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**President's report**  
**Proposed loan**  
**People's Republic of China**  
**Hunan Green Development Project**

Project ID: 2000003847

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**Action:** The Executive Board is invited to approve the recommendation contained in paragraph 69.

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## Appendices

- I. Negotiated financing agreement (to be made available prior to the session)
- II. Logical framework
- III. Integrated project risk matrix

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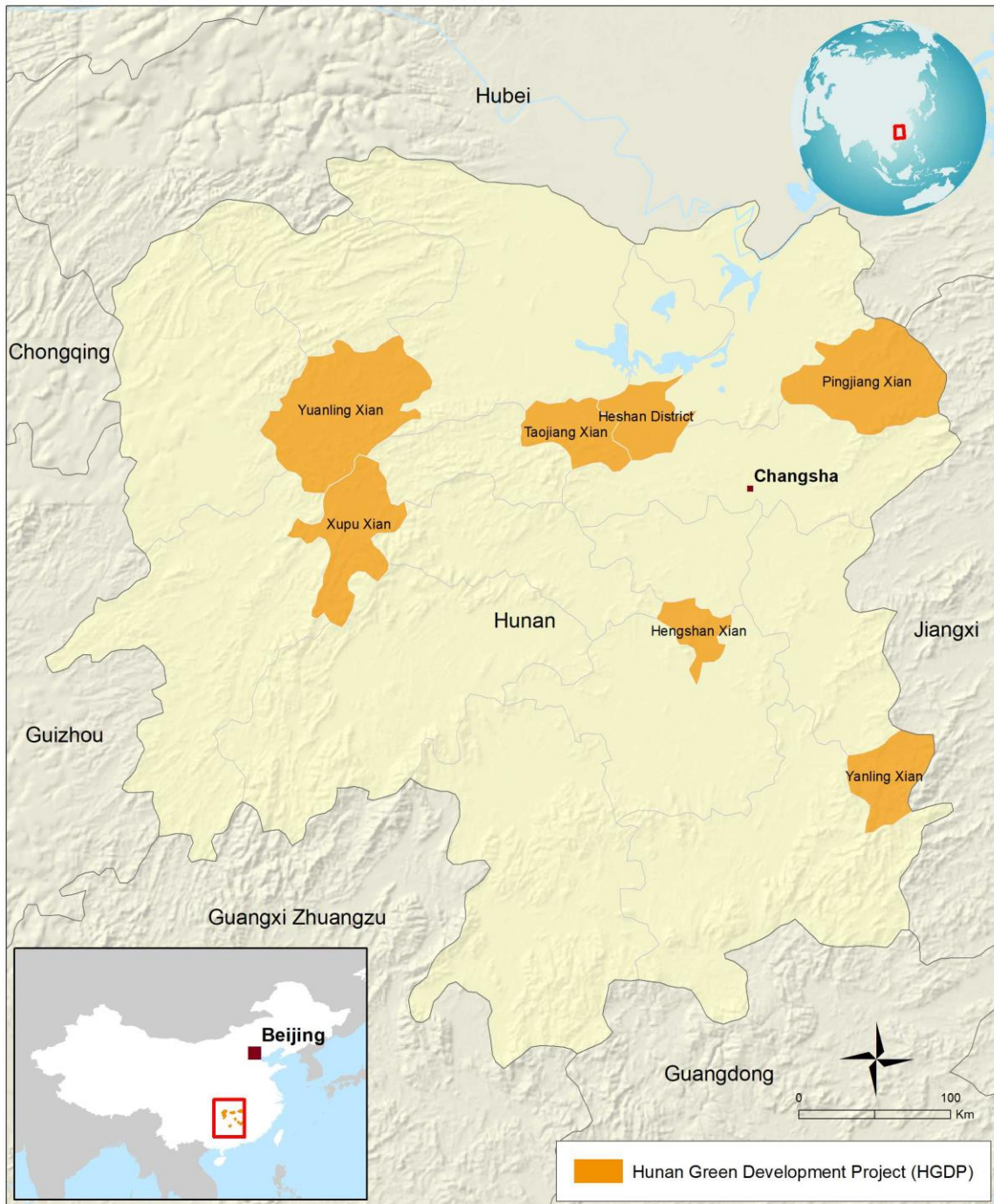
### Project delivery team

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## Map of the project area



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 07-11-2023

## Financing summary

<b>Initiating institution:</b>	IFAD
<b>Borrower/recipient:</b>	People's Republic of China
<b>Executing agency:</b>	Department of Forestry of Hunan Province
<b>Total project cost:</b>	US\$235.2 million
<b>Amount of IFAD loan:</b>	US\$80.0 million (Borrowed Resource Access Mechanism [BRAM])
<b>Terms of IFAD loan:</b>	Ordinary: 18 years, including a grace period of 3 years, subject to interest at a rate equal to the IFAD reference interest rate including a variable spread
<b>Contribution of borrower/recipient:</b>	US\$27.8 million (in-kind and input incentives and support)
<b>Contribution of beneficiaries:</b>	US\$16.4 million
<b>Contribution of private sector:</b>	US\$111.0 million
<b>Amount of IFAD climate finance:</b>	US\$61.583 million

## I. Context

### A. National context and rationale for IFAD involvement

1. **Economic growth.** The People's Republic of China has the second largest population in the world, totaling 1.412 billion people. Political stability has enabled long-term development planning, which has resulted in economic development leading to the eradication of extreme poverty. China is an upper-middle-income country and the second largest economy in the world in nominal terms. However, the economy is facing significant challenges recovering from the impact of the COVID-19 pandemic.
2. **Rural context.** Nearly 600 million Chinese live in rural communities and constitute 60 per cent of the labour force. Massive urban migration of the active workforce is due to low rural salaries and limited income-generating opportunities.
3. **Provincial context.** Hunan is in the middle south of China, occupying about 2.21 per cent of the national territory and about 3 per cent of the cultivated land. Agriculture contributed to 16.8 per cent of provincial GDP in 2022, and the per capita net income of farmers was about CNY 19,546.<sup>1</sup> Out of a total population of 66 million (2022) in the province, 6.69 million belong to the 55 ethnic minorities as of 2020,<sup>2</sup> concentrated in its western and southern parts.
4. **Eradication of extreme poverty.** Economic growth led to a significant reduction in poverty from 88 per cent in 1981 to 3.8 per cent in 2017. The Government announced the eradication of extreme poverty in 2021, making it the first developing country to achieve Sustainable Development Goal (SDG) 1 ahead of the global timeline. The challenges of avoiding rural residents relapsing into poverty, and reducing existing inequality and regional disparities, persist.
5. **Rural revitalization strategy.** The rural revitalization strategy (2017) is a long-term strategy in response to the urban migration trend. It aims at rebalancing the divide between urban and rural areas by accelerating the development of rural areas and making them attractive. Key strategies include agricultural industrialization (using lead rural industries, the private sector and lead agroenterprises), employment creation and comprehensive infrastructure development.
6. **Carbon commitment.** Agricultural production and processing activities make China a large emitter that therefore has a crucial role in the reduction of global carbon emissions through its own commitment and its collective international engagement. In September 2020, President Xi Jinping announced China's dual goals to peak carbon emissions by 2030 and achieve carbon neutrality by 2060.
7. The **private sector's** engagement in the food and agriculture sector in China has seen an uptick over time, as has IFAD's engagement with the private sector towards achieving the 2030 Agenda for Sustainable Development. This offers opportunities for IFAD to partner with the private sector fostering socioeconomic and rural development.

#### **Special aspects relating to IFAD's corporate mainstreaming priorities**

8. In line with IFAD's mainstreaming commitments, the project has been validated as:
  - Including climate finance
  - Gender-transformational
  - Youth-sensitive
9. **Gender and social inclusion.** Urbanization has changed the structure of the agricultural labour force in the central and western provinces of China. The increased opportunities and wages for men in urban areas have made women the majority workforce in the rural agricultural sector. The fourth survey on the social status of

<sup>1</sup> Statistical Bulletin on National Economic and Social Development of Hunan Province for 2022.

<sup>2</sup> Seventh national population census of China (2020).

women in China (2020) showed that rural women now played a more important role in economic and social development than they did 10 years ago. Despite these trends, a fundamental gender bias exists for cultural and historical reasons.

10. **Rural youth.** Rural young people migrate to urban centres in pursuit of higher socioeconomic status. Local government departments have introduced policies and initiatives to attract young people back to rural areas. An example is the Government's Medium and Long-Term Youth Development Plan (2016–2025) aimed at youth engagement and empowerment.
11. **Climate change.** Hunan has experienced increasing temperatures and changes in rainfall patterns affecting production. As a large agricultural producer and processor, China is also a large producer of agricultural waste and emitter of agriculture-related greenhouse gas. The Government has issued the National Climate Change Adaptation Strategy 2035 in line with its ambitious dual carbon goals commitment.

#### **Rationale for IFAD involvement**

12. IFAD's comparative advantage lies in its experience of connecting smallholder producers to markets through value chains, helping them adapt to climate risks and adopt climate smart sustainable agriculture practices, empowering women and youth in value chains, and demonstrating innovative strategies for rural revitalization.

### **B. Lessons learned**

13. IFAD has four ongoing projects in China and has implemented three projects in the Hunan Province, of which the Hunan Rural Revitalization Demonstration Project (H2RDP) is ongoing. These projects demonstrate effective measures and approaches for enabling smallholders to be integrated into value chains, and enhancing resilience to economic and climatic shocks. Building on the experience of these projects and drawing from IFAD's Research and Impact Assessment Division reports, appropriate lessons are incorporated into the Hunan Green Development Project (HGDP) design.
14. Key lessons include the usefulness of business planning financing in value chains, the need to support green value chains, the transformational nature of women's and youth participation, the positive outcomes of aligning with government infrastructure projects, and the positive impact of early appointments of project staff on effective implementation.

## **II. Project description**

### **A. Objectives, geographical area of intervention and target groups**

15. **Project goal and objectives.** The goal of the HGDP is to promote rural revitalization and enable smallholders to benefit from rural transformation through an enterprise-led inclusive green growth model.
16. The development objective of the project is to increase the capacity of 128,000 smallholder beneficiaries for enhanced production and access to markets, while optimizing environmental sustainability, climate resilience and contributing to China's carbon neutrality goal, focusing on three value chains – bamboo, tea seed oil (*Camellia oleifera*) and medicinal herbs. The project is expected to rehabilitate or develop 199,000 mu (13,266 ha) under the three crops. It is expected that women will account for 60 per cent of beneficiaries and youth will constitute around 30 per cent.
17. **Project area.** The project will cover seven counties: Taojiang, Hengshan, Yanling, Pingjiang, Heshan, Yuanling and Xupu. These have been selected based on: (i) willingness and commitment of government and beneficiaries to participate; (ii) financial capacity of government to incur and repay debt; (iii) high potential for smallholders to produce the commodities; and (iv) willingness of private sector enterprises to invest in the selected value chains.

18. **Target group.** The project will target mainly former registered poor and low-income households, with an inclusive strategy for engaging women, youth and ethnic minorities.

## **B. Components, outcomes and activities**

19. The project will have the following components:

**Component 1. Smallholder integration in value chains,** with an emphasis on women and youth smallholders, consists of four subcomponents focusing on enhancing the production quality, productivity and inclusivity of the selected value chains. The Forestry Bureau will lead the implementation in partnership with the State-owned county development investment company (CDIC), the State-owned forest farm, private enterprises, cooperatives and the village planning committee. Production will be mainly bamboo shoots and wood, *Camellia oleifera* fruits and medicinal plants. It will focus on improved management of existing plantations of bamboo, rehabilitating lands for *Camellia oleifera* production and cultivation of medicinal plants. The main outputs under this component will include: (i) inclusive and sustainable production management plans and partnership agreements; (ii) increased area under sustainable and climate smart management practices; (iii) infrastructure for crop cultivation; and (iv) a monitoring and accounting model for carbon sequestration.

**Component 2. Enterprise-led inclusive business development** will invest in upstream businesses and selected government enterprises. It includes three subcomponents focusing on: (i) enhancing business plan development including smallholders and growth of enterprises in value chains; (ii) establishing energy efficient productive infrastructure; and (iii) enhancing enterprises' processing capacity, product development, diversification and marketing. The CDIC will invest in public enterprises such as government farms and private enterprises through joint ventures.

**Component 3. Project management and capacity-building** focuses on building management capacity for implementation. Forestry bureaux will provide office accommodation, logistical support and staff, and will manage the project. Arrangements for monitoring and evaluation (M&E) and knowledge management, and opportunities for South-South and Triangular Cooperation (SSTC) with the support of the International Bamboo and Rattan Organization (INBAR) will be included. Funding will be covered by the IFAD loan and the provincial and county governments.

## **C. Theory of change**

20. If smallholders are better integrated into high-value commodity chains, and agroprocessing enterprises in the same value chains are provided inclusive business development opportunities, then, together, they can drive increased production and quality of produce, climate adaptation and enhanced CO<sub>2</sub> sequestration, increased value addition and market share. This is because: (i) cooperatives/smallholders are inclusively organized and empowered and receive adequate technical advisory assistance and incentives for sustainable production; and (ii) technically, environmentally and financially inclusive feasible business plans and infrastructure investments incentivize private sector engagement with smallholders. These will support green development while reducing emissions and improving carbon sequestration.

## **D. Alignment, ownership and partnerships**

21. **Alignment with national priorities and strategies.** The project is aligned with the Government's Rural Revitalization Strategy, the 14th Five-Year Plan (2021–2025) and the No.1 document of Hunan Province, which highlights the development of integrated industry for specialized local products and enhancement of quality value chains to improve farmers' diversified incomes. The project also aligns with the Government's National Climate Change Adaptation Plan and will contribute to increased carbon sequestration, economic development, poverty reduction and environmental protection.

22. **Alignment with the Sustainable Development Goals.** The objectives of HGDP are aligned with SDG 1 (no poverty), SDG 2 (zero hunger), SDG 5 (gender equality), SDG 10 (reduced inequalities), SDG 13 (climate action) and SDG 15 (life on land).
23. **Alignment with IFAD strategies.** The project is aligned with IFAD's Strategic Framework 2016–2025 and will increase rural people's productive capacities, enhance benefits from markets, and strengthen environmental sustainability and climate resilience. It is also aligned with the country strategic opportunities programme (COSOP) and the recommendations of the country strategy and programme evaluation as it focuses on inclusive value chains, and will contribute to China's carbon neutral economy goal, and environmental and climate resilience. The project is aligned to IFAD's Private Sector Engagement Strategy and is forward-looking as it initiates a transition from the poverty alleviation model to the shared prosperity model through vitalization of rural industries. It also initiates IFAD's contribution to China's commitments to the global public good on environmental sustainability, and in sustaining key rural institutions that foster socioeconomic development.
24. **Harmonization and partnership.** The project management offices will coordinate their investment plans with other departments to strengthen and support the investments in the plantations and enterprise parks. HGDP will coordinate with the carbon sequestration centre and the carbon platform and develop a partnership with KfW Development Bank in enhancing carbon sequestration from the agroforestry sector. Collaboration with the recently approved market-based trading of carbon emission rights will be explored and partnerships with INBAR on SSTC and the United Nations Industrial Development Organization on implementation of the agroenterprise parks will be pursued.

#### **E. Costs, benefits and financing**

25. As per the multilateral development banks' methodologies for tracking climate change adaptation and mitigation finance, the total amount of IFAD climate finance for this project is estimated at US\$61.583 million (US\$24.485 million for adaptation and US\$37.098 million for mitigation).
26. **Project costs.** The total project cost is estimated at US\$235.2 million over the six-year period.



Table 1

**Project costs by component and financier**

(Thousands of United States dollars)

Component	IFAD loan		Other cofinanciers		Beneficiaries			Borrower/recipient			Total	
	Amount	%	Amount	%	Cash	In kind	%	Cash	In kind	%	Amount	%
1. Smallholder integration in value chains	44 013	32.5	56 909	42.1	-	16 412	12.1	17 946	-	13.3	135 279	57.5
2. Enterprise-led inclusive business development	33 587	36.2	54 125	58.3	-	-	-	5 094	-	5.5	92 806	39.5
3. Project management and capacity-building	2 400	33.7	-	-	-	-	-	4 715	-	66.3	7 115	3
<b>Total</b>	<b>80 000</b>	<b>34.0</b>	<b>111 034</b>	<b>47.2</b>	<b>-</b>	<b>16 412</b>	<b>7.0</b>	<b>27 755</b>	<b>-</b>	<b>11.8</b>	<b>235 200</b>	<b>100</b>

Table 2

**Project costs by expenditure category and financier**

(Thousands of United States dollars)

Expenditure category	IFAD loan		Other cofinanciers		Beneficiaries			Borrower/recipient			Total	
	Amount	%	Amount	%	Cash	In kind	%	Cash	In kind	%	Amount	%
<b>Investment costs</b>												
1. Operation and maintenance	-	-	836	81.3	-	-	-	193	-	18.7	1 028	0.4
2. Goods, services and inputs (IFAD)	29 558	100	-	-	-	-	-	-	-	-	29 558	12.6
3. Counterpart funding (Government)	-	-	-	-	-	-	-	25 838	-	100	25 838	11.0
4. Works (IFAD)	18 388	100	-	-	-	-	-	-	-	-	18 388	7.8
5. Equipment and material (IFAD)	32 053	100	-	-	-	-	-	-	-	-	32 053	13.6
6. Beneficiaries	-	-	-	-	-	16 412	100	-	-	-	16 412	7.0
7. Private sector	-	-	105 073	100	-	-	-	-	-	-	105 073	44.7
<b>Total investment costs</b>	<b>80 000</b>	<b>34.0</b>	<b>105 909</b>	<b>46.4</b>	<b>-</b>	<b>16 412</b>	<b>7.2</b>	<b>26 031</b>	<b>-</b>	<b>11.4</b>	<b>228 351</b>	<b>97.1</b>
<b>Recurrent costs</b>												
1. Operating costs	-	-	5 125	74.8	-	-	-	1 724	-	25.2	6 849	2.9
<b>Total recurrent costs</b>	<b>-</b>	<b>-</b>	<b>5 125</b>	<b>74.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 724</b>	<b>-</b>	<b>25.2</b>	<b>6 849</b>	<b>2.9</b>
<b>Total</b>	<b>80 000</b>	<b>34.0</b>	<b>111 034</b>	<b>47.2</b>	<b>-</b>	<b>16 412</b>	<b>7.0</b>	<b>27 755</b>	<b>-</b>	<b>11.8</b>	<b>235 200</b>	<b>100</b>

Table 3

**Project costs by component and project year (PY)**

(Thousands of United States dollars)

<i>Component</i>	<i>PY1</i>		<i>PY2</i>		<i>PY3</i>		<i>PY4</i>		<i>PY5</i>		<i>PY6</i>		<i>Total</i>
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>
1. Smallholder integration in value chains	13 787	10.19	33 679	24.90	47 154	34.86	26 975	19.94	13 616	10.07	68	0.05	135 279
2. Enterprise-led inclusive business development	21 470	23.13	17 444	18.80	24 206	26.08	17 074	18.40	8 503	9.16	4 110	4.43	92 806
3. Project management and capacity-building	1 827	25.68	948	13.32	948	13.32	948	13.32	948	13.32	1 496	21.03	7115
<b>Total</b>	<b>37 085</b>	<b>15.77</b>	<b>52 071</b>	<b>22.14</b>	<b>72 309</b>	<b>30.74</b>	<b>44 997</b>	<b>19.13</b>	<b>23 066</b>	<b>9.81</b>	<b>5 674</b>	<b>2.41</b>	<b>235 200</b>

27. **Financing and cofinancing strategy and plan.** The Government has requested a loan of US\$80 million from IFAD, to be provided under the Borrowed Resource Access Mechanism (BRAM) on ordinary terms. There is no international cofinancing. The Government will contribute US\$27.7 million in in-kind and input incentives and support, the private sector will contribute US\$111 million and smallholder beneficiaries will contribute US\$16.4 million.

#### **Disbursement**

28. A designated account in United States dollars will be opened at the Hunan Provincial Department of Finance to receive funds from IFAD. The treasury accounts of each county (County Bureaux of Finance [BOFs]) will be used as project accounts in local currency to receive funds transferred from the designated account.
29. **Funds flow** will follow the revolving fund mechanism, which is outlined in the IFAD Financial Management and Financial Control (FMFC) Handbook and the FMFC Letter. The provincial project management office (PPMO) will need to submit interim financial reports on a quarterly basis and separate withdrawal applications (advance and justification) through the IFAD Client Portal with cash projections for the next two quarters to request disbursements from IFAD.

#### **Summary of benefits and economic analysis**

30. HGDP will reach 43,500 smallholder households directly and 128,000 people given the average household size of 2.95 people in the province. These numbers already exclude double counting.
31. **Financial analysis** has been conducted for component 1 only, as post-production activities under component 2 will be covered by the development of business plans, of which the financial analysis will be integral part.
32. The **economic analysis** (for component 1 only, as with financial analysis above) yields an economic internal rate of return of 15 per cent with economic net present value at CNY 718.66 million using a discount rate of 8 per cent. These figures indicate that the project is economically viable. A sensitivity analysis was carried out to test the robustness of the two key factors, namely output price decline and cost increase.

#### **Exit strategy and sustainability**

33. This is based on a three-pronged approach, using the enterprises as the main driver of growth, strengthening capacities of beneficiaries, and a sustained enabling environment and policy engagement. The three value chains selected are considered strategic by the Government and have significant potential for green growth and development. Enterprise expansion is based on providing access to facilities through the agroenterprise parks to enhance processing capacity, and a sustained raw material supply base involving smallholders and their cooperatives. Strengthening the capacities of beneficiaries on improved management knowledge and practices, and access to production techniques and facilities will enhance adaptation to climate risks. The sustained enabling environment and policy engagement will be driven by the provincial and county levels. The CDIC will continue to make investments from its resources in the development of the selected value chains.

### **III. Risk management**

#### **A. Risks and mitigation measures**

34. The key risks associated with this enterprise-driven value chain project are market dynamics, climate risks, transparency and equity in terms of engagement between smallholders and the enterprises and ensuring that smallholders are not locked into contracts that do not enable them to share equitably in the returns from an increase in demand or price. The project will build the capacity of farmers and support infrastructure development for irrigation, storage, primary processing and greater access to public sector insurance measures (agroforestry insurance will be piloted).

The agroenterprise parks will provide processing facilities for private enterprises aligned to environmental protection standards.

35. The national laws of China and IFAD’s Social, Environmental and Climate Assessment Procedures (SECAP) provisions will be adhered to in terms of socio-environmental safeguards at all stages of infrastructure development. The project will screen partner enterprises to ensure they have and disclose environment and social governance systems in line with government and IFAD standards. The private enterprises will also adhere to standards of safety for their workers and protect them from any harassment and abuse.
36. Ethnic minorities exist in only two of the seven counties in which the project will be implemented and are well integrated into mainstream society. An Indigenous Peoples Planning Framework has been developed with emphasis on free, prior and informed consent (FPIC) processes and will ensure that the project does not pose a risk to any minority member.
37. HGDP will draw lessons on implementation efficiency from previous projects and will embark on comprehensive start-up support and training for project staff and local technical experts called upon by PPMO to provide technical guidance for project implementation.
38. **Financial management risk.** The overall financial management risk of HGDP is moderate. The inherent financial management risk is moderate with no assessed residual risk at this stage. The Provincial Forestry Department (PFD) has experience in implementing foreign-funded projects including those of the World Bank and European Investment Bank. Financial management capacity of the private sector will be built to fully meet project requirements.

Table 4

**Overall risk summary**

<i>Risk areas</i>	<i>Inherent risk rating</i>	<i>Residual risk rating</i>
Country context	Moderate	Moderate
Sector strategies and policies	Moderate	Moderate
Environment and climate context	Moderate	Low
Project scope	Moderate	Moderate
Institutional capacity for implementation and sustainability	Moderate	Moderate
Financial management	Moderate	Moderate
Project procurement	Moderate	Moderate
Environment, social and climate impact	Moderate	Low
Stakeholders	Moderate	Moderate
<b>Overall</b>	Moderate	Moderate

\* Based on the analysis of country risks assessed through the Procurement Risk Matrix and taking into account relevant lessons learned from ongoing or recently completed projects.

## **B. Environment and social category**

39. The environmental and social risk category for the project is rated as moderate. In a nutshell, risks remain manageable as these areas are highly regulated in China, whose related policies have been evaluated as satisfactory by the World Bank.

## **C. Climate risk classification**

40. The climate risk classification for the project is assessed as low. The climate-related hazards include rainstorms, flooding, drought and extreme temperatures. The risk sensitivity and vulnerability will be mitigated with project investments in water-saving irrigation technologies to reduce the impact of droughts. The Government’s agricultural meteorological index insurance will be applied to reduce farmers' losses.

## **D. Debt sustainability**

41. China has a moderate overall risk of sovereign stress.<sup>3</sup> Debt is expected to rise over the medium and long term, but can be stabilized with a gradual fiscal adjustment over 2025–2035. Medium-term liquidity risks as analysed by the gross financing needs finance ability module are high. However, China's partially closed capital account and the Government's ample financial assets mitigate liquidity risks. To contain debt risks, China should seek to reduce public investment and close its structural revenue gap through comprehensive tax reform.

## **IV. Implementation**

### **A. Organizational framework**

#### **Project/programme management and coordination**

42. The project will be executed and coordinated by the PFD in Hunan, which will set up a PPMO. The provincial forestry fund station (PFFS) will undertake the day-to-day coordination and management of the project. The PPMO within the PFFS will be staffed adequately for project management and will mobilize relevant technical experts in the province through a technical advisory group.
43. Inter-agency coordination arrangements will be established to review both strategic and operational aspects of HGDP. An interdepartmental coordinating mechanism covering forestry, finance and development reform will be established at the provincial level while the Vice-Governor will lead county-level coordination and supervision through a steering group with relevant technical agencies. This mechanism will serve as the steering committee of the project to ensure timely assistance to project implementation.
44. County project management offices will be established at the County Forestry Bureaux (CFBs) to manage the project (including targeting beneficiary and implementation planning, overseeing business planning, coordinating with the CDIC for value chain investment, and coordinating with institutions responsible for social and environmental safeguards). Short-term technical assistance will also be procured through consultancy or service provider.
45. The CDIC will receive the loan funds directly through the BOF and will work in partnership with the CFBs in production and processing in each county. They will use the loan to support smallholders, cooperatives and small and medium-sized enterprises (either private or State-owned) for both the production and the processing side of the value chain and operate under strict socio-environmental safeguards. Investment criteria to ensure participation of smallholders, women and youth in both production and processing will be used.
46. Village implementation groups (VIGs) will be established in the administrative villages within the project area to support project implementation locally. Each VIG will be headed by the chief of the village committee and will be composed of seven or eight people, including four or five farmer representatives with a minimum women's representation of 50 per cent and at least one or two youth representatives.

#### **Financial management, procurement and governance**

47. Financial management staffing will be provided by PPMO. The budgeting process will include annual workplan and budget (AWPB) preparation by each county project management office consolidated by the PPMO. Disbursements will be processed through the designated account opened at the Hunan Provincial Department of Finance to receive funds from IFAD. The treasury accounts of each county (BOF) will be used as project accounts in local currency to receive funds transferred from the designated account. The project accounts will be used to finance all project activities

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<sup>3</sup> International Monetary Fund (IMF) Country Report No 24/38, China, 2023 Article IV Consultation, February 2024.

and operational costs. Fund flow will follow the revolving fund mechanism, which is outlined in the FMFC Handbook and the FMFC Letter.

48. The financial management system will be supported by the rigorous treasury systems of the BOFs, which will monitor and verify the reporting of expenditures. The project will apply IFAD's anticorruption policy to guide project operation. Key internal control procedures will also be specified in the project implementation manual and financial management manual. The Chinese Accounting Standards will be applied for project annual financial reporting and daily accounting. Interim financial report format and submission deadlines for annual financial reporting are specified in the financial management manual.
49. Project financial reports will be audited by the Provincial Audit Office. The audit report will follow specific formats and timeframes as specified in the IFAD Handbook for Financial Reporting and Auditing.
50. Section 7.05 of the General Conditions for Agricultural Development Financing provides that the procurement of goods, works and services shall be carried out in accordance with the provisions of the borrower/recipient's procurement regulations, to the extent such are consistent with the IFAD Project Procurement Guidelines, as amended from time to time. Each AWPB must contain a procurement plan, which shall identify the procedures that must be implemented by the borrower/recipient, ensuring consistency with IFAD's Project Procurement Guidelines.

#### **Target group engagement and feedback and grievance redress**

51. A stakeholder engagement plan has been developed for HGDP to ensure meaningful engagement of project stakeholders in line with the policies of Hunan Province. VIGs will be established to support project implementation.
52. The Hunan Women's Federation and the Community Youth League will be engaged as stakeholders in organizing smallholders and cooperatives and will apply the FPIC process to ensure that the communities are in agreement.
53. All documents will be disclosed locally at county level before project implementation.
54. There are existing grievance systems in Chinese governance from central to county levels, and project stakeholders can access these readily through various mediums. HGDP will additionally adopt an easily accessible grievance mechanism at the project level to receive and resolve concerns and complaints from people who may wish to seek redress.

### **B. Planning, monitoring and evaluation, learning, knowledge management and communications**

55. The project will be implemented based on an AWPB. The PPMO will consolidate the AWPBs prepared by each county for submission to IFAD for no objection prior to effectiveness.
56. Full ownership, accountability and budgeting for M&E will rest with the PMOs, with IFAD providing technical guidance and support in line with the related M&E manual and guidelines. Monitoring of project progress towards scaling up will be reported during implementation.
57. The project knowledge management activities and approaches will focus on capturing and documenting experiences, lessons and successful cases from project activities to inform policymaking and share with other countries through SSTC and participation in knowledge exchange forums.
58. HGDP will support a range of initiatives in which the CDIC will attempt certain innovative direct private sector agribusiness partnership and financing models to strengthen social and environmental safeguards and framework, and dividends-sharing.

59. HGDP will assess new efficient and cost-effective technologies for extraction of camelia oil and the project will help mitigate plastic pollution by contributing to bamboo products that will substitute plastics.
60. The project will collaborate closely with the carbon sequestration centre within the PFD and the carbon platform at the provincial level to pilot a carbon monitoring methodology, and assess the potential for carbon trading through the China Certified Emission Reduction platform to support the carbon label that facilitates the export of its commodities.

### **C. Implementation plans**

61. Implementation readiness plans have been prepared to facilitate quick start-up after the project becomes effective. Detailed procurement plans are included in the project implementation manual, which also contains detailed terms of reference for all service providers to be recruited as well as a clear schedule and step-by-step programming process.
62. IFAD's annual direct supervision will mainly relate to the project's physical and financial progress and will primarily address issues related to: (i) effectiveness and development focus; (ii) sustainability and scaling up; (iii) project management; and (iv) financial management and execution.
63. A midterm review is scheduled for 2027 to provide an opportunity to assess, together with stakeholders, the progress, performance and any emerging impact of the project and any modifications to activities that may be needed.
64. Implementation support will be provided on a demand-driven basis as follow-up to supervision and any additional support required by the project will be made available.
65. A project completion report will be prepared no later than three months after the project completion date to assess the project's performance, including its relevance, effectiveness, efficiency and sustainability in accordance with the prevailing guidelines.

### **V. Legal instruments and authority**

66. A financing agreement between the People's Republic of China and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement will be made available prior to the session.
67. The People's Republic of China is empowered under its laws to receive financing from IFAD.
68. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

### **VI. Recommendation**

69. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on ordinary terms to the People's Republic of China in an amount of eighty million United States dollars (US\$80,000,000) on ordinary terms and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Alvaro Lario  
President

## **Negotiated financing agreement**

(To be made available prior to the session)



# Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions	
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility		
Outreach	<b>1 Persons receiving services promoted or supported by the project</b>				Project M&E	Annually	PMOs	Sustained investment from government to rural revitalization in the focused sectors/areas of this project	
	Males - Number	0	8700	17400					
	Females - Number	0	8700	26100					
	Young - Number	0	1740	13050					
	Indigenous people - Number	0	870	2175					
	Total number of persons receiving services - Number	0	17400	43500					
	Male - Percentage (%)	0	50%	40%					
	Female - Percentage (%)	0	50%	60%					
	Young - Percentage (%)	0	10%	30%					
	<b>1.a Corresponding number of households reached</b>				Project M&E	Annually	PMOs		
	Women-headed households - Number	0	870	2 175					
	Non-women-headed households - Number	0	16 530	41 325					
	<b>1.b Estimated corresponding total number of households members</b>				Project M&E	Annually	PMOs		
Household members - Number of people	0	60 900	128 325						
Project Goal Promote rural revitalization and enable smallholders to benefit from rural transformation through a private sector led green growth model which is inclusive and environmentally sustainable.	<b>Supported households reporting increased income from the project supported value chains</b>				Core Outcome Indicator(COI) survey	Baseline, Mid-term and completion	PMOs, M&E service provider	Continuity of economic, social and marketing stability in the target project area.	
	Total households - Percentage (%)	0	35%	80%					
	Female headed households - Percentage (%)	0	35%	80%					
	Indigenous households - Percentage (%)	0	35%	80%					
Development Objective Increase smallholder's capacity for increased production and improved quality, climate resilience and access to markets through the development of three selected value chains namely bamboo, camellia oleifera and medicinal plants in seven selected counties in the Hunan Province	<b>2.2.6: Households reporting improved physical access to markets, processing and storage facilities</b>				COI survey	Baseline, Mid-term and completion	PMOs, M&E service provider	Productions of smallholder farmers are linked to the processing and storage facilities supported by the project	
	HH reporting improved physical access to processing facilities	0	1400	5700					
	HH reporting improved physical access to processing facilities %	0	35%	70%					
	Size of HH (number of people)	0	4060	16530					
	HH reporting improved physical access to storage facilities	0	1400	5700					
	HH reporting improved physical access to storage facilities %	0	35%	70%					
	Size of HH (number of people)	0	4060	16530					
	<b>3.2.2 Households reporting adoption of environmentally sustainable and climate-resilient technologies and practices</b>				COI survey	Baseline, Mid-term and completion	PMOs, M&E service provider		
	Households - Percentage (%)	0	35%	80%					
	Households - Households	0	5250	28000					
	<b>2.2.1 Beneficiaries with new jobs/employment opportunities</b>				COI survey	Baseline, Mid-term and completion	PMOs, M&E service provider		Smallholder farmers are willing to use climate-smart technologies and join the selected value chains in support of private sector player, cooperatives and village-based entities
	Males - number	0	480	960					
	Females - number	0	720	1440					
Indigenous people - number	0	60	120						
Young - number	0	720	1440						
Total number of persons with new jobs/employment opportunities	0	1200	2400						
<b>SF.2.1 Households satisfied with project-supported services</b>				COI survey	Baseline, Mid-term and completion	PMOs, M&E service provider			
Households (%)	0	50%	75%						
Households-number	0	8 700	32 625						
<b>SF.2.2 Households reporting they can influence decision-making of local authorities and project-supported service providers</b>				COI survey	Baseline, Mid-term and completion	PMOs, M&E service provider	The baseline, mid-term and completion surveys could interview the same group of sampled respondents for empowerment assessment		
Households (%)	0	50%	75%						
Households (number)	0	8 700	32 625						
Household members(number)	0	25 665	96 244						
<b>IE.2.1 Individuals demonstrating an improvement in empowerment</b>				COI survey	Baseline, Mid-term and completion	PMOs, M&E service provider			
Total persons - Percentage (%)	0	25%	64%						
Total persons - Number of people	0	4350	24360						
Females - Percentage (%)	0	25%	60%						
Females - Females	0	2175	15660						
Males - Percentage (%)	0	25%	50%						
Males - Males	0	2175	8700						
Outcome 1 Increased production & productivity	<b>1.2.2 Households reporting adoption of new/improved inputs, technologies or practices</b>				COI survey	Baseline, Mid-term and completion		PMOs, M&E service provider	Smallholder farmers will be organized through cooperative, village or private sectors for collective action and for provision of services and support.
	% of Households	0	25%	50%					
	Number of Households	0	3750	17500					
<b>Output 1.1 -Inclusive &amp; Sustainable Production Management Plans developed</b>				Project M&E	Annually	PMOs, M&E service provider	The willingness of the smallholders, the cooperatives, village communes and private enterprises to participate in the project has been assessed by the County Governments		
Number of plans	0	8	8						
Output 1.2 - Area under sustainable & climate smart management practices increased (incl. women & youth led)	<b>Supported areas under sustainable &amp; climate adaptive management practices</b>				Project M&E	Annually	PMOs, M&E service provider	Cooperative, village or private sectors have the willingness and capacity to organize collective production with adopted sustainable & climate adaptive management practices	
	Bamboo production area-ha	0	2400	4800					
	Camellia oil tea area-ha	0	2500	5000					
	Medicinal herbs area-ha	0	1700	3500					
	<b>1.1.4 Persons trained in production practices and/or technologies</b>				Project M&E	Annually	PMOs, M&E service provider		
	Females-number	0	8100	16200					
	Males-number	0	5400	10800					
	Youth-number	0	2700	5400					
	Indigenous people -number	0	675	1350					
	Total-number	0	13500	27000					

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Outcome 2 Climate Adaptation & Enhanced CO2 sequestration	Households reporting improved access to climate adaptive infrastructures				COI's survey	Baseline, Mid-term and completion	PMOs, M&E service provider	Supported infrastructures are responsive to actual needs and with good O&M plan.
	Households - Percentage (%)	0	25%	55%				
	Households - Households	0	3750	19250				
	3.2.1: Tons of Greenhouse gas emissions (tCO2e) avoided and/or sequestered (one of optional mandatory COIs for climate finance project)				2019 Refinement to the 2006 IPCC Guidelines for National Greenhouse Gas Inventories, and FAO's X-ACT	Baseline, Mid-term and completion	PMOs, M&E service provider	Carbon sequestration will be increased through improved climate smart management of the plantations
	Hectares of Land	0	2 500	5 000				
	tCO2e/ha	0	37.7	37.7				
tCO2e/ 20 years	0	250 571	501 142					
CO2e/ha/year	0	1.9	1.9					
Output 2.1 -Key Infrastructure built & functional	3.1.4 Land brought under climate-resilient management				Project M&E	Annually	PMOs, M&E service provider	Local agro-entities and farmers have been fully consulted on the demand before construction
	Hectares of Land	0	425	850	Project M&E	Annually	PMOs, M&E service provider	
	2.1.5 Roads constructed, rehabilitated or upgraded							
	Length of roads (km)	0	500	1000				
Output 2.2- Model for carbon accounting developed	Bamboo and camellia plantations land monitored by the developed model for carbon monitoring and accounting				Project M&E	Annually	PMOs, M&E service provider	Model for carbon accounting developed
	Hectares of Land	0	980	980				
Outcome 3 Increased value addition & Market share	2.2.2: Supported rural enterprises reporting an increase in profit				COI's survey	Baseline, Mid-term and completion	PMOs, M&E service provider	Continuity of production and marketing stability of the three value chains in the target project area.
	Percentage of enterprise	0	60%	100%				
	Number of enterprise	0	8	8				
Output 3.1 -Inclusive Business Plans developed & financed	2.2.1: Supported rural enterprises reporting an increase in profit				Project M&E	Annually	PMOs, M&E service provider	The terms of engagement between the smallholders and cooperatives on the one hand and between the cooperatives and the private enterprises will be mutually beneficial and will ensure sustained growth and production of the model
	Entitles supported through inclusive, technically and financially feasible business plans (including enterprises and cooperatives)							
	Number of entities	0	7	14				
	Number of women-led entities	0	3	7				
	Households benefiting from productive investment through implementation of business plans				Project M&E	Annually	PMOs, M&E service provider	
Total households - number	0	2895	5790					
Women-headed hh-number	0	145	290					
Output 3.2- Enhanced Processing Capacity & Efficiency	CI 2.1.6: Market, processing or storage facilities constructed or rehabilitated				Project M&E	Annually	PMOs, M&E service provider	Social, environment and climate risks identified will be properly managed through implementation of necessary management plans along the project implementation.
	Processing facilities	0	7	15				
	Storage facilities	0	4	8				
	Total facilities	0	11	23				
Output 3.3 - Product diversification	Product exhibition and e-commerce platform established				Project M&E	Annually	PPMO, M&E service provider	
	Number of exhibition and e-commerce platform	0	3	5				

## Integrated project risk matrix

Risk categories and subcategories	Inherent	Residual
Political Commitment		No risk envisaged - not applicable
There is strong political commitment of both central and local governments to the project goals/objectives in promoting rural revitalization through thriving agro-industries to benefit the smallholders and rural economy, while maintaining eco-environmental sustainability and promoting food security, nutrition and health for the people. Rural revitalization envisions key milestones for 2035 and 2050, current and next Five-Year Plan (2026-2030) will surely adhere to the rural revitalization strategy, these and the overall green development strategy is the overarching government strategies for sustainable development that the project will contribute to. China is also committed to carbon peak by 2030 and neutral 2050. Necessary policies, various resources, and institutional performances are geared at the provincial and county levels towards aligning with these strategic goals and directions. No. 1 document of 2023 continues to give spotlight to rural development and rural revitalization support for disadvantaged areas and households will continue for the next 5 years. Meanwhile, there is strong stability and continuity of political party and government leadership and strategies, the current leadership just embarked on a new term. Despite the one party system being seen as not ideal from outsiders, the government and the people have confidence and trust in the current political system and commitment of the ruling party. During the project life of just 6 years, no major risks are foreseen in terms of political commitment. Counterpart financing for IFAD project has always been adequate in recent projects as result of the targeted poverty reduction strategy and rural revitalization strategy.		
Governance	Low	Low
<b>Risk:</b> Overall governance at the relevant levels (primary province and county) is strong. There are relevant and adequate rules and procedures guiding the planning and budgeting, management of finance, procurement, staff and institutional performance and accountability, fraud and corruption prevention and conviction. Dedicated management arrangements will be made at both provincial and county level for IFI funded development projects, where government attaches higher emphasis in accountability and performances. Project audit and performance M&E are commissioned by national ministries for almost all loan funded projects. Government institutions have gained experience from poverty eradication program and there is generally strong planning and implementation capacity at all levels. The ongoing rural revitalization strategy clearly aims to enhance rural governance. Combating corruption has been given very emphasis by President Xi himself since he took power, and stringent measures and policies were put into places. Risks are likely with regard to performance and accountability of staff in relevant institutions in the county level, which may result into inefficiencies and delays of processes and certain compliances.	Low	Low
<b>Mitigations:</b> The Project Leading Groups at county level and Inter-agency coordinating mechanism at provincial level will be established to supervise the performance of institutions and key individuals of the project, as well as the key indicators and important milestones on project performance, through biannual review exercises.		
Macroeconomic	Low	Low
<b>Risk:</b> China is on steady recovery path from the pandemic with forecasted economic growth rebound to 5.6% in 2023, with removal of mobility and surge in consumer	Low	Low

<p>spending in services. The country is relatively insulated from global food and energy market shocks, maintaining a modest inflation level. Monetary policy continues to support the recovery and ensure adequate liquidity. Fiscal policy continues to provide support to the recovery through tax cuts and exemptions. Growth momentum however remains fragile and dependent on continued policy support. Sluggish income growth, lingering uncertainty about the recovery in the labor market (e.g. youth unemployment rate at 20.4% in April 2023) and high household saving could hold back consumer spending. Externally, uncertain global growth path, tightening in financial conditions and heightened geopolitical tensions are major risks for macroeconomic development. Weak global demand also tempers export growth but shall recover when demand rebounds. The market performance of HGDP value chains can be influenced by overall economic situation.</p>		
<p><b>Mitigations:</b> The project will adopt an enterprise led approach in developing the value chain, an inclusive business development component will specifically energize the private sector in enhancing their market performance and productivity while outreaching to rural beneficiaries including youth and women to increase their income level from specialised production. Proper business and investment assessment taking into consideration of SECAP requirement will be part of the process in reviewing/approving investment to ensure economic viability as well as social and environmental sustainability.</p>		
Fragility and Security	Moderate	Moderate
<p><b>Risk:</b> China continues to improve in its fragility rating. No major fragile vulnerabilities are identified. Emerging risks as part of the pandemic consequences are: a) higher youth unemployment rate; b) persistent income inequality among population groups; c) high non-financial sector debt at all-time high of 287% of 2022 GDP. Aging and population peak may have long-term impact to the fragility of the country.</p>	Moderate	Moderate
<p><b>Mitigations:</b> (1) Tailored measures by government to promote youth employment (vocational training, loan subsidy, employment services etc.); 2) Expanding coverage and benefit adequacy of social safety nets; 3) further liberalize hukou system and deploy fiscal tools</p>		
Sector Strategies and Policies	Moderate	Moderate
Policy alignment	Low	Low
<p><b>Risk:</b> The project is well aligned with the government strategies and policies relating to green development, rural revitalization and food security. The project focus on fostering smallholder inclusivity in rural transformation and green development while also ensuring food security and consolidating poverty eradication achievements, which will contribute to sustainable rural transformation. Governments expects IFAD project to add value by demonstrating innovative ideas and practices that can contribute to the consolidation of no poverty and no hunger, and food security as part of the ongoing rural transformation in the country. The project will promote private sector led business models contributing to sustainable rural transformation, in addition, sustainable benefit generation for and sharing with vulnerable groups of the population, role of women and youth as well as thriving private sector and farmer organizations etc. are also at the core of the government policies for rural transformation. At the grassroot level however, the practices of pro-poor strategies might be not totally aligned with IFAD's new targeting policy in some cases when leading industries and better/scaled performers tend to be given more focus, alignment with IFAD desired practices and priorities in social inclusion and environmental requirements may still require external facilitation to be satisfactory and conducive for project achievements.</p>	Low	Low
<b>Mitigations:</b>		

Targeting strategy and ESCMP requirements and mitigation actions will be elaborated in the PIM for follow-up compliance. Training and follow up support at Start-up and during implementation will be enhanced to enhance comprehension and buy-in of project stakeholders to these strategies/requirements.		
Policy Development and Implementation	Moderate	Moderate
<b>Risk:</b> Government's strategies and policies, especially those relating to modernization and rural revitalization, are highly responsive to the needs of the rural people and visionary in making rural areas more attractive places for people to live. Despite favourable and upper-level government policies, the implementation of policies is subject to the absorbing capacity and commitment of local level governments, especially in outlining the specific implementing strategies, measures and actions. In less developed areas, the limitation in capacity of local government and staff may restrict the full attainment of policy expectations and results.	Moderate	Moderate
<b>Mitigations:</b> Institutional capacity building, demonstration, enhanced monitoring and evaluation plus learning through project implementation will be helpful to mitigate policy implementation risks. Having an oversight and coordinating mechanism at county and provincial level will also be conducive for policy implementation in favor of the project.		
Environment and Climate Context	Moderate	Low
Project vulnerability to environmental conditions	Moderate	Low
<b>Risk:</b> The project involves agroforestry plantation in mountain areas and will have limited sensitivity to environmental conditions. Soil and water erosion are always a risk in any agricultural project, notably in mountain but appear limited in the area and well regulated. In addition, the cultivation of bamboo forests and oil tea pays attention and contribute to soil conservation as forestry planting also helps to improve water yield and ecological carbon sequestration, thereby reducing vulnerability to such erosion. The resources involved in the project are mostly renewable, post-production also does not generate excessive residues/waste that may have negative impact on environment. Civil work and infrastructure are of relative limited scale and will be subject to government strong safeguards	Moderate	Low
<b>Mitigations:</b> The project has formulated a detailed ESCMF and ESCMP reviewing government own safeguards and additional specific measures including several to mitigate vulnerability to environmental conditions: i) implementing government water and soil conservation stringent policy and ensure that erosion control and drainage measures will be part of the process and contracting requirements for all infrastructures. If large roads are built in sensitive areas, impact assessment will be conducted; ii) the passageways which are built on the plantations serve the dual purposes of transporting the bamboos down the hills and act as fire break, thereby reducing vulnerability to wild fire. iii) Camellia Oleifera new plantation will be on used or degraded land thereby also positively contributing to reduce vulnerability. iv) The medicinal plants will be planted in the shade of trees, in commercial forest, thereby with reduced erosion risks thanks to trees; The project will promote integrated pest and input management to ensure sustainable input management/mitigate any pollution risks.		
Project vulnerability to climate change impacts	Moderate	Low
<b>Risk:</b> The project area and involved agroforestry crops are exposed to climate-related hazards including drought, flooding, high temperature, and low temperature disasters, which are becoming more frequent and of sever in magnitude. However, the project is not situated in the most exposed and fragile area as it is in hilly areas rather than mountains (so no steep slope and elevation below 500 m as per China definition). The occurrence of weather-related hazards affecting crops, forestry and biodiversity is low. The population is not too sensitive as it is	Moderate	Low

not mainly depending on agricultural income, poverty is low with strong social protection mechanisms and enabling environment. Finally, adaptive capacities are strong coming from government, community and farmers levels, including pre-disaster warning, post disaster support and agricultural insurance (supported by the project) that are widely carried out in the project area.		
<b>Mitigations:</b> a).Focus on key areas and vulnerable populations, to apply hazard identification, monitoring, early warning, and emergency preparedness for areas affected by natural disasters; b) introduce efficient irrigation facilities, water storage and water monitoring systems in areas where the project support tree crops sensitive to drought situation and consider climate when screening relevant tree/crop varieties c) train water user associations in managing climate risks; d) explore weather index insurance to address the risks of climate change and reduce farmers' losses; e) ESCMF-P makes provision to incorporate climate change factors and nature-based solutions into infrastructure improvements to increase resilience to natural disasters and the impacts of climate change: f) Finally, the project will promote the use of supporting trees which can effectively prevent bamboo bending, lodging, and other phenomena caused by rain and snow weather.		
Project Scope	Moderate	Moderate
Project Relevance	Moderate	Moderate
<b>Risk:</b> The project is highly relevant to the government strategy of rural revitalization in its pursuit for inclusive and thriving agribusiness and ecologically liveable countryside in line with the "two-mountain theory" of president Xi. The mains risks pertain to the fact that the benefit generated by the project may not adequately attract/support those economically less active households for their increased income, also their overall benefit sharing with engaged enterprises may not be attractive enough for them to effectively invest/engage in the value chains, because: (i) income from agricultural production constitute a relative declining proportion of the rural people, the project's contribution to their household income increase could be limited; (ii) many remaining vulnerable with low income either have their land transferred or are lack of labour; (iii) re-financing arrangements may not be conducive in engaging smallholders who has potential and interest in generating income from managing tree crops; (iv) mainstreaming themes and non-tangible benefits maybe given less emphasis during implementation thus bring down project effectiveness and impact	Moderate	Moderate
<b>Mitigations:</b> (i) Promoting diversified but private sector led business models with multiple options of benefiting approach to allow project generated dividends benefiting different kind of vulnerable households. (ii) Expand income generating opportunities for the target groups beyond production, labor, primary processing, employment etc.; (iii) allow reallocation of resource to better performing counties and diversify business models to suit evolving context under the key criteria of inclusiveness and market access; (iv) maximize project support to cooperatives that can enrol adequate number for smallholders and adopt standardize operation		
Technical Soundness	Moderate	Moderate
<b>Risk:</b> The models are not benefiting enough the smallholders and the socio-environmental safeguards aren't followed	Moderate	Moderate
<b>Mitigations:</b> The Governments at the Provincial and county level are committed to consolidating the achievements of poverty alleviation, green growth and neutral carbon pathways through a private sector led transformative model. The Governments will channel their support and resources for the development and growth of the selected value chains through the government-owned County Development Investment Company (CDIC) which are committed to making equity		

<p>investments and attract private enterprises that have sound environmental and social management system.</p> <p>The production and business plans preparation, stakeholder engagement and ESG enforcement will ensure that terms of engagement between the smallholders and cooperatives on the one hand and between the cooperatives and the private enterprises will be mutually beneficial and will ensure sustained growth and production of the model.</p> <p>The market dynamics will continue to support the expansion in the demand of the three selected value chains and bring commensurate benefits from enhanced production and processing of these high value-added commodities.</p>		
Institutional Capacity for Implementation and Sustainability	Moderate	Low
Implementation Arrangements	Moderate	Low
<p><b>Risk:</b></p> <p>Overall implementation arrangement with government institutions will be in line with established and proved arrangements for donor/IFI financed projects. The potential risks are: a) the actual functioning and role of government institutions in this project where the private sector is taking lead in financing businesses however requires clearer defining; b) introducing a financing intermediary in the implementation and supporting smallholders through private sector could be the main risk factors; c) role of technical agencies and mechanism of their entry into project implementation to be clarified; d) capacity in overseeing business models, mainstreaming themes, knowledge and M&amp;E could be lacking among PMOs</p>	Moderate	Low
<p><b>Mitigations:</b></p> <p>Design has defined the co-financing arrangement with private sectors through a BP approach. Actions to mitigate implementation risks include: a) intensified start up support and training; b) involvement of local technical experts called upon by PPMO to provide technical guidance to project implementation; c) take full advantage of CDIC experience and expertise in business investment; d) soonest finalization of PIM by PPMO with the level of details/specifics that can best guide activity implementation; e) early appointment of staff with designated roles and responsibilities.</p>		
Monitoring and Evaluation Arrangements	Moderate	Low
<p><b>Risk:</b></p> <p>Risk of delayed implementation of MIS and M&amp;E system is present. Efficiency and collaboration by private sector in M&amp;E remains uncertain.</p>	Moderate	Low
<p><b>Mitigations:</b></p> <p>The Project should set up the MIS and M&amp;E system at the first months of implementation before operations roll out. MIS/M&amp;E samples and experiences of ongoing China projects will be referenced and fully shared for HGDP. PMOs should take full ownership and accountability of the M&amp;E work to ascertain quality and more importantly make use of the M&amp;E information. Support of potential service providers will be explored and possibly contracted for project benefit. Periodical reports, internal workshops and knowledge products will need to make full use and build on the M&amp;E information. ICO follow up and support will be given to HGDP. PIM will be further detailed before its official dissemination to counties to reflect the necessary provisions for M&amp;E requirements.</p>		
Project Financial Management	Moderate	Moderate
Project Organization and Staffing	Substantial	Substantial
<p><b>Risk:</b></p> <ul style="list-style-type: none"> <li>• Staff capacity of PPMO and especially in the counties may not be on the required level.</li> <li>• The financial operations of the project within the PPMO and County PMOs will be distinct, and ring fenced from the country public financial management. A Project Implementation Manual which describes the financial management and procurement arrangements is outlined in Annex 8 Volume II.</li> <li>• providers proposed for implementing Components 1 and 2 will have capable</li> </ul>	Substantial	Substantial

staff and a financial management (FM) system for managing project funds with qualified Finance staff, safeguarding assets and providing periodical financial reports and other required reports to the PPMO.		
<b>Mitigations:</b> <ul style="list-style-type: none"> <li>• FM staff at PPMO and counties will have detailed job descriptions and detailed FM manual (in PIM).</li> <li>• Start-up training, and continuous support missions from IFAD.</li> <li>• Experience exchange between PMOs on FM in Hunan province.</li> </ul>		
Project Budgeting	Moderate	Moderate
<b>Risk:</b> <ul style="list-style-type: none"> <li>• Preparation of AWPB might be delayed due to staff capacity and approval procedures.</li> <li>• AWPB might not be realistic or not achievable.</li> <li>• The budget preparation and revision process have rigorous procedures within the entity and may cause strict control but some delays in loan disbursement.</li> </ul>	Moderate	Moderate
<b>Mitigations:</b> <ul style="list-style-type: none"> <li>• Training to PPMO and CPMO staff on preparation of AWPB.</li> <li>• A mechanism in place to timely capture the progress of expenditure Vs. budget.</li> </ul>		
Project Funds Flow/Disbursement Arrangements	Substantial	Substantial
<b>Risk:</b> <ul style="list-style-type: none"> <li>• Delay during the start-up of project activities.</li> <li>• Delay in submission of IFRs and WAs to IFAD.</li> <li>• DA and project account arrangements cannot be clear to the project staff.</li> </ul>	Substantial	Substantial
<b>Mitigations:</b> <ul style="list-style-type: none"> <li>• Retroactive financing will be suggested to ensure the timely launching of the project.</li> <li>• Ensure good accounting system that capable to provide IFR and WA in required formats.</li> <li>• Capacity building workshops on preparation of IFRs.</li> <li>• IFR timing will be set 30 days rather than 45 in FMFCL.</li> <li>• FM manual will provide detailed guidance on DA and PA arrangements.</li> </ul>		
Project Internal Controls	Moderate	Moderate
<b>Risk:</b> <ul style="list-style-type: none"> <li>• Big bulks of loan funds will be concentrated in 3 cost categories (Works, GSI &amp; Materials) and procurement process transparency can be challenging.</li> <li>• Limited suppliers for goods and services and less capacity may lead to overpayment for services.</li> <li>• Staff capacity and awareness of anti-corruption policy.</li> </ul>	Moderate	Moderate
<b>Mitigations:</b> <ul style="list-style-type: none"> <li>• Detailed PIM with detailed FM and Procurement procedures along with extensive training on PIM will be provided to the project staff.</li> <li>• Segregation of duties in the project will be set up.</li> <li>• External audit of the project to be conducted annually.</li> <li>• IFAD anti-corruption policy will be included in PIM and training delivered to staff and stakeholders.</li> <li>• Effective computerized software shall be used to ensure the reconciliation of account and chasing of payment.</li> </ul>		
Project Accounting and Financial Reporting	Moderate	Moderate
<b>Risk:</b> <p>Financial reporting is not produced properly and timely due to manual accounting. Cost categories cannot be properly reflected in the financial reporting. Risk that accounting systems – including polices and standards – are not integrated and reliable, leading to inaccuracies in financial records and that reasonable records are not prepared, issued and stored, leading to lack of informed decision-making.</p>	Moderate	Moderate



<b>Mitigations:</b> • The accounting software already used in other Chinese project will be set up to meet to IFAD accounting and financial reporting requirements. Including cost categories.		
Project External Audit	Moderate	Moderate
<b>Risk:</b> The provincial SAI capacity cannot be of an acceptable level and quality of audit reports cannot be acceptable, reports are provided in local language and not in the FA official language, the reports provided with delay.	Moderate	Moderate
<b>Mitigations:</b> • The Hunan provincial NAO will be responsible for external audit and IFAD will communicate IFAD requirements on financial reporting and auditing to the auditors.		
Project Procurement	Moderate	Moderate
Legal and Regulatory Framework	Moderate	Moderate
<b>Risk:</b> Legal, regulatory and policy framework are clear and mainstreamed with international procurement practices. There are complete system framework on procurement and corresponding laws and regulations in China. The domestic supply market is sufficient and the conditions for the implementation of international funded projects are favorable. Open Tendering is most common competitive method that prescribed in China Tendering and Bidding Law, of which the thresholds are not less than CNY4 million for Works, CNY2 million for Goods, and CNY1 million for Services. The other methods include Bidding by Invitation, Shopping, Competitive Negotiation, etc. The direct contract can be applied in special cases based on sufficient reasonable ground. <b>Risk:</b> - IFAD's Consulting Services methods (QCBS/LCS/CQS/QBS/FBS) are not indicated in the National Procurement Law. - The minimum of advertising time prescribed in China Tendering and Bidding Law are shorter than the requirement of IFAD. For example, the national laws prescribed that minimum of 20 days for national Open Bidding (competitive); minimum of advertising time from 10 to 20 days for less competitive procurement processes.	Moderate	Moderate
<b>Mitigations:</b> - The Project Procurement Arrangement (PPA) will specify provisions for application of different procurement methods and direct contracting/single source selection, satisfying IFAD requirements. - In term of efficiency and practicability, the application of the national advertising rules will have limited impact on the project.		
Accountability and Transparency	Moderate	Moderate
<b>Risk:</b> The risk that accountability, transparency and oversight arrangements (including the handling of complaints regarding, for example, SH/SEA and fraud and corruption) are inadequate to safeguard the integrity of project procurement and contract execution, leading to the unintended use of funds, misprocurement, SH/SEA, and/or execution of project procurements outside of the required time, cost and quality requirements. <b>Risk:</b> - The stakeholder support to strengthen integrity in procurement is relatively weak due to the lack of enough channels for engagement and feedback that are promoted by the government.	Moderate	Moderate
<b>Mitigations:</b> - Promote anti-corruption framework, establish internal compliance measures or support integrity and ethical behavior in public procurement.		

Capability in Public Procurement	Moderate	Moderate
<p><b>Risk:</b> The Provincial Project Management Office is instituted in the Provincial Forestry Department of Hunan, which is experienced in implementing international financial organizations projects. The PPMO is basically capable of implementing the procurement of IFAD funded projects. The sustainable procurement capacity building for all the procurement participants at each level will be taken into account throughout the entire project lifecycle. A provincial procurement agency should be recruited to provide the professional services for project procurement as early as possible.</p> <p><b>Risk:</b> - Less training, advice and assistance could be directly acquired from government department relate to procurement. - The professional certifications regarding to the government procurement department are absent. - The performance management system still needs to be improved, more comprehensive monitoring indicators should be applied for performance assessment.</p>	Moderate	Moderate
<p><b>Mitigations:</b> - Develop the capacity of procurement officials by increasing the professional procurement training at project level. - The system or mechanism should be established for assessing the capacity and profession of the government procurement department, for example, through the measures of training, examination or authentication. - It is necessary to reform and establish the regulations for supporting and improving the public procurement system. For example, put the Post Procurement Evaluation into practice.</p>		
Public Procurement Processes	Moderate	Moderate
<p><b>Risk:</b> Procurement of Goods, Works and Consulting Services financed by IFAD will be involved in Procurement Plan and carried out in accordance with the IFAD Procurement Guidelines, IFAD Procurement Handbook and relevant procurement policy of IFAD. China National Procurement Laws and corresponding implementation manuals will be applied for the procurement financed by government counterpart. The procurement methods to be applied, prior review arrangements, and the thresholds for different procurement methods will be taken into account at detailed design stage and the Project Procurement Arrangement (PPA) will be developed to guide the project procurement. While the procurement processes are implemented on the government public trading platform, the Project Implementation Agency should coordinate with the platform to ensure that more flexible processes and procedures are applied for IFAD funded project to comply with IFAD Procurement Guidelines, IFAD Procurement Handbook and its subsequent. The platform should be able to implement the electric procurement processes which could serve as an alternative procurement approach.</p> <p><b>Risk:</b> - The sustainability criteria applied during the planning stage are not sufficiently to ensure value for money. - The discrepancies exist between national procurement processes and IFAD's. - Delays in contract implementations are often happened due to objective and subjective matters</p>	Moderate	Moderate
<p><b>Mitigations:</b> - Improve the bidding document containing the sustainability to ensure the value for money at planning stage. - Combine the national rules and IFAD's as far as possible from the principle of value for money. Some innovative measures could be introduced in place to bridge these discrepancies in practice. - Monitoring closely contract implementation progress with periodic progress reports and follow-up actions.</p>		
Environment, Social and Climate Impact	Moderate	Low

Biodiversity Conservation	Moderate	Low
<b>Risk:</b> The risk that the project may cause significant threats to or the loss of biodiversity, availability of diversified nutritious food, ecosystems and ecosystem services, territories of the indigenous peoples, or the unsustainable use/production of living natural resources. The Project is fully dependent on production of living natural resources and deal with agro-forestry system so requires attention.	Moderate	Low
<b>Mitigations:</b> The project will only intervene in areas that are already under some kind of agro-forestry system or in degraded areas for limited new. Zoning will also be done and ensure that the project does not intervene in protected areas or red ecological zoning. As per Wild Plants Protection Regulations (2017 Amendment), any entities or individuals are prohibited to illegally collect wild plants or damage their growing environment. Only bamboo is harvested for woody material and the harvesting practices promoted are to ensure sustainable bamboo forest management. Digging bamboo shoots and thinning bamboo forests are commonly used methods for managing bamboo forests, which can effectively prevent the disorderly expansion of bamboo and increase the yield of bamboo shoots and the main grain of bamboo and wood. Finally, the project will promote use of supporting trees which can effectively decrease pest, limit propagation and increase the species diversity of bamboo forests. Furthermore, it will not undertake activities that may cause significant threats to or the loss of biodiversity and ecosystem and its services. By adopting good agricultural practices, the project will also be conducive to the sustainable use of natural resources		
Resource Efficiency and Pollution Prevention	Moderate	Moderate
<b>Risk:</b> The project is sited in an existing agricultural area, with low environmental and/or social sensitivity. Risks related to resource use and pollution includes 1. Use of fertilizer in plantation but this will be limited as mostly organic, and no pesticides used. 2. water use for irrigation: The irrigation systems will be of small scale and use surface water with negligible impact on existing resources. 3. in enterprise: the establishment of enterprise parks will assist in pollution prevention, energy efficiency, solid waste disposal and enforcement and monitoring of quality standards.	Moderate	Moderate
<b>Mitigations:</b> Project supported Business Plan and partnership will elaborate on input use and pollution prevention measures in production and processing. As envisaged in SECAP guidance, project will promote practical options including zero-growth of fertilizer use and integrated fertility management combining with non mineral options & use of micro-organisms & integrated farming; Integrated Pest Management plan to reduce use of pesticide ; Potential dedicated digital advisory to recommendation to specific conditions / micro dosing; Utilization of planting waste and promotion of energy saving, renewable energy ; promoting efficient water management, training water user associations and piloting water monitoring in areas of water scarcity		
Cultural Heritage	Low	Low
<b>Risk:</b> The project activities do not foresee impact to degradation or loss of resources of historical, religious or cultural significance. Project is targeting to use national heritage knowledge and medicinal plants which are not tight to specific areas. However, project may identify and wish to work on some cultural farming systems practices, varieties or knowledge along for instance valorization of medicinal crops,	Low	Low
<b>Mitigations:</b> If a project proposes to utilize cultural heritage / heritage of IP, what is not foreseen in this project, including knowledge, innovations or practices of local communities to benefit the project or for commercial purposes, communities		

should be informed of: (i) their rights under national law; (ii) the scope and nature of the proposed use; and (iii) the potential consequences. FPIC of the local communities should be sought, and arrangements should be made for fair and equitable sharing of benefits.		
Indigenous People	Moderate	Low
<b>Risk:</b> The project area has limited number of ethnic minority people (8.39%), among them, 74.2% inhabit in Yuanling County, and they will share the priority of project targeting. Furthermore, they are integrated in the mainstream of the society and almost no differentiation is made to the ethnic minority people. The government applies preferential policies and support to ethnic minorities in social, cultural and economic development as compared to the majority of Han. There is no risk anticipated of the project to the ethnic minority people in the project areas. However, the project may be sited within commuting distance of ethnic minority and offer them employment.	Moderate	Low
<b>Mitigations:</b> An IPPF has been formulated as well as an FPIC in a culturally appropriate manner. FPIC of the local communities should be sought, and arrangements should be made for fair and equitable sharing of benefits.		
Labour and Working Conditions	Moderate	Low
<b>Risk:</b> Labour and Working Conditions are highly regulated and there is no evidence of violation or deviation reported in relationship with the project design.	Moderate	Low
<b>Mitigations:</b> Standard contract templates for labor will be developed before the start of the project and will require strict implementation during project implementation. The project's beneficiary feedback and grievance redress system will be put in place in complementarity with the government's vertical complaint system. The personal safety protection would be strictly implemented to ensure the safety of labors. The workers involved in the project will sign contracts. Wages and salaries are negotiated by both parties and implemented according to industry standards. There are early warning and defensive measures for emergencies. If necessary, arbitration and appeal can be conducted.		
Community Health and Safety	Moderate	Low
<b>Risk:</b> The risk that the project may cause significant adverse impacts on the physical, mental, nutritional or social health/safety status of an individual, group, or population. Major risks here include: 1) construction of building Any construction envisioning in the project need to have construction permits which require an environmental impact assessment and selection of carefully selected areas with limited exposure to climate/natural risks; 2) Traffic: Work track, dirt roads and gravel roads, planned in bamboo forest are used only for workers to deliver bamboo shoots and bamboo woods and will be small so it is expected that maximum 10 people may use one track a day. 3) Labor influx: additional labour will be required to develop the infrastructure, intensify agro-forestry work and engage in enterprise park processing activities; however, considering rural density of population in China, the project should be able to source labour locally to ensure additional labor can commute daily and won't affect the existing community setting.	Moderate	Low
<b>Mitigations:</b> Government environmental management systems are designed to protect public and worker safety against the potential risks associated with exposure to toxic chemicals, hazardous wastes, and otherwise dangerous materials Measures have been taken to reduce the exposure of workers and community members to hazardous materials in the environment during the implantation of the project, to safeguard human health and community safety. In the construction of public infrastructure, the design, construction, and operation of structural elements comply with national legal requirements and the IFAD's "Environmental,		

<p>Health and Safety Guidelines", while also considering the safety risks to third parties and affected communities. Construction insurances are purchased as required. The selection of the location of the warehouse for storing fertilizers should meet the requirements of GB/T 42958-2023 "Instructions for the Use of Fertilizer Products". The warehouse should be far away from water sources and residential areas, should be built in a place with high terrain and no water, should be equipped with fire equipment and first aid medicine boxes, should have good ventilation conditions and install lighting system. For labor influx, Corporate company bidding to join the project and enterprise park will need to include assessment of labor needs and plans to source labor, prioritizing local labor and including appropriate mitigation and management measures to address risks and potential impacts on the health and safety of communities arising in case of limited influx of project workers.</p> <p>The construction will be designed and constructed by competent professionals, and certified or approved by competent authorities, having clear construction safety guidelines. This should also be clearly stated in the procurement of such constructions.</p>		
Physical and Economic Resettlement	Moderate	Low
<p><b>Risk:</b> The risk that the project may cause significant adverse physical, social, cultural or economic impacts, especially for marginalized groups, from land acquisition, and involuntary loss of land, assets, access to assets, income sources, or means of livelihoods.</p> <p>No resettlement is foreseen under the project but the project may lead to minor economic displacement and temporary change of land tenure arrangement. The allocation of land for roads is limited considering their limited width (1.5 to 3.5 meter max, so maximum 2% of an average smallholder plot) and possible compensation for road and enterprise constructions will follow government regulations; smallholder farmers may decide to sign long term land lease with the enterprise but this will not change ownership and will be done through a free and prior informed consent and dedicated government procedure</p>	Moderate	Low
<p><b>Mitigations:</b> Minimize economic displacement during infrastructure construction, applying government measures favoring construction in barren land / existing constructions. For irrigation, this will also include ensuring transparent, informed and documented discussion with all farmers benefitting from the planned irrigation system to reach voluntary signed consent with land user rights holders for placing water ponds or pools on their land. project will review and strengthen property right as needed and, in case of land dispute, do not engage in infrastructure or production investments in concerned land unless dispute settled formally through fair, open, and transparent means. In case of economic displacement to construct infrastructure, ensure appropriate compensation as per province standards following the principle of the national unified guarantee of the basic living standards and property rights and interests of the expropriated farmers.</p>		
Greenhouse Gas Emissions	Low	Low
<p><b>Risk:</b> The project will aim to contribute to the net reduction of Greenhouse Gas as result of increasing biomass by rehabilitating and improvement the management of the tree crops for increased carbon sequestration and by promoting energy efficient irrigation and transformation infrastructure, including use of renewable energy .</p>	Low	Low
<p><b>Mitigations:</b> Emissions will be tracked as per project Log frame and component dedicated to improve monitoring of carbon storage in bamboo plantations</p>		
Vulnerability of target populations and ecosystems to climate variability and hazards	Moderate	Low
<p><b>Risk:</b></p>	Moderate	Low

Based on historic data analysis, the project area has found become warming as result of global climate change. Especially in the past ten years the warming trend is much more obvious. There is an obvious upward trend that the annual rainfall is also increasing, result in more frequent rainstorm. Increased high-temperature days throughout the year and prolonged low temperature days were also observed.		
<b>Mitigations:</b> The project will take advantage of proven interventions and experiences in mitigating the vulnerability of the target groups to ecosystem and climate impacts in the country programme and incorporate the good practices in the final design. For instance, it will also invest in climate resilient practices, climate advisory / alert systems, adoption of disaster preparedness plan and promote use of adapted insurance.		
Stakeholders	Moderate	Moderate
Stakeholder Engagement/Coordination	Moderate	Moderate
<b>Risk:</b> There is risk that some stakeholders are not adequately engaged due to the limitation in their business coverage, such as rural finance and insurance providers, technical extension providers, participating line agencies and other entities along the value chains that the project promoting.	Moderate	Moderate
<b>Mitigations:</b> (i) Government will make value chain development plan to outline potential stakeholders in the specific value chains and analyse their roles; (ii) Project workshop will be organized back to back with SIS missions to enhance clarity of project implementation requirements and allow participation and coordination with relevant stakeholders; (iii) Project management offices are encouraged to reach out to relevant partners to support the implementation of business plans; (iv) Apps developed to allow better dissemination of project related information and feedback/response from stakeholders.		
Stakeholder Grievances	Moderate	Moderate
<b>Risk:</b> Systems and opportunities are in place for stakeholders to express their opinions and complaints emerged during their interaction and participation of the project. Major project procurements are disclosed for publicity before deals are confirmed. Project Apps accepts feedback from users. Government agencies have open channels to receive complaints and reports of misconduct during project implementation. Regular project workshop involves relevant stakeholders. The risk of suppressed or unattended stakeholder complaints is moderate.	Moderate	Moderate
<b>Mitigations:</b> VIGs and CPMOs will conduct regular notifications to the villagers on the planned activities and means/criteria of participation.		
Political Commitment		No risk envisaged - not applicable
There is strong political commitment of both central and local governments to the project goals/objectives in promoting rural revitalization through thriving agro-industries to benefit the smallholders and rural economy, while maintaining eco-environmental sustainability and promoting food security, nutrition and health for the people. Rural revitalization envisions key milestones for 2035 and 2050, current and next Five Year Plan (2026-2030) will surely adhere to the rural revitalization strategy, these and the overall green development strategy is the overarching government strategies for sustainable development that the project will contribute to. China is also committed to carbon peak by 2030 and neutral 2050. Necessary policies, various resources, and institutional performances are geared at the provincial and county levels towards aligning with these strategic goals and directions. No. 1 document of 2023 continues to give spotlight to rural		

<p>development and rural revitalization support for disadvantaged areas and households will continue for the next 5 years. Meanwhile, there is strong stability and continuity of political party and government leadership and strategies, the current leadership just embarked on a new term. Despite the one party system being seen as not ideal from outsiders, the government and the people have confidence and trust in the current political system and commitment of the ruling party. During the project life of just 6 years, no major risks are foreseen in terms of political commitment. Counterpart financing for IFAD project has always been adequate in recent projects as result of the targeted poverty reduction strategy and rural revitalization strategy.</p>		
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