ABOUT THIS MODULE

This module is about the modes and mechanisms through which development assistance is channelled, via investment in developing countries, for the promotion of agricultural and rural development. It is thus primarily about the rationale, context and methods of planning, appraising and evaluating development projects and programmes.

Projects and programmes are widely used when attempting to allocate limited resources for specific development purposes as effectively as possible, and a core part of the module is on methods for appraising the financial and economic efficiency of rural and agricultural development projects. These methods of appraisal are informed by economic theories and, in particular, those of applied welfare economics.

While the module emphasises financial and economic efficiency, other important issues in assessing project design and impact are presented. Planning and management techniques for the project cycle are covered; including project identification and logical framework analysis. Approaches for social and environmental appraisal of projects are also reviewed. Finally a guide to project and programme monitoring and evaluation is provided.

It is important to remember that a single module of this kind can cover only part of a large and sometimes controversial subject area – inevitably it has to be selective. It was decided to emphasise financial and economic appraisal because it is essential to understanding why and how projects are chosen and designed. This does not mean that other aspects of the planning and implementation of investment are less important.

This module is aimed at development practitioners – from private businesses, government departments, international development agencies and non-governmental organisations (NGOs) – who work in the delivery and management of development assistance and public sector investment for agricultural and rural development. You may be involved directly with project work in one way or another. Even if not directly involved, you are likely to have contact with particular projects and need to know something about how they work. The emphasis we have selected does not mean that you can become an expert in project design or appraisal simply by doing this module alone, although it does aim to provide a solid initial basis for project work, and to make you an effective member of a project or programme design team.
STRUCTURE OF THE MODULE

The module begins with an introduction to the role of the agricultural and rural sectors in social and economic development. Investment projects are considered in the context of programmes, policies and country and donor strategies for development and poverty reduction. Unit 2 then introduces the project cycle as a logical and natural sequence for the planning and management of investment, while Unit 3 explores key techniques for project identification and design. Unit 4 covers the key concepts and techniques of cost–benefit analysis and investment appraisal, laying the foundation for more detailed study of financial analysis in Unit 5 and economic efficiency analysis in Unit 6. Unit 7 then deals with the treatment of risk and uncertainty in cost–benefit analysis.

Unit 8 considers the possible environmental impacts of development projects and programmes, and how environmental appraisal should be an integral part of the project cycle. The use of economic valuation methods for environmental effects is critically reviewed and recommendations made for best practice. Similarly, Unit 9 assesses the social dimensions of development investments, moving from narrow consideration of distributional issues to broader questions of social impact, equity and social justice. Again, integration of social appraisal in the project cycle is discussed, with recognition that social analysis moves the debate from appraisal of project designs to questions about the nature of the development process itself. Social inclusion, participation and empowerment are key issues that are discussed here.

Unit 10 concludes the module by providing a guide to monitoring and evaluation. From a tool for better project management to a means to provide feedback in the project cycle, effective monitoring and evaluation is a vital element in achieving more successful and sustainable investments for agricultural and rural development.
WHAT YOU WILL LEARN

Module Aims

• To explain and illustrate development projects and programmes, and the project cycle.

• To present and explain the basic analytical techniques for project identification and design and for the financial and economic appraisal of projects.

• To present and explain the basic concepts of project monitoring and evaluation.

• To stimulate a critical awareness of wider social and environmental issues relevant to the design, appraisal and evaluation of projects and to consider how to integrate these insights into planning and management.

Module Learning Outcomes

By the end of this module, students should be able to demonstrate:

• ability to selectively use tools for project identification and design, including logical framework analysis

• capacity to selectively apply and critically evaluate the use of key concepts in project analysis, including investment criteria and the valuation of costs and benefits over time

• knowledge of and appropriate and selective use of core techniques of project appraisal, including the calculation of:
  – farm budgets
  – discounted cash flows
  – net present worth of projects
  – internal rates of return

• a critical understanding of key aspects of monitoring and evaluation, as an intrinsic part of project design and management, and how to exploit the benefits of this

• recognition of critical project-related social and environmental issues, as well as knowledge and critique of approaches for their appraisal and evaluation.
ASSessment

This module is assessed by:

- an examined assignment (EA) worth 40%
- a written examination worth 60%.

Since the EA is an element of the formal examination process, please note the following:

(a) The EA questions and submission date will be available on the Virtual Learning Environment (VLE).

(b) The EA is submitted by uploading it to the VLE.

(c) The EA is marked by the module tutor and students will receive a percentage mark and feedback.

(d) Answers submitted must be entirely the student’s own work and not a product of collaboration.

(e) Plagiarism is a breach of regulations. To ensure compliance with the specific University of London regulations, all students are advised to read the guidelines on referencing the work of other people. For more detailed information, see the FAQ on the VLE.
**STUDY MATERIALS**

There is one textbook for this module.


This book provides detailed technical explanation of the core methods of financial and economic cost–benefit analysis. Methods are well illustrated with examples from the lending portfolio of the World Bank. This is a valuable handbook for project work practitioners and a standard exposition of best international practice that is yet to be replaced by a more recent text.

For each of the module units, the following are provided.

**Key Study Materials**

Key readings are drawn mainly from the textbooks, relevant academic journals and internationally respected reports. They are provided to add breadth and depth to the unit materials and are required reading as they contain material on which you may be examined. Readings are supplied as digital copies and ebooks via the SOAS Online Library. For information on how to access the Library, please see the VLE.

For some units, multimedia links have also been provided. You will be invited to access these as part of an exercise or activity within the unit, and to discuss their implications with other students and the tutor.

**Further Study Materials**

These texts and multimedia are not always provided, but weblinks have been included where possible. Further Study Materials are **NOT** examinable; they are included to enable you to pursue your own areas of interest.

**References**

Each unit contains a full list of all material cited in the text. All references cited in the unit text are listed at the end of the relevant units. However, this is primarily a matter of good academic practice: to show where points made in the text can be substantiated. Students are not expected to consult these references as part of their study of this module.

**Self-Assessment Questions**

Often, you will find a set of **Self-Assessment Questions** at the end of each section within a unit. It is important that you work through all of these. Their purpose is threefold:

- to check your understanding of basic concepts and ideas
- to verify your ability to execute technical procedures in practice
to develop your skills in interpreting the results of empirical analysis.

Also, you will find additional Unit Self-Assessment Questions at the end of each unit, which aim to help you assess your broader understanding of the unit material. Answers to the Self-Assessment Questions are provided in the Answer Booklet.

In-text Questions

This icon invites you to answer a question for which an answer is provided. Try not to look at the answer immediately; first write down what you think is a reasonable answer to the question before reading on. This is equivalent to lecturers asking a question of their class and using the answers as a springboard for further explanation.

In-text Activities

This symbol invites you to halt and consider an issue or engage in a practical activity.

Key Terms and Concepts

At the end of each unit you are provided with a list of Key Terms and Concepts which have been introduced in the unit. The first time these appear in the study guide they are Bold Italicised. Some key terms are very likely to be used in examination questions, and an explanation of the meaning of relevant key terms will nearly always gain you credit in your answers.

Acronyms and Abbreviations

As you progress through the module you may need to check unfamiliar acronyms that are used. A full list of these is provided for you in your study guide.
TUTORIAL SUPPORT

There are two opportunities for receiving support from tutors during your study. These opportunities involve:

(a) participating in the Virtual Learning Environment (VLE)
(b) completing the examined assignment (EA).

Virtual Learning Environment (VLE)

The Virtual Learning Environment provides an opportunity for you to interact with other students and tutors. A discussion forum is provided through which you can post questions regarding any study topic that you have difficulty with, or for which you require further clarification. You can also discuss more general issues on the News Forum within the CeDEP Programme Area.
# Indicative Study Calendar

<table>
<thead>
<tr>
<th>Part/unit</th>
<th>Unit title</th>
<th>Study time (hours)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit 1</td>
<td>Agricultural and Rural Development Investments</td>
<td>15</td>
</tr>
<tr>
<td>Unit 2</td>
<td>Investment and the Project Cycle</td>
<td>10</td>
</tr>
<tr>
<td>Unit 3</td>
<td>Project Identification Formulation and Design</td>
<td>15</td>
</tr>
<tr>
<td>Unit 4</td>
<td>Concepts of Cost–Benefit Analysis and Investment Appraisal</td>
<td>15</td>
</tr>
<tr>
<td>Unit 5</td>
<td>Financial Analysis at Farm and Project Level</td>
<td>15</td>
</tr>
<tr>
<td>Unit 6</td>
<td>Economic Analysis</td>
<td>15</td>
</tr>
<tr>
<td>Unit 7</td>
<td>Treatment of Risk and Uncertainty</td>
<td>10</td>
</tr>
<tr>
<td>Unit 8</td>
<td>Tools for Environmental Analysis</td>
<td>15</td>
</tr>
<tr>
<td>Unit 9</td>
<td>Tools for Social Analysis</td>
<td>10</td>
</tr>
<tr>
<td>Unit 10</td>
<td>Monitoring and Evaluation</td>
<td>15</td>
</tr>
</tbody>
</table>

**Examined Assignment**  
Check the VLE for submission deadline  
15

<table>
<thead>
<tr>
<th>Examination entry</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revision and examination preparation</td>
<td>Jul–Sep</td>
</tr>
<tr>
<td>End-of-module examination</td>
<td>late Sep–early Oct</td>
</tr>
</tbody>
</table>
Unit One: Agricultural and Rural Development Investments

Unit Information 2
Unit Overview 2
Unit Aims 2
Unit Learning Outcomes 2
Unit Interdependencies 2

Key Study Materials 3

1.0 The aid framework 4
Section Overview 4
Section Learning Outcomes 4
1.1 Introduction: international agreements 4
1.2 Direct budget support 5
1.3 Programme-based approaches 6
1.4 Poverty reduction strategy papers 7
1.5 Sector-wide approaches 8
1.6 Cash on Delivery 10
1.7 The continuing role of projects 11
Section Summary 15
Section 1 Self-Assessment Questions 16

2.0 Agriculture, pro-poor growth and poverty reduction 17
Section Overview 17
Section Learning Outcomes 17
2.1 Agriculture and its contribution to poverty reduction 17
2.2 Challenges for the agriculture and rural development sectors 18
2.3 Understanding rural diversity 19
Section Summary 21
Section 2 Self-Assessment Questions 22

Unit Summary 23

Unit Self-Assessment Questions 24

Key Terms and Concepts 24

Further Study Materials 26

References 29
UNIT INFORMATION

Unit Overview
This unit reviews the international context to, and modalities of, investment in the agricultural and rural development sectors. It considers the nature and role of projects in comparison to development assistance provided as direct budgetary support. In this unit we also consider the important linkages between development in the agricultural sector, economic growth and poverty reduction. This provides the rationale for our focus on agricultural and rural investment. In the third and final section we try to build on the two previous sections by exploring how agricultural and rural development can contribute to both national and international objectives for development and poverty reduction.

Unit Aims
- To 'set the scene' for the module by describing and critically assessing the context for investment in agriculture and rural development.
- To provide greater familiarity with the key actors, aid instruments and challenges in the sector.
- To highlight the links between agriculture, pro-poor growth and poverty reduction.
- To describe some of the key challenges in the sector.

Unit Learning Outcomes
By the end of this unit, students should be able to:
- understand the role of agriculture in the context of economic development, poverty reduction and pro-poor growth
- have an understanding of the international aid framework, the role of the state and the aid instruments which are available and in use
- explain the reasons why agriculture has an important role to play in poverty reduction.

Unit Interdependencies
This unit provides the context for this module and should be studied first.

Available from: [https://www.ifad.org/who/sf/overview](https://www.ifad.org/who/sf/overview)

IFAD is the United Nations International Fund for Agricultural Development.

IFAD is a specialised agency of the United Nations, established as an international financial institution in 1977 as one of the major outcomes of the 1974 World Food Conference. The conference was organised in response to the food crises of the early 1970s that primarily affected the Sahelian countries of Africa. It resolved that ‘an International Fund for Agricultural Development should be established immediately to finance agricultural development projects primarily for food production in the developing countries’. IFAD is dedicated to eradicating rural poverty in developing countries. Seventy-five per cent of the world's poorest people – 1.4 billion women, children and men – live in rural areas and depend on agriculture and related activities for their livelihoods (IFAD, 2016).

IFAD funds agricultural and rural development projects and programmes in developing countries, and has traditionally focused on the rural poor, especially those living in more marginal and remote regions. This reading introduces IFAD’s strategy for 2016 to 2025. As you read, make a note of the concentration of poverty and disadvantage in rural areas, the role of agriculture and rural livelihoods in poverty reduction and development, and the changing context of rural development as well as the changing architecture of development assistance. Note the framing for IFAD’s strategy provided by Agenda 2030, the Sustainable Development Goals, the Addis Ababa Action Agenda 2015 and the Paris Agreement under the United Nations Framework Convention on Climate Change.
1.0 THE AID FRAMEWORK

Section Overview

This section reviews the international context to, and modalities of, investment in the agricultural and rural development sectors. It considers the nature and role of projects in comparison to development assistance provided as direct budgetary support.

Section Learning Outcomes

By the end of this section, students should be able to:

- understand the main approaches and instruments used by development actors including programme-based approaches, sector-wide approaches and direct budget support
- comprehend the role of projects in this context.

1.1 Introduction: international agreements

Agreed international development approaches aim to promote strategies that address both poverty and sector-wide programmes of investment and policy reform, developed and implemented by developing countries themselves. This has been driven by many factors including recognition of the importance of harmonising and aligning development assistance behind developing countries’ own poverty reduction goals, and agreement by many countries to work towards a set of common goals – first the Millennium Development Goals, and recently the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs).

Each country that contributes development aid is unique in the way it manages and implements development cooperation. The institutional support structure for delivering foreign assistance also differs in each recipient country. Thus, the way donors tackle challenges in development cooperation varies significantly. Greater harmonisation of donors’ efforts has emerged as a development priority given the lack of coordination, risk of duplication of efforts, high transaction costs and multiple reporting systems that have occurred in the past.

Development aid (official development assistance / ODA) is only part of the current ‘picture’. In the last two decades ‘traditional’ international development assistance channelled from donor states to recipient governments through bilateral aid programmes and through a small number of multilateral development organisations has become paralleled by an expansion of financial and technical assistance provided through a diversity of new private and civil society organisations. These seek to promote poverty reduction and development, often focusing in particular on provision of both national and transboundary ‘public goods’ in the fields of health, environment and governance. Thus the international aid architecture or framework is now in a continual state of change. There are new sources of financing, new aid modalities and a new mix of donors, leading to new dynamics and new capital flows between donor and recipient countries. Some of these changes are illustrated in 1.1.1.
1.1.1 Changing aid architecture

![Diagram of aid architecture]


1.2 Direct budget support

There are many instruments through which donors channel funds to developing countries. It is important for the context of this course to distinguish between two types of instruments: direct budget support and off-budget support.

When donor funds are channelled into government budgets through the normal budgeting and financial management process, it is referred to as direct budget support. It is typically linked to the Poverty Reduction Strategy Paper (PRSP) process, given that government’s commitment to a poverty reduction strategy is usually required in order to attain the funds.

There are two types of direct budget support: sector budget support and general budget support.

- **Sector budget support** – funds are earmarked to finance an agreed expenditure plan for a sector and disbursed and accounted for through government systems, sometimes with some additional sector-specific reporting. It often entails sector conditions, usually requiring agreement between government and donors on the sector’s policy.

- **General budget support** – this is provided as part of the national budget and there is relatively little specification as to expenditure purposes or priorities by donors.

The decision as to whether to channel funds into government budgets depends upon factors such as accountability, trust and the strength of government financial management and systems. Some donors have been more open to direct budget support than others (for example, the World Bank and the UK’s Department for International Development (DFID)).

✏️ Before continuing to read, take a few minutes to think about the benefits and drawbacks of direct budget support.
Benefits of direct budget support

Some benefits of direct budget support are that it:

- leads to more efficient use of resources through pooling of funds
- reduces the transaction costs involved with aid planning and delivery
- helps to build the capacity of government institutions to deliver
- shows trust of government systems and builds partnership
- provides greater predictability and clarity of funding.

There are clearly issues over the financial management systems of partner governments, so that donors can show that their funds are being used appropriately. It may well be that direct budget support should be complemented by capacity-building in areas of administration, government effectiveness etc.

Off-budget support for programme-based approaches (PBAs) includes pooled funding by various donors, support for NGOs and project support.

1.3 Programme-based approaches

Compared with the mainly ad hoc project-based approaches of the past, many donors (such as the World Bank and the UK’s DFID) now emphasise the support of government budgets and programmes which fit with a country’s priorities.

Programme-based approaches encompass a wide array of different programmes – they may be at the national level or focus upon a particular sector. They are driven by a recognised need for donors to coordinate their aid provision and activities. The extract in 1.3.1 from Lavergne and Alba (2003) provides more details as to what a programme-based approach comprises. It is worth noting that the OECD Development Assistance Committee (DAC) who help to coordinate aid from bilateral donors have adopted this definition of programme-based approaches (PBAs).

1.3.1 Definition and principles of PBAs

‘PBAs emphasise comprehensive and coordinated planning in a given sector or thematic area of intervention, or under a national poverty reduction strategy (PRS). PBAs are intended to support locally owned programs of development, so the word ‘program’ in the expression refers to the program of a developing country government or institution, which one or more donors have agreed to support. In CIDA’s understanding (2002a), that program may be a PRS, a sector program, a thematic program (such as an environmental strategy), or the program of a specific organisation such as a non-governmental organisation (NGO).

A program and a PBA can be defined as follows.

- A program is an integrated set of activities designed to achieve a related set of outcomes in a relatively comprehensive way.

- A PBA is a way of engaging in development cooperation based on the principle of coordinated support for a locally-owned program of development. The approach includes four key elements.
Leadership by the host country or organisation

A single program and budget framework

Donor coordination and harmonisation of procedures

Efforts to increase the use of local procedures over time with regard to program design and implementation, financial management, and monitoring and evaluation.


Programme-based approaches can be used at many levels – national, sectoral or sub-sectoral for example. One national level programme approach that has been widely used and which falls under the PBA category is Poverty Reduction Strategy Papers.

1.4 Poverty reduction strategy papers

Poverty Reduction Strategy Papers (PRSPs) set out an analysis of a country’s poverty situation and define a government’s strategy as to how to tackle it over a three- to five-year period. PRSPs were introduced by the World Bank as an aid instrument in September 1999 as the new focus for its, and the IMF’s, assistance to developing countries. The intention was to aim for greater partnership, and a ‘country-owned’ process.

Five core principles were identified to underlie PRSP development and implementation, and are listed in 1.4.1.

1.4.1 Key principles of PRSPs

– country-driven: involving broad-based participation by civil society and the private sector in all operational steps

– results-oriented: focusing on outcomes that would benefit the poor

– comprehensive: recognising the multidimensional nature of poverty

– partnership-oriented: involving coordinated participation of development partners (bilateral, multilateral and non-governmental)

– based on a long-term perspective for poverty reduction

Source: drawn from IMF/World Bank (1999)

Since the late 1990s and early 2000s, most multilateral and bilateral donors have sought to align their development goals and strategies for each partner country with PRSPs and develop their own country assistance strategy paper which defined their role and objectives as they fell under the country’s PRSP.
Although PRSPs have now been used for a number of years, commitment to them as a process by aid donors has somewhat dwindled. Experience has shown that, in reality, there are variations in the degree of ownership, the participatory nature of the development and implementation of the PRSP and the adequacy of monitoring and evaluation systems. Some specific criticisms have been that:

- they are naive about domestic political processes
- they state what governments think the major donors want to hear
- stakeholder participation is rather superficial
- they overemphasise social sectors and infrastructure sectors and do not give sufficient emphasis to the productive sectors (including agriculture).

1.5 **Sector-wide approaches**

Sector-wide approaches or **SWAps** are another type of PBA, and are supported by donors in different ways including budget support to the sector, pooled funding, NGO support and project support. Historically, SWAps preceded PBAs and lent their principles to PBAs. They were developed in the 1990s to address the problem of poor performance and high transaction costs in some sectors. They have been more prevalent in the education and health sectors but have also been used in productive sectors such as agriculture.

A working definition for a SWAp is:

> ‘A SWAp is a process in which funding for the sector – whether internal or from donors – supports a single policy and expenditure programme, under government leadership, and adopting common approaches across the sector. It is generally accompanied by efforts to strengthen government procedures for disbursement and accountability.’

*Source: based on Foster and Leavy (2001)*

SWAps aim to achieve:

- institutional capacity building with long-term benefits
- a common system for planning, monitoring, evaluating and accountability therefore reducing transaction costs
- promote coherence between policy, budgeting and actual results
- overall greater coordination and effectiveness in the allocation of donor and government resources
- broadened ownership by partner governments over decision-making regarding sector policy, strategy and spending.

It is useful to contrast the sector approach with a conventional project approach (see 1.5.1).
1.5.1 Contrasts between a conventional project approach and the sector approach

<table>
<thead>
<tr>
<th>Uncoordinated project approach</th>
<th>Sector-wide approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Narrow focus on projects with narrowly defined objectives</td>
<td>Country holistic view on entire sector</td>
</tr>
<tr>
<td>Bilateral negotiations and agreements</td>
<td>External partners coordination and collective dialogue</td>
</tr>
<tr>
<td>Donor—recipient relationships with unbalanced power</td>
<td>Partnerships with mutual trust and shared accountability</td>
</tr>
<tr>
<td>Parallel implementation agreements</td>
<td>Increased use of local procedures</td>
</tr>
<tr>
<td>Short-term disbursement and success of projects</td>
<td>Long-term capacity/system development in sector</td>
</tr>
<tr>
<td>Blueprint approach</td>
<td>Process-oriented approach through learning by doing</td>
</tr>
</tbody>
</table>


The experience of SWAps has been mixed. See 1.5.2 for a summary of a review about the performance of SWAps.

1.5.2 The experience of SWAps

‘In summary, while there is tangible evidence of progress with SWAps, that progress has often been slow and has sometimes resulted in unintended consequences for the balance of power within and between government institutions and between government institutions and donors. Donor and recipient behaviours have been slower to change than initially expected. While SWAps have provided a vital forum for discussing and resolving some key policy differences (eg over user fees in primary education), disagreements continue to persist particularly in areas involving a reduction of state action. This appears to have been most evident in sectors where public-private roles are still evolving, as in health, agriculture and rural development. Slow progress in the preparatory phases has also kept donors heavily involved in the micro-management of SWAps with consequences for the extent of country commitment to the process and for transactions costs.’

1.6 Cash on Delivery

Many recent developments in aid delivery aim to provide greater ‘ownership’ to recipient countries and help ‘build the capacity’ of recipient countries to design and implement development strategies. A relatively recent initiative with these aims in mind is ‘Cash on Delivery’ (COD) aid as explained in 1.6.1

1.6.1 Cash on Delivery: a new approach financing foreign aid

Public and private aid can improve lives in poor countries, but the willingness of taxpayers and private funders to finance aid programs depends more than ever on showing results. COD Aid is a funding mechanism that hinges on results. At its core is a contract between funders and recipients that stipulates a fixed payment for each unit of confirmed progress toward an agreed-upon goal. Once the contract is struck, the funder takes a hands-off approach, allowing the recipient the freedom and responsibility to achieve the goal on its own. Payment is made only after progress toward the goal is independently verified by a third party. At all steps, a COD Aid programme is remarkably transparent: the contract, the amount of progress made and the payment are disseminated publicly to highlight the credibility of the arrangement and improve accountability to the public. COD Aid is a new approach to foreign aid, but one that complements other aid programs and would ultimately encourage funders and recipients to use existing resources more efficiently.

Source: drawn from CGD (2011)

COD is not yet in widespread use although a number of donors and developing countries have expressed interest in trying out the approach.

Before continuing to read, take a few minutes to think about the sorts of goals that might be pursued under a COD approach and the challenges that might be faced in implementing COD.

There are numerous goals that could be subject to COD, including those relating to education outcomes, health outcomes, poverty reduction etc. However, the contribution that a recipient government makes to achieving them will be harder to verify for some goals than for others and there is a risk that, unless goals are chosen carefully, governments may seek to fulfil them in ways that do not really have a development impact, for example, increasing school enrolment at the expense of education quality. Additionally, since COD is only paid when the goal has been achieved, it does not provide the finance that may be needed actually to achieve the goal. This will have to come from other sources. Nevertheless, the COD approach does seem to address the ‘ownership’ and ‘capacity-building’ issues that have been central to much of the aid debate in recent years.
1.7 The continuing role of projects

The move towards programme-based approaches and direct budget support does not mean that projects do not have a role. Projects continue to be important, but often have different starting-points compared to the past, for example, as components of programmes and strategies led by partner countries rather than donor-identified priorities.

The change in approach has resulted from reflections of the project format. There have been various criticisms of conventional donor-funded projects:

- Projects often exist outside of the structures and systems of a country’s public sector administration. As such, they do not contribute to strengthening systems such as a country’s budgeting and planning processes.

- For countries with a large number of aid projects and a multitude of donors, each with their own reporting schedules and accounting requirements, the transaction costs of delivering aid through projects can be unacceptably high. A lack of coordination across projects can lead to duplication in project administration and activities. Donors are able to impose their own priorities for investment upon governments as well as their management requirements for project implementation.

- The funding of multiple investments by donors often lacked an overall vision and clear priorities, leading to unbalanced sectoral development.

Projects often attract skilled personnel away from the public sector’s routine activities:

- the use of donor-specific mechanisms of accountability potentially corroding the normal structures of democratic accountability

- projects can be costly to administer and manage, both for governments and the donors that finance them.

The new role of projects differs from the conventional idea of a project, in that:

- they are not stand-alone projects that are managed by donors

- they are intended to be locally owned development programmes

- donors coordinate their efforts within the projects

- success is assessed in terms of a project’s role in contributing to programme goals.

The role that projects will continue to play is apparent from 1.7.1 which discusses projects emerging from different systems.

The diagram in 1.7.2, which was developed by Foster and Leavy (2001), is a decision-making tool for choosing appropriate aid instruments and provides a useful reference. (Note that TA in the diagram refers to technical assistance, ie expertise provided by consultants or directly by aid agencies)
1.7.1 Projects in the aid framework

‘Project aid using government systems

Project aid provides more specific earmarking of expenditures to a discrete set of activities for which coherent objectives and outputs and the inputs required to achieve them can be defined. The donor supported project can still be part of the Government budget, can be subject to policy conditions related to the project and the sector in which it is situated, and the resources can be disbursed and accounted for using Government systems. World Bank projects are often implemented in this way, though additional statements of expenditure and specific project accounts may need to be added to standard Government financial procedures. DFID projects make limited use of Government systems, mainly in cases where UK funding is reimbursing local cost expenditures by Government.

Project aid using parallel systems

Project aid using parallel systems refers to those spending proposals where the donor has taken the lead in design and appraisal, has decided the inputs which will be provided, and uses its own disbursement and accountability procedures. In these circumstances, the donor is usually in a weaker position for insisting on project or sectoral conditionality, and the donor project operates as an enclave not fully integrated in the budget. This is likely to be true so long as the donor retains management control, even if log frame workshops and other techniques have been used to develop ownership and participation.

Project aid through NGO/private providers

In principle, in a good policy environment, Government would define its own role in relation to the private and not-for-profit sectors and, if there is a case for subsidising an activity carried out via these non-Government routes, the resources could be financed via the budget. In practice, Government departments often resist resources being spent on outside organisations, while NGOs may be undertaking activities which, though important, do not map neatly onto the budget responsibilities of specific public sector organisations. There can therefore be a strong case for direct support to non-Government actors even in good policy environments, whereas the non-Government route may be the only feasible one in weak environments.

The rationale for donor involvement would need to be based on some form of market failure or on a distributional argument. The distributional case would be that the proposed project is a cost-effective way to provide better access by the poor to a socially desirable service. That is, a specific poor and vulnerable population requires subsidy before a service will be provided, and the proposed project is a cost-effective way to reach them. Issues of sustainability and of exit strategy will be especially important in looking at the case for subsidising goods or services provided by bodies outside Government, for whom the growth of taxation revenues does not provide a clear pathway to eventually reducing reliance on donors.

For support via the private sector, a critical issue is to ensure that the competitive market is not undermined as a result of the involvement of concessional finance. This implies using competition and good procurement practice to ensure that any subsidies benefit the end user rather than accruing as ‘rent’ to private sector operators. Where a long-term case for subsidised provision by non-Government service providers exists, there is a strong case for engaging Government in dialogue on eventually providing the necessary funding via the Government budget.’

Source: Foster and Leavy (2001) pp. 5–6
1.7.2 Decision tree for choosing aid instruments

**Macro/General Budget Support Level**
- Have donors agreed policies and priorities with central authorities? 
  - Yes → **Sector/Sub-national Level**
  - No → Have donors and government agreed policies and priorities in key sectors they wish to assist; including role of public private and NGO sector?
    - No → Policy advocacy, TA, and projects inside or outside government if viable in the weak policy environment
    - Yes → **Project Level**

**Sector/Sub-national Level**
- Can general budget support achieve additional net benefits, eg aid co-ordination, lower aid cost, policy influence?
  - Yes → Can sector level financing achieve additional net benefits (eg co-ordination, or lower aid management cost) in this policy and institutional environment?
  - No → Appraise project support to sectors
    - Yes → Assess sector-level capacity to plan and execute policy and programmes, and account for public expenditure. Support SWAp with sector budget support if fiduciary concerns are met. Where weaknesses exist, help develop a sector-wide approach, but with safeguards (TA, earmarking, co-ordinated projects, extra accountability)
      - No → Appraise project interventions to address constraints and opportunities not reached by general of sector finance and TA

**Project Level**
- Yes → Assess the capacity of government to plan, execute, and account for public expenditure. Provide budget support with fiduciary concerns met if necessary by additional undertakings, earmarking, accountability. TA to help develop the budget process
  - No → Consider the role of sector financing in order to address objectives not reached with general budget support and associated policy dialogue/TA.

Before concluding this section, it is interesting to look at insights from projects and programmes about the advantages and disadvantages of some of the approaches discussed. The table in 1.7.3 highlights insights from the irrigation sector regarding projects, sectors and budget support. (Note that IFIs mentioned in the table refer to International Financial Institutions).

### 1.7.3 Advantages and drawbacks of different funding mechanisms of development assistance

<table>
<thead>
<tr>
<th>Instruments</th>
<th>Advantages</th>
<th>Drawbacks</th>
</tr>
</thead>
</table>
| **Project approach** | • Allows for innovation  
• More clarity of use of funds and their direct outcomes  
• Mobilises resources focused on specific objectives | • Poor co-ordination of different IFI’s interventions  
• High costs of implementation and monitoring for IFIs |
| **Sector approach** | • Helps governments to provide adequate resources for project implementation and functioning (in particular, extensions services, capacity building, statistical systems, research and education systems …)  
• Opportunities for harmonisation, up-scaling and replication  
• Governments can develop and apply own procedures rather than trying to please multiple IFIs  
• Governments can avoid spreading resources among too many different projects | • Reduced opportunities for innovation  
• More difficult to document linkages between investments and outcomes  
• Dependence on government processes for financial accountability |
| **Budget approach** | • Better ownership of development strategy  
• Help government to provide its financial counterpart  
• Impose more transparency on the use of funds from government | • Risk to lose focus on agricultural development in general and agricultural water development in particular (Eicher 2004)  
• Risk of a shift of funds from the agricultural sector to other sectors  
• Risk of a top-down and opaque process of fund allocation, weakening the empowerment of local stakeholders, and therefore the sustainability of irrigation projects  
• Risk to implement projects only in the most accessible and best-known regions  
• Risk of inappropriate transfer of funds from national government to local governments and of competitions between urban and rural areas (with clear bias towards the former)  
• Risk of more dependency on external assistance |

Section Summary

- Programme-based approaches are prevalent today and aim to be an integrated set of activities which harmonise donors’ activities and are led by the host country or organisation.

- Poverty reduction strategy papers set out a country’s strategy to reduce poverty. Introduced by the World Bank and IMF, they intend to foster partnership-oriented, country-led approaches to which donors align their efforts.

- Direct budget support is when funds are channelled through government budgets and signify commitments by donors to trust and strengthen a country’s national processes and accountability systems.

- Cash on delivery aid pays recipient countries for achieving predefined goals. The aim is to give recipient countries ownership of development initiatives and help them build their capacity to innovate and design solutions to development problems.

- Projects have a role in this context, but rarely as stand-alone initiatives, rather as coordinated efforts towards programme goals.
Section 1 Self-Assessment Questions

1. One aim of the 2015 Addis Ababa Action Agenda of the Third International Conference on Financing for Development would likely be to achieve:
   (a) harmonisation of donors' efforts
   (b) an increase in projects
   (c) a move away from budget support
   (d) donors working with different goals and objectives
   (e) a move away from poverty reduction strategies

2. General direct budget support is:
   (a) capacity building for budget management
   (b) funds allocated for specific government activities
   (c) funds for which expenditure priorities are relatively unspecified and contribute to the national budget
   (d) financial support towards a specific sector
   (e) funds which are focused towards education and health

3. Projects have a role in current development approaches as:
   (a) stand-alone projects
   (b) projects developed and implemented by donors alone
   (c) projects which are developed from a country's national or sectoral priorities
   (d) projects to administer budget support
   (e) the need for projects has not changed
2.0 AGRICULTURE, PRO-POOR GROWTH AND POVERTY REDUCTION

Section Overview

In this section, we consider the important linkages between development in the agricultural sector, economic growth and poverty reduction, and the importance of rural livelihood diversification.

Section Learning Outcomes

By the end of this section, students should be able to:

- articulate the key reasons why agriculture is considered to be important for poverty reduction, and the linkages between agriculture, pro-poor growth and poverty reduction
- understand why agriculture is vital to a country’s development not only for the sector itself, but for the ‘multiplier effect’
- be familiar with the challenges that the rural poor, and the sector as a whole currently face.

For a few minutes, write down some of the ways in which you think agriculture can contribute towards poverty reduction. Divide your responses into: (a) farmers, households and their communities (b) a developing country’s route to poverty reduction and economic growth.

2.1 Agriculture and its contribution to poverty reduction

There is a lot of evidence that agriculture can contribute to poverty reduction beyond a direct effect on farmer’s incomes. Agricultural development can stimulate economic development outside the agricultural sector and lead to higher job and growth creation. Increased productivity of agriculture raises farm incomes, increases food supply, reduces food prices and provides greater employment opportunities in both rural and urban areas. Higher incomes can increase the consumer demand for goods and services produced by sectors other than agriculture. Such linkages (or the ‘multiplier effect’) between growth in the agricultural sector and the wider economy has enabled developing countries to diversify to other sectors where growth is higher and wages are better. Diversification outside agriculture is important to a country’s development. This is particularly true in rural areas where most of the world’s poorest people live.
2.1.1 The agricultural sector in economic growth and transition

The general pattern for least developed countries who diversify and reduce poverty is:

- Early stage: agriculture is a large share of gross domestic product (GDP) and food is a high percentage of the poor’s expenditure.

- As agricultural productivity increases, the non-farm sector develops and countries are less dependent on agriculture for their economy (although this may not occur in all areas of the country, where the non-farm sector is not as well developed).

- Agricultural growth contributes to wider growth and poverty reduction, to what degree is dependent on the changes in productivity and the size of farms. Increases in land and labour productivity can be central to pro-poor growth. Initially land and labour productivity must rise to reduce poverty, but land productivity should rise faster to create additional employment on farms which benefits the poor and leads to demand for non-farm goods and services.

- As growth increases, there are more employment opportunities outside agriculture, and labour moves away from agriculture thus wage rates for farm labourers rise. At this stage, it is important to increase labour productivity to maintain food supply and prices.

Source: adapted from DFID (2005)

Agricultural productivity can therefore be seen as a first step or engine of growth leading to greater income for a country. It is interesting to note that historically no poor countries have reduced poverty only through agriculture, but almost none have achieved it without increasing agricultural productivity in the first instance. Agricultural growth is an essential complement to growth in other sectors (DFID, 2005).

2.2 Challenges for the agriculture and rural development sectors

The challenges faced by rural households today are very different to those faced by the producers in the ‘green revolution’ who increased agricultural productivity dramatically in the 1960s.

The decline in investment in agriculture and the rural development sector compared to that in the 1960s, 1970s and 1980s has meant reduced public sector support for agriculture, and reduced supply of inputs and services to producers. For many rural producers, the state was their only source of inputs and links to markets. In today’s globalised world in which there is much greater economic integration, small farmers are competing in markets that are more sophisticated with demanding standards in terms of quality and safety. Rural households are subject to risks, such as depressed commodity prices, from greater economic integration. Furthermore, international trade in agricultural commodities presents a number of challenges to developing countries.

Agricultural protectionism and farm support in OECD economies has tended to protect farmers in those countries while reducing trade opportunities for small farmers in the rural areas of developing countries.
A further challenge faced by rural households particularly in sub-Saharan Africa is the HIV/AIDS pandemic. The evidence about its impacts on agriculture is contradictory but it has certainly changed the demographic composition in many rural communities, disrupting the transfer of knowledge from one generation to another and affecting the ability of the government to deliver services. In the worst cases families are having to focus on surviving, rather than improving agricultural productivity and their livelihoods.

Climate change is also affecting the rural population and placing additional pressures on often resource-constrained agricultural systems and a fragile natural resource base. Conflicts, which result from or are triggered by poverty, reduce the resilience of the rural poor further.

### 2.3 Understanding rural diversity

The rural poor are, of course, not a homogeneous group that can be treated as such. There is considerable variation in access to assets, access to markets and the way in which institutions hinder or promote their interests, for example. There needs to be an understanding of the rural context and people’s livelihood strategies in any development policies and programmes. Two key areas are briefly discussed here.

**Gender**

In many rural areas women play a large role in agriculture as farmers, processors and selling at market for example. An example from Cambodia is described in 2.3.1.

#### 2.3.1 Cambodia: agriculture feminised

‘In Cambodia 65% of the agricultural labour and 75% of fisheries production are in the hands of women. In all, rural women are responsible for 80% of food production. Half the women producers are illiterate or have less than a primary school education; 78% are engaged in subsistence agriculture, compared with 29% for men. In rural areas only 4% of women and 10% of men are in wage employment.

Households headed by women are more likely than households headed by men to work in agriculture, yet they are also more likely to be landless or have significantly smaller plots of land. Policies, programmes and budgets for poverty reduction must thus address the situation of Cambodian women.’


Many women have poor access to resources, insecure land rights and poor returns in labour markets.

Given the importance of women as agricultural producers, initiatives aimed at increasing agricultural productivity need to reduce differential access to and control of resources by women and support women’s effective participation in decision-making processes.
Livelihood diversification

Livelihood diversification is more and more prevalent amongst rural households as a way to mitigate risk and make a living as was recognised in the late 1990s (see 2.3.2). Many households pursue a number of different activities such as farming, non-farm enterprises and seasonal migration for paid employment. The result can be an increasing dependency on alternative sources of income to farming, with contribution to total income found to be more than 50% in some rural areas. Policies and programmes need to take account of this diverse portfolio and understand livelihood strategies, migration patterns and labour markets. Such livelihood diversification and broader multiplier effects in the economy have already been shown to contribute to poverty reduction.

2.3.2 A change in thinking: beyond farming to livelihood diversification

‘The tendency for rural households to engage in multiple occupations is oft remarked, but few attempts have been made to link this behaviour in a systematic way to rural poverty reduction policies. In the past it has often been assumed that farm output growth would create plentiful non-farm income earning opportunities in the rural economy via linkage effects. However, this assumption is no longer tenable; for many poor rural families, farming on its own is unable to provide a sufficient means of survival, and the yield gains of new technology display signs of levelling off, particularly in those regions where they were most dramatic in the past.

The causes of the adoption by rural families of diversified income portfolios are better understood than the policy implications. Considerations of risk spreading, consumption smoothing, labour allocation smoothing, credit market failures, and coping with shocks can contribute to the adoption, and adaptation over time, of diverse rural livelihoods. However, livelihood diversity results in complex interactions with poverty, income distribution, farm productivity, environmental conservation and gender relations that are not straightforward, are sometimes counter-intuitive and can be contradictory between alternative pieces of case study evidence.

Future rural poverty reduction policies need to be better informed on the nature of these interactions. For example, it is fairly well known that the poor diversify more in less advantageous labour markets than the better-off, i.e. in casual, part-time and unskilled work compared to full-time work or substantive self-employment. These findings are related to the asset status of the poor (e.g. low human capital) and barriers to entry resulting from low assets (need for skills, ability to navigate bureaucratic hurdles, etc.). It is possible that facilitating the poor to gain better access to opportunities (or to create their own opportunities) may turn out to be substantially more cost-effective for poverty reduction than attempting, artificially, to support particular sectors or sub-sectors of rural economic activity.

Section Summary

- The linkages between agriculture, pro-poor growth and poverty reduction are substantial and important. Growth in agricultural productivity and its multiplier effect to the wider economy has great scope for poverty reduction. With 70% of the world’s poor living in rural areas, it is critical that rural poverty is addressed.

- Challenges facing rural households include risks from a more globally integrated economic system, the HIV/AIDS pandemic and climate change.

- It is vital to build in to any policy on agriculture and rural development, the heterogeneous nature of the rural population and livelihood diversification.
Section 2 Self-Assessment Questions

4 Agriculture can contribute to poverty reduction through:
   (a) an increase in farmers’ incomes only
   (b) a reduction in food prices for consumers only
   (c) increases in farmers’ incomes, reduction in food prices and a stimulation of the wider economy through the multiplier effect
   (d) an increase in farmers and their communities incomes only
   (e) the multiplier effect

5 Which of the following statements is true?
   (a) An increase in agricultural productivity can often be a necessary first step in poverty reduction.
   (b) Almost all rural households depend on farming alone for their livelihood.
This unit sets the scene for the module by providing an overview of aid and the importance of investment in agricultural and rural development. There has been a significant shift in international development approaches towards the promotion of strategies to address poverty and sector-wide programmes of investment and policy reform that are developed and implemented by developing countries themselves. This has been driven by factors including aligning development assistance behind developing countries own goals, and the signing up of many countries to work towards the Millennium Development Goals, and now the successor Sustainable Development Goals.

In recent years, many donors (such as the World Bank and the UK’s DFID) have moved towards supporting government budgets and programmes which fit with a country’s priorities. New aid modalities have developed including programme-based approaches, sector-wide approaches and budget support. Poverty Reduction Strategy Papers have been used by many countries to set out the poverty situation and define a government’s strategy as to how to tackle it over a three to five year period. The move towards these different aid modalities does not mean that projects do not have a role. Projects will continue to be important, but will have different starting-points: ie programmes and strategies led by partner countries rather than donor identified priorities.

There are renewed efforts by donors and higher levels of investment aimed at developing agriculture as a means to provide pro-poor economic growth. There is evidence that agricultural development can stimulate economic development outside of the agricultural sector, and lead to higher job and growth creation. However challenges remain in ensuring that policy is translated into action and that agriculture is sufficiently represented within current aid modalities.
UNIT SELF-ASSESSMENT QUESTIONS

1. Provide comments to fill in the gaps in the table below which compares a project approach, programme-based approach and direct budget support. Make an attempt, and then have a look at the provided answers.

<table>
<thead>
<tr>
<th></th>
<th>Projects</th>
<th>Programme-based approach</th>
<th>Direct budget support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results and accountabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Targeting or earmarking of funds</td>
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<tr>
<td>Local ownership and division of responsibilities</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Collaboration between donors</td>
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</tbody>
</table>

2. Explain the general sequence of events for developing countries to reduce poverty by agriculture and diversification.
## Key Terms and Concepts

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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</thead>
<tbody>
<tr>
<td>cash on delivery aid</td>
<td>Payments made by donors to recipient governments as a reward for progress towards achieving predefined development goals.</td>
</tr>
<tr>
<td>general budget support</td>
<td>Support that contributes to the national budget in which case there is relatively little earmarking by donors.</td>
</tr>
<tr>
<td>livelihood diversification</td>
<td>The tendency for households to engage in multiple occupations.</td>
</tr>
<tr>
<td>programme</td>
<td>A set of interventions, including projects, designed to meet policy objectives. Typically characterised by longer-term commitment, and wider geographical or sectoral scope, compared to projects.</td>
</tr>
<tr>
<td>programme-based approach (PBA)</td>
<td>New focus for donor aid to developing countries based upon the support of programmes designed and led by recipient countries.</td>
</tr>
<tr>
<td>project</td>
<td>Discrete investment initiatives that are usually of fixed and predetermined duration.</td>
</tr>
<tr>
<td>sector budget support</td>
<td>Support that is earmarked for a particular sector by being channelled to the ministry or department responsible for that sector.</td>
</tr>
<tr>
<td>sector-wide approach (SWAp)</td>
<td>Involves a sector-level programme and follows the same principles as PBAs more generally — can be supported by donors in various different ways, including via sector budget support, pooled funding, NGO support and project support.</td>
</tr>
</tbody>
</table>
FURTHER STUDY MATERIALS


Available from: http://static1.squarespace.com/static/539712a6e4b06a6c9b892bc1/t/539b1fe3e4b0d7588ce6ead8/1402675171712/Chronic+Poverty+report+-+full+report.pdf

An attempt to work out the policy agenda for the eradication of extreme poverty. Tackling persistent poverty, stopping impoverishment and sustaining escape from poverty require social protection, investments in education and a context-specific bundle of measures which will include the poorest in growth. Based on an analysis of country-specific conditions each country can identify the drivers of poverty reduction and priorities for the eradication of poverty.


This DAC report is an extract from the publication Promoting Pro-poor Growth: Policy Guidance for Donors. Although becoming dated, it usefully focuses upon the contribution of agriculture to pro-poor growth, highlighting the contribution that agricultural growth can play in enabling poor countries to take the first steps toward economic transformation. It identifies key priorities for action: enhancing sector productivity and market opportunities, promoting diversified livelihoods and reducing risk and vulnerability.


Available from: http://www.fao.org/3/a-i4953e.pdf

Many countries increasingly recognise that social protection measures are needed to relieve the immediate deprivation of people living in poverty and to prevent others from falling into poverty when a crisis strikes. Social protection can also help recipients become more productive by enabling them to manage risks, build assets and undertake more rewarding activities.

But social protection can only offer a sustainable pathway out of poverty if there is inclusive growth in the economy. In most developing economies, agriculture remains the largest employer of the poor and source of livelihoods through wage labour and own production for household consumption and the market. Poverty and its corollaries – malnutrition, illness and lack of education – limit agricultural productivity. Hence, providing social protection and pursuing agricultural and rural development in an integrated way offers synergies that can increase the effectiveness of both.

New York, United Nations (UN).


In support of implementation of the sustainable development goals, the Addis Ababa Action Agenda addresses all sources of finance, and covers international cooperation on a range of issues including technology, science, innovation, trade and capacity building. Domestic resource mobilisation is emphasised. Countries agreed to measures aimed at widening the revenue base, improving tax collection, and combatting tax evasion and illicit financial flows. They also reaffirmed their commitment to official development assistance, particularly for the least developed countries, and pledged to increase South–South and triangular cooperation. The outcome document also underscores the importance of aligning private investment with sustainable development, along with public policies and regulatory frameworks to set the right incentives. The Addis Ababa Action Agenda includes important policy commitments and key deliverables in critical areas for sustainable development, including infrastructure, social protection and technology. There were agreements for international cooperation for financing of specific areas where significant investments are needed, such as in infrastructure for energy, transport, water and sanitation, and other areas to help realise the proposed sustainable development goals. Countries also stressed the importance of nationally owned sustainable development strategies, supported by integrated national financing frameworks.


Available from: [https://www.ifad.org/documents/10180/a3d5d393-fcaf-49e8-ae9a-46cdc1f098a6](https://www.ifad.org/documents/10180/a3d5d393-fcaf-49e8-ae9a-46cdc1f098a6)

This paper explores the role that smallholder family farmers can play in national priorities in a post-2015 world and in the post-2015 development agenda. It assesses the context in which future investments/projects for agricultural and rural development will take place.


This report notes that agriculture remains critical for food and nutrition security, improving incomes and employment, and providing environmental services. The latter includes critical needs such as absorbing carbon, sustainably managing watersheds and preserving biodiversity. Enhancing agriculture's impact in all these areas requires more and better investment in the sector, particularly in view of three world food price spikes over the last five years, continued medium-term price uncertainty, and already observable crop yield losses from global warming.

The plan emphasises that the World Bank Group will continue to help developing countries make progress on poverty reduction, for which improved performance of agriculture has been particularly effective, and on food and nutrition security. Given that higher short-term agricultural price volatility is becoming a 'norm', the group’s support will give more emphasis to improving the resilience of agricultural systems and rural livelihoods through support for more climate-smart agriculture, longer-term risk management and better nutritional outcomes.
REFERENCES


