Ireland
DFI	Development financial institution
DTF	Devolution Trust Fund
DFID	UK Department for International Development
EPA	Economic Partnership Agreement
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investment
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GIC	Growth incidence curve
GTZ*	German Agency for Technical Co-operation <i>Deutsche Gesellschaft für Technische Zusammenarbeit GmbH</i>
ICN	International Competition Network
ICT	Information and communication technology
IDA	International Development Association
IFAD	International Fund for Agricultural Development

IFC	International Finance Corporation
IGE	Intergovernmental Group of Experts on Competition Law and Policy
IICA	Inter-American Institute for Cooperation on Agriculture
IMF	International Monetary Fund
IT	Information Technology
IWRM	Integrated water resource management
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
KfW*	German Bank for Development – <i>Kreditanstalt für Wiederaufbau</i>
MDG	Millennium Development Goal
MERCOSUR*	<i>Mercado Común del Sur</i>
MFI	Microfinance institution
MTEF	Medium-term expenditure framework
SME	Medium, small-sized enterprise
MSME	Micro, small and medium-sized enterprise
NEPAD	New Partnership for Africa's Development
NGO	Non-governmental organisation
NORAD*	Norwegian Agency for Development Co-operation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PIA	Poverty Impact Assessment
PIDG	Private Infrastructure Development Group
PIP	Public investment programme
POVNET	DAC Network on Poverty Reduction
PPD	Public-private dialogue
PPP	Public private-sector partnership
PRS	Poverty reduction strategy
PRSP	Poverty reduction strategy paper
PSD	Private Sector Development
PSIA	Poverty and Social Impact Analysis
PSO	Private sector organisation
RADEEF*	<i>Régie Autonome de Distribution et d'Électricité de Fès</i>
REDI	Recent Economic Developments in Infrastructure
Seco*	Swiss State Secretariat for Economic Affairs
Sida*	Swedish International Development Cooperation Agency
SME	Small and medium-sized enterprises
SWAp	Sector-wide approach
TAF	Local Capacity Building Technical Assistance Facility
UEMOA*	West African Economic and Monetary Union <i>Union Économique et Monétaire Ouest Africaine</i>
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WTO	World Trade Organization
WFP	World Food Programme

* Denotes acronym in original language.

Pro-poor Growth: Policy Statement

The 2001 DAC Guidelines on *Poverty Reduction* show that poverty has multiple and interlinked causes and dimensions: economic, human, political, socio-cultural, protective/security. This policy statement focuses on one dimension of that bigger picture – reducing economic poverty through pro-poor growth. In doing so, it looks at the relationship between the economic and other dimensions of poverty and how policies for pro-poor growth and other policy areas need to interact so that, collectively, they can make major and sustainable inroads into poverty reduction.

Three key messages from this work are that:

- Rapid and sustained poverty reduction requires pro-poor growth, i.e. a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth. Policies therefore need to promote both the pace of economic growth and its pattern, i.e. the extent to which the poor participate in growth as both agents and beneficiaries, as these are interlinked and both are critical for long-term growth and sustained poverty reduction.
- Policies to tackle the multiple dimensions of poverty, including the cross-cutting dimensions of gender and environment, are mutually reinforcing and should go hand-in-hand. Progress in one dimension will be accelerated by progress in others. In tackling poverty, perceptions of policy dichotomies have been misplaced. Policy trade-offs do exist but can be better managed.
- Empowering the poor is essential for bringing about the policies and investments needed to promote pro-poor growth and address the multiple dimensions of poverty. To achieve this, the state and its policy making processes need to be open, transparent and accountable to the interests of the poor. Policies and resources need to help expand the economic activities of the poor.

When implementing the policy guidance on how donors can support and facilitate pro-poor growth, they must bear in mind that the poor are not a homogenous group, that country contexts vary considerably, and that policy implementation must be based on a sound understanding of who the poor are and how they earn their livelihoods. Promoting pro-poor growth requires policy choices to be guided by assessments of their expected impact on the income and assets of the poor.

Rapid and sustained poverty reduction requires pro-poor growth, i.e. a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth.

- i) **Both the pace and the pattern of growth are critical for long-term and sustainable poverty reduction.** Economic growth is an essential requirement and, frequently, the major contributing factor in reducing economic poverty. For growth to be rapid and

sustained, it should be broad-based across sectors and regions and inclusive of the large part of the workforce that poor women and men make up. Pattern and pace are thus interlinked and need to be addressed together. Policies for sustaining growth such as those aiming at macroeconomic stability, institutional quality, democratic and effective governance and a favourable investment climate should promote the engagement of the poor in economic growth by increasing their incentives, opportunities and capabilities for employment and entrepreneurship.

- ii) **A pro-poor pattern of growth makes growth more effective in reducing poverty.** Developing countries with similar rates of economic growth have experienced quite different levels of economic poverty reduction, due to initial conditions and whether growth occurs in areas and sectors where the poor live and are economically active. Policies need to create the conditions and remove the obstacles to the participation of the poor in the growth process, *e.g.* by increasing access to land, labour and capital markets and by investing in basic social services, social protection and infrastructure. As the poor often depend heavily on natural resources for their livelihoods, policies to promote environmental sustainability should also be integral to promoting pro-poor growth.
- iii) **Inequality matters.** Inequality of assets and opportunity hinders the ability of poor people to participate in and contribute to growth. High and rising levels of income inequality lower the poverty reduction impact of a given rate of growth and can reduce the political stability and social cohesion needed for sustainable growth. Gender is a particularly important dimension of inequality. Women face particular barriers concerning assets, access and participation in the growth process, with serious implications for the ability of growth to be pro-poor. The growth experience shows that rising inequality is not an inevitable consequence of the growth process, as long as there is a mix of policies that addresses both growth and distributional objectives, strengthens empowerment and deals with gender and other biases (*e.g.* race, caste, disability, religion).
- iv) **The vulnerability of the poor to risk and the lack of social protection reduce the pace of growth and the extent to which it is pro-poor.** The poor often avoid higher risk opportunities with potentially higher payoffs because of their vulnerability. In addition, the journey out of poverty is not one way and many return to it because man-made and natural shocks erode the very assets that the poor need to escape poverty. Policies that tackle risk and vulnerability, through prevention, mitigation and coping strategies, improve both the pattern and pace of growth and can be a cost effective investment in pro-poor growth.
- v) **Policies need to tackle the causes of market failure and improve market access.** Well functioning markets are important for pro-poor growth. Market failure hurts the poor disproportionately and the poor may be disadvantaged by the terms on which they participate in markets. Programmes are needed to ensure that markets that matter for their livelihoods work better for the poor. Such programmes need to be carefully designed to avoid replacing market failure with government failure. Policies to tackle market failure should be accompanied by measures aimed at increasing economic capabilities of the poor.

In tackling poverty, perceptions of policy dichotomies have been misplaced. Policy trade-offs do exist but can be better managed.

- i) **Policies to tackle the multiple dimensions of poverty should go hand-in-hand.** Poverty is multidimensional. Pro-poor growth will be strengthened by progress on the non-economic dimensions of poverty. More effective policies require a better understanding of these interdependencies. Perceptions of dichotomies (e.g. economic versus social policies) can be misplaced. The pace and pattern of growth have multiple determinants and consequences and each dimension nourishes (or holds back) the other. Progress on the income poverty Millennium Development Goal (MDG) facilitates progress on other MDGs and *vice versa*.
- ii) **Policy trade-offs still exist, but can be better managed.** Policies which promote only one dimension of poverty reduction while undermining others should be avoided. Whenever possible, policies need to be complementary rather than compensatory. Sequencing of policies and investments can help manage trade-offs. Policy choices should be based on understanding the binding constraints through analysis of the growth, poverty and inequality experience and the results of poverty impact assessments. The ability of institutions to handle trade-offs is important for achieving pro-poor outcomes.

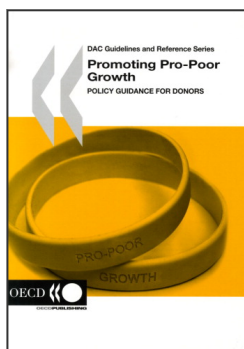
For pro-poor growth policies to emerge, the poor need to be informed and empowered to participate in a policy-making process that is accountable to their interests.

- i) **The poor need to participate in and influence the policy reform process that goes with poverty reduction strategies (PRSs).** Approaches are needed to increase the voice and influence of poor women and men in order that policy making is evidence-based, rather than determined by narrow vested interests.
- ii) **A well-functioning state is important for responding to the interests of the poor.** Effective pro-poor growth strategies need policy and institutional change for which the state, in all its dimensions, is made more accountable to the interests of the poor. The state needs to provide the opportunity for structured public-private dialogue at various levels, including with civil society and private sector actors who are frequently marginalised. The state needs to provide the required incentives, enabling environments and policy and planning frameworks to be more accountable to the voices of the poor.
- iii) **Pro-poor reform is likely to require changes to the current political settlement among the diverse interests of different segments of society.** This entails a better understanding of the political economy, power relations and drivers of change, and supporting formal, transparent decision making, strengthening the demand for pro-poor change and building capacity of the state to respond to demand.

For donors, the pro-poor growth agenda is not business as usual and more of the same will not be sufficient.

- i) **Donors should focus on supporting in-country policy processes.** Policies for pro-poor growth can only be achieved through country-level processes that are inclusive of the poor and based on country-level analyses. Donors should support the emergence and development of processes that are formal, transparent and take account of the interests of the poor, and conduct their policy dialogue through them. Donors should support measures to empower the poor in these policy processes and build the country-level capacity to undertake analyses, including poverty impact assessments.

- ii) **Donor support needs to be flexible and responsive to country situations.** The type of support provided needs to take account of the level of development, the policy environment and the extent to which there is a well-functioning state. Donors need to adapt their approach to fragile and failed states and more research is required to inform this process.
- iii) **A pro-poor lens on areas important for pro-poor growth, such as private sector development, agriculture, infrastructure and risk and vulnerability, requires a rethinking of donor agendas.** The importance of these areas for the pace and pattern of growth has been underestimated. New approaches to strengthen the contributions of private sector development, agriculture and infrastructure have been developed by the DAC. Work on risk and vulnerability/social protection/human security is ongoing.
- iv) **Donors need to enhance their organisational capacities to effectively support country-led, pro-poor growth.** Donors need to provide appropriate support and incentives to field staff, build multi-donor and multidisciplinary teams at the field level, and empower them to negotiate, co-ordinate and implement programmes. Recent progress to establish such teams in several partner countries should be replicated.



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