
President's report
Proposed loan
People's Republic of China
Gansu Demonstrative Rural Revitalization Project
(GD2RP)

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Action: The Executive Board is invited to approve the recommendation contained in paragraph 82.

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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 | 29-04-2024

Financing summary

Initiating institution:	IFAD
Borrower/recipient:	People's Republic of China
Executing agency:	Department of Agriculture and Rural Affairs of Gansu Province
Total project cost:	US\$228.43 million
Amount of IFAD Borrowed Resource Access Mechanism (BRAM) loan:	US\$88.00 million
Terms of IFAD loan:	Ordinary, with a maturity period of 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
Contribution of borrower/recipient:	US\$130.51 million
Contribution of private sector:	US\$9.92 million
Amount of IFAD climate finance:	US\$53.75 million

I. Context

A. National context and rationale for IFAD involvement

National context

1. Decades of growth and development have resulted in China bringing the percentage of its population living in poverty – i.e. living on US\$1.9 per day – to below 1 per cent. However, 24.7 per cent of the population still live below the poverty line of upper-middle-income countries. Two thirds of these people reside in rural areas and are vulnerable to falling back into poverty due to natural disasters induced by climate change.
2. Agricultural growth has significantly contributed to China's attainment of Sustainable Development Goal (SDG) 1 (no poverty) and progress on SDG 2 (zero hunger), despite the sector's declining share in overall national GDP and the negative impact and pressure on the environment.
3. The Government adopted a Rural Revitalization Strategy in 2017, aimed at achieving its vision of a more affluent and prosperous society by 2050. This strategy focuses on bridging urban-rural gaps and transforming rural areas into attractive places across multiple dimensions, including the economic, eco-environmental, social and ethical, governance- and resilience-related dimensions. Considering China's commitment to transitioning from a resource-intensive economy to a green economy, and its commitment to prioritizing quality in its growth model, challenges are faced in the implementation of the Rural Revitalization Strategy, especially in areas such as low productivity, environmental sustainability, climate resilience and rural-urban inequality.
4. The province of Gansu lags behind other provinces in terms of development. The most recent data indicate Gansu's total GDP as ranking 27th among the country's 31 provinces and municipalities, and its per capita GDP as ranking lowest. Farmers' net income corresponded to 60.5 per cent of the national income level in 2022, and the agricultural sector generated 45 per cent of rural household income in 2020.
5. Agriculture is, however, vulnerable to environmental impacts and lacks the implementation of modern technology. Smallholder farmers face challenges in market linkages and sustainable practices. Efforts are being made to promote agribusinesses, enhance research and establish a legal framework for land tenure and asset rights.
6. The Ministry of Agriculture and Rural Affairs is primarily responsible for the development of agriculture, rural areas and farmers. Its provincial department, the Department of Agriculture and Rural Affairs (DARA), leads its work in the province.

Special aspects relating to IFAD's corporate mainstreaming priorities

7. In line with IFAD's mainstreaming commitments, the project has been validated as:
 - Including climate finance
 - Gender-transformational
 - Youth-sensitive
 - Including adaptive capacity
8. **Gender.** The latest government survey showed that rural women play a more significant role in economic and social development compared to a decade ago. Despite conducive government programmes for women's development, challenges remain in terms of inequality in opportunities, rights and socioeconomic participation, and discrimination. The urbanization process has also resulted in low rural wages, increased housework for women and the feminization of agriculture.

9. **Youth.** Rural youth typically experience difficulties such as low educational attainment, limited employment opportunities and access to social services, and cultural marginalization. Many rural young people relocate to urban areas in search of better livelihoods, but often encounter issues of social isolation. Some remain in their home counties but struggle to adapt to the changing economic and social context.
10. **Climate change and the environment.** The province of Gansu is highly impacted by climate change. It is located in the northwest of China, where the climate is arid and semi-arid, and precipitation is scarce and uneven. Gansu is also facing increasing risks from extreme weather events and desertification, due to rising temperatures and more frequent drought, which reduces forest coverage.
11. Gansu is a geographically diverse and environmentally fragile province that faces challenges concerning water scarcity, soil erosion and pollution. However, in recent years, the province has made considerable efforts to safeguard and restore its ecological environment, and to promote sustainable and low-carbon development. The project will leverage these initiatives to further enhance climate resilience.
12. **Ethnic minorities.** Ethnic minorities present a diversity of sociocultural heritage. According to the Seventh National Population Census, conducted in 2020, Gansu is home to 44 ethnic minority groups that comprise 2.38 million people, which is equivalent to 9.3 per cent of the region's total population.
13. In most rural areas, ethnic minorities have benefited from the preferential policy of the Government, which has provided for infrastructure construction, ecological protection, cultural preservation and tourism development, resulting in improved living conditions, increased income and enhanced social participation of rural ethnic minorities through various interventions. These interventions continue to be pursued by the Government to ensure employment and job stability among rural ethnic minorities, and to enhance their human capital and economic potential.

Rationale for IFAD involvement

14. The rural revitalization process presents opportunities for investments in modernizing agricultural production at scale, and in revitalizing rural livelihoods in a climate-resilient and community-governed manner. The modernization of agriculture is expected to lead to improved agricultural efficiency, reduced operating and financial costs, and increased income for both individual households and leading players of the agricultural value chains.
15. The adoption of green agricultural practices is key to addressing environmental pollution, non-sustainable use of natural resources, losses and waste derived from production and post-harvest management, negative impacts of the agricultural sector on the ecosystem and biodiversity, and vulnerability to the impacts of climate change.
16. IFAD has the comparative advantage of having experience in carrying out inclusive and pro-poor rural development that targets rural vulnerable and disadvantaged groups, while also focusing on community-governed mechanisms, climate-smart and value chain-led agricultural development, institutional development, creation of public-private partnership models, and capacity-building of smallholder farmers and their organizations.
17. The Government has called upon IFAD to bring its expertise and innovative approaches to support the rural revitalization process. This is to be done by demonstrating the replicable development of business models with innovative and scaling-up potential. In addition, the project will foster the building of sustainable rural institutions by leveraging financing in project areas, and will contribute to global public goods in terms of reducing carbon emissions, contributing to environmental conservation, and generating knowledge and experience in arid and semi-arid agriculture and in adaptive rural community-building and governance.

B. Lessons learned

18. The recently conducted country strategy and programme evaluation provided valuable lessons for the project design, including the need for:
 - Continued strategic support for inclusive agricultural value chains through different modalities, with targeted support to cooperatives through inclusive mechanisms and sustainable capacity-building.
 - A focus on sustainable natural resources management and climate change mitigation and adaptation, within the context of rural revitalization in China and creation of global public goods beyond China.
 - Projects to focus on environment and natural resources management and climate change adaptation, targeted at marginal areas and smallholders.
19. Additional lessons were drawn from the regulatory impact assessments of recently completed and ongoing IFAD projects in China. These are:
 - The importance of rural infrastructure for production improvement that benefits target groups effectively.
 - The need for alignment with government programmes and strategies to ensure project success in achieving results, mobilizing cofinancing and ownership.
 - Regarding the value chain approach, that smallholders' activities will be profitable and sustainable mostly when they work collectively and/or establish business linkages with agribusiness entities in value chains that facilitate the provision of services and access to markets.
 - The importance of focusing on climate, as climate adaptation measures are imperative in project design and implementation, including production diversification, climate-resilient infrastructure and facilities, insurance, and adoption of agronomic and engineering technologies.

II. Project description

A. Objectives, geographical area of intervention and target groups

20. The project goal is to contribute to the consolidation of SDG 1 (no poverty), SDG 2 (zero hunger), SDG 5 (gender equality) and SDG 13 (climate action), and to food security, with innovative and scalable good practices.
21. The development objective is to support the country's ongoing Rural Revitalization Strategy by demonstrating inclusive and innovative business models that promote sustainable and climate-resilient agriculture, and by building community adaptive capacities through the adoption of green and resilience concepts in rural revitalization.
22. The primary expected outcomes are: (i) to improve the access of rural households to opportunities to participate in and benefit from rural economic growth through the use of climate-smart technologies and practices in green agriculture; and (ii) to build adaptive capacity in community-governed sustainable rural development.
23. The project will be implemented over six years, from 2025 to 2030.
24. **Geographic coverage.** Five counties are covered by the project, selected on the basis of the following criteria: (i) risk of continued vulnerability of former nationally and provincially designated poor counties; (ii) relative geographical concentration for future implementation efficiency; (iii) opportunities for inclusive and climate-resilient green agricultural development; (iv) potential for innovative ecosystem protection and conservation; and (v) strong commitment of the county government to participate in the project's implementation. The counties are:

<i>Prefecture</i>	Wuwei	Baiyin	Pingliang	Tianshui	Dingxi
<i>Counties</i>	Tianzhu	Jingtai	Huating	Maiji	Weiyuan

25. **Outreach, scope and targeting.** The project has the potential to directly serve and support 108,000 rural households, which extends its benefits to a total of 351,500 of household members. Direct participation by women is estimated at more than 50 per cent, and at 30 per cent for young people. Special attention will be paid in the project targeting strategy to ensuring the inclusion of ethnic minorities.
26. **Targeting strategy and target group.** The project will continue IFAD's core targeting approaches in the country by applying geographical and inclusive targeting strategies. The project will target formerly registered poor groups and the low-income segments, which are economically active but remain vulnerable and risk falling back into poverty should natural and socioeconomic shocks occur. The strategy aims to foster inclusive access to resources and opportunities provided by the project for rural men, women, youth and ethnic minorities in the project area.

B. Components, outcomes, and activities

27. The project will have the following components: (i) sustainable green agricultural development; (ii) building community resilience capacity; and (iii) policy and management.
28. **Component 1. Sustainable green agricultural development** will promote and safeguard socioeconomic inclusiveness, while introducing green technologies to foster market-led, industrialized transformation and productive capitalization. Component 1 has three subcomponents:
- **Subcomponent 1.1 – Inclusive support to smallholder farmers**, which aims to reach the most disadvantaged segments of the project's target group through tailored interventions.
 - **Subcomponent 1.2 – Eco-friendly transformation**, which aims to promote the adoption of green and modern technologies.
 - **Subcomponent 1.3 – Public productive infrastructure**, which will address identified gaps in the current agricultural production infrastructure system.
29. **Component 2. Building community resilience capacity** aims to build community-based assets and capacities as an integral part of improved rural livelihoods under the ongoing Rural Revitalization Strategy.
- **Subcomponent 2.1 – Participatory planning and good governance** will support the Government's guiding principles in good governance, especially regarding the focus on the basic role of villages' self-governance.
 - **Subcomponent 2.2 – Climate-resilient community infrastructure and service facilities** will address identified gaps in the current civil infrastructure system, including rural road networks, safe drinking water, sewage and solid waste systems, and renewable energy.
30. **Component 3. Policy and management** will focus on policy engagement, South-South and Triangular Cooperation (SSTC) and institutional capacity-building, monitoring and evaluation (M&E) and knowledge management (KM), prudent financial management, effective procurement management and overall project management.
- ## **C. Theory of change**
31. Evolving agricultural modernization and rural transformation pose the risk of reduced demand for rural labour and the marginalization of smallholder farmers.

Other prevailing challenges and risks include: (i) uneven agricultural productivity and underdeveloped agricultural value chains; (ii) lack of sufficient and inclusive capital investments for smallholder production; (iii) gaps in public infrastructure systems; (iv) negative impacts on the ecosystem and biodiversity; and (v) absence of adaptive capacity-building for beneficiary-governed management systems in rural development. These challenges highlight the need for sustainable green agriculture, and inclusive rural development for the province.

32. The Gansu Demonstrative Rural Revitalization Project (GD2RP) will address these challenges through tailored project components, outcomes and activities. As a consequence: (i) the income-generating capacity of women and youth will be built; (ii) access to finance and rural public infrastructure (markets, green tools and technologies) and services will be improved; (iii) capacity of cooperatives and agribusinesses will be strengthened, leading to the creation of new jobs and employment opportunities (particularly for women and youth); and (iv) climate adaptation and greening in agricultural and food systems will be improved. In addition, the increased income will enhance social cohesion and women's empowerment.
33. The project's success is based on: (i) sustained government investment in rural revitalization in the sectors and areas of the project; (ii) appropriate institutional coordinating mechanisms; (iii) community engagement and beneficiary participation; and (iv) suitable management of social, environmental and climate-related risks.
34. Consequently, the project will support the ongoing Rural Revitalization Strategy in Gansu, contributing innovative and scalable good practices.
35. A schematic representation of the theory of change is attached as appendix IV.

D. Alignment, ownership, and partnerships

36. **SDGs alignment.** While the project scope remains highly relevant to various SDGs, it is expected to contribute to the achievement of four key SDGs, as detailed in paragraph 20.
37. **Alignment with government policies and strategies.** The project aligns well with the key objectives of the ongoing 14th Five-Year Plan (2020–2025) and the elaboration of the annual No.1 Central Document of the Government. The project aims to contribute to the realization of the Rural Revitalization Strategy.
38. The project also aligns with relevant strategies in Gansu, namely: (i) several opinions of the Central Committee of the Chinese Communist Party and the State Council on the implementation of the Rural Revitalization Strategy, launched in February 2018; (ii) Implementation Plan for Rural Revitalization Strategy of Gansu Province, launched in February 2019; and (iii) Comprehensively Promoting Rural Vitalization and Speeding up Agricultural Rural Modernization, launched in January 2021.
39. **Alignment with IFAD policies and strategies.** The project is aligned with IFAD's Strategic Framework 2016–2025. It complies with IFAD's principles of engagement and mainstreaming priorities by being gender-transformative and youth-sensitive, including climate finance and building adaptive capacity. The project also incorporates support for innovation, learning, scaling up and partnerships.
40. The GD2RP is in line with the current country strategic opportunities programme (COSOP) (ending in 2024), and draws on key concepts and ideas being discussed with the Government in the formulation of the new COSOP (2025–2030), such as investments in inclusive and sustainable food and agriculture systems focusing on smallholders, promoting resilient climate-smart rural livelihood options, and

leveraging China's expertise, innovation and development finance for agriculture and food systems transformation at the regional and global levels through SSTC.

E. Costs, benefits and financing

41. Project components 1 and 2 are partially counted as climate finance. 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\$53.748 million, or 61.1 per cent of the IFAD financing.

Project costs

42. The total project cost is estimated at US\$228.43 million, over a six-year period. IFAD will provide a loan of US\$88.00 million. The balance of US\$140.43 million will be jointly financed by the Government and private sector enterprises.

Table 1

Project costs by component and financier

(Thousands of United States dollars)

Component	IFAD loan		Private sector		Borrower/recipient		Total	
	Amount	%	Amount	%	Cash/in-kind	%	Amount	%
1. Sustainable green agricultural development	61 599	37.7	8 932	5.5	92 979	56.9	163 509	71.6
2. Building community resilience capacity	23 324	39.6	993	1.7	34 535	58.7	58 852	25.8
3. Policy and management	3 077	50.7	-	-	2 993	49.3	6 070	2.7
Total	88 000	38.5	9 925	4.3	130 507	57.1	228 431	100

Table 2

Project costs by expenditure category and financier

(Thousands of United States dollars)

Component	Borrower/recipient		IFAD loan		Private sector		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
I. Investment costs								
A. Goods, service and inputs	-	-	19 926	100.0	-	-	19 926	8.7
B. Goods, service and inputs	49 579	100.0	-	-	-	-	49 579	21.7
C. Goods, service and inputs	-	-	-	-	2 679	100.0	2 679	1.2
D. Works	-	-	46 829	100.0	-	-	46 829	20.5
E. Works	77 934	100.0	-	-	-	-	77 934	34.1
F. Works	-	-	-	-	6 252	100.0	6 252	2.7
G. Grants and subsidies	-	-	21 245	100.0	-	-	21 245	9.3
Total investment costs	127 514	56.8	88 000	39.2	8 932	4.0	224 445	98.3
II. Recurrent costs								
A. Operating costs *	2 993	75.1	-	-	993	24.9	3 986	1.7
Total recurrent costs	2 993	75.1	-	-	993	24.9	3 986	1.7
Total	130 507	57.1	88 000	38.5	9 925	4.3	228 431	100.0

* For infrastructure, operations and maintenance under component 1.3 and component 2.2.

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. Sustainable green agricultural development	21 777	13.3	97 673	59.7	27 079	16.6	9 673	5.9	5 133	3.1	2 175	1.3	163 509
2. Building community resilience capacity	11 051	18.8	29 217	49.6	9 193	15.6	6 736	11.4	1 308	2.2	1 349	2.3	58 852
3. Policy and management	1 213	20.0	1 038	17.1	1 066	17.6	986	16.2	1 027	16.9	739	12.2	6 070
Total	34 041	14.9	127 928	56.0	37 337	16.3	17 395	7.6	7 468	3.3	4 263	1.9	228 431

Financing and cofinancing strategy and plan

43. The county governments, through their relevant technical bureaux, will provide counterpart funding and physical infrastructure investments targeted by the project through various complementary programmes. The county governments will also cofinance some of the investments relating to infrastructure and services for agro-industries. Private and public sector agribusiness entities will provide funds for investment in equipment and working capital, ascertained through the development and approval of business plans. Commitment from the county governments has been ascertained, and financing for the initial two years already secured. Provisions will be made for retroactive financing by IFAD to foster project implementation at the start-up stage.

Disbursement

44. The Gansu Provincial Finance Department will maintain one designated account for the project for receipt of the IFAD loan proceeds. IFAD will transfer funds to the project using the revolving fund mechanism through quarterly withdrawal applications.
45. The flow of funds from the province to the counties will use a reimbursement mechanism in local currency, channelled through the designated account to the project accounts in the county bureaux of finance, and subsequently to the eligible beneficiaries, based on the supporting documentation.
46. The Government's share in financing comprises counterpart funding for payment of applicable taxes (US\$8.9 million), other in-kind contributions and part of project management costs.

Summary of benefits and economic analysis

47. **Estimation of benefits and beneficiaries.** The project is expected to reach around 108,000 households and 351,500 people directly, of whom at least 50 per cent will be women and 30 per cent youth.
48. A financial analysis has only been conducted on component 1, as activities under component 2 generate public goods that are difficult to quantify. For component 1, 12 financial models were developed to conduct the benefit-cost analysis and estimate the internal rate of return and the net present value.
49. The economic analysis (component 1 only) yields an economic internal rate of return of 23 per cent, with an economic net present value of CNY 975.44 million, using a discount rate of 8 per cent. These figures indicate that the project is economically viable. A sensitivity analysis (switch value) was carried out to test the robustness of two key factors, namely output price decline and cost increase. The economic viability of the project appears to be more sensitive to benefit reduction (output price decline) than cost increases.

Exit strategy and sustainability

50. The project's exit strategy and sustainability are built on the complementarity of the project's sustainable approach with interventions in the ongoing government Rural Revitalization Strategy.
51. Social sustainability will be achieved through social inclusion, differentiated targeting of disadvantaged target segments, and promotion of active participation and leadership. Financial sustainability will be pursued by adopting various strategies including improved productivity, adoption of green and sustainable technologies, value chain development with risk-sharing and cofinancing from the private sector, enhanced skills and resilience, and diversified incomes of target groups. Environmental sustainability will be realized through green technologies and good practices, to preserve natural resources and ecosystems that support human well-being and biodiversity.

52. Comprehensive exit and sustainability strategies will be refined during implementation and regularly monitored and evaluated, particularly at midterm review. Project stakeholders will be involved in planning for a sustainable exit.

III. Risk management

A. Risks and mitigation measures

53. The overall residual risk of the project is assessed as moderate, as detailed in the integrated project risk matrix. Risks will be addressed through continuous monitoring and close supervision during implementation. Three key risks and their mitigation measures are highlighted below.
54. **Continued vulnerability to climate change.** Vulnerability to climate change has direct impacts on rural livelihoods. To mitigate this, the project directly invests in adopting climate-smart technologies and seed varieties, building climate-resilient assets, diversifying income and strengthening collective resilience.
55. **Covariant risk in agri-industrial and sectoral specialization.** The risk of surplus and price drop from production specialization will be mitigated by diversifying investments to ensure a balance between small and large agribusinesses and providing smallholder farmers with support for “courtyard” economy, income diversification and agri-insurance.
56. **Financial management (FM) risks in disbursement.** Overall, the FM risk is rated as moderate. Based on assessment at the country, entity and project levels, the main FM risks come from complex project structure, and lack of qualified financial and project staff. As mitigating measures, FM staff will be trained and a detailed financial manual and project procurement guidelines will be developed. Accounting software will be procured for the project at start-up. Cross-learning and peer support will be mobilized among IFAD projects.

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	Low
Environment and climate context	Moderate	Moderate
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
Overall	Moderate	Moderate

B. Environment and social category

57. The environmental and social risk category for GD2RP is rated as moderate. An Environmental, Social and Climate Management Plan has been developed to manage the environmental and social risks during project implementation.

C. Climate risk classification

58. The climate risk classification for this project is moderate. The main climate-related hazards affecting the project area have been identified as drought, flooding, low temperatures and hailstorms. Sensitivity and vulnerability to climate hazards will be reduced through the implemented project activities. Adaptive capacity and climate resilience in the project area will also be significantly improved.

D. Debt sustainability

59. China has a moderate overall risk of sovereign stress.¹ Debt is expected to rise over the medium-to-long term, but it can be stabilized with a gradual fiscal adjustment over 2025–2035. Medium-term liquidity risks as analysed by the gross financing needs 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 could seek to reduce public investments and close its structural revenue gap through comprehensive tax reforms.

IV. Implementation

A. Organizational framework

Project management and coordination

60. The project will be managed by the Provincial Department of Agriculture and Rural Affairs. A provincial project management office (PMO) will be set up and staffed adequately with key functions for operations. Similarly, county PMOs will be set up in each county's Bureau of Agriculture and Rural Affairs (BARA) with a similar staffing structure and functions. A senior leader from the DARA/BARA will be appointed as the PMO director for overall management and coordination. Relevant technical bureaux will support implementation of the related project activities.
61. An inter-agency coordination mechanism at both provincial and county levels will be established, to exercise the essential supervisory and coordination functions. A vice-governor of the county will chair these coordination mechanisms. The All-China Women's Federation and the Communist Youth League of China in the counties will be assigned responsibilities for supporting women and youth in the project areas.
62. A village implementing group will be set up in each of the project's administrative villages, with adequate representation of farmers, women and youth.
63. Partnership with the United Nations community in the country, participating line agencies, the private sector and technical players from civil society will be pursued where relevant, for example with the China Social Entrepreneur Foundation for women entrepreneurship training and incubation, and the International Centre for Agricultural Research in the Dry Areas for technical assistance and innovative farming models. Partnerships with related government agencies and other stakeholders, such as the United Nations Industrial Development Organization (UNIDO), for the purposes of SSTC, will also be fostered.

Financial management, procurement and governance

64. **Financial management.** The FM staffing will be provided by the provincial PMO and county PMOs. Budgeting will be undertaken through the annual workplan and budget (AWPB) preparation process and disbursement will be arranged through the designated account opened at the provincial department of finance. The treasury accounts of each county will be used as project accounts for receiving loan funds. Fund flow will follow the revolving fund mechanism, which is outlined in the Project Financial Management and Financial Control Handbook for Borrowers and the Financial Management and Financial Control Arrangements Letter.
65. The FM system will be supported by the rigorous treasury system of the county bureaux of finance, which will monitor and verify the reporting of expenditures. Key internal control procedures will also be specified in the project implementation manual and financial management manual. Chinese Accounting Standards will be applied for the project. The interim financial report format and submission deadlines for annual financial reporting are provided in the financial management manual.

¹ International Monetary Fund (IMF) Country report No 24/38, China, 2023 Article IV Consultation, February 2024.

66. Project financial reports will be audited by the provincial audit office. The audit report will follow a specific format and timeframe, as specified in the IFAD Handbook for Financial Reporting and Auditing.
67. **Procurement.** Legal, regulatory and policy frameworks in China are clear and aligned with international procurement practices. Procurement of goods, works and consulting services financed by IFAD will follow a procurement plan and should be in accordance with the IFAD Procurement Guidelines, the IFAD Project Procurement Handbook, relevant procurement policies, and national procurement laws and regulations. China's national procurement laws and corresponding implementation manuals will be applied for procurement financed by the Government's counterparts.
68. The procurement plan of the first 18 months and the general procurement notice will be established based on the project procurement strategy. Project procurement arrangements specifying thresholds and prior review requirements will be established to guide procurement activities.
69. A provincial procurement agency with a proven track record will be recruited to provide technical assistance and professional services for project procurement.
70. **Governance and anticorruption.** The project will apply IFAD's anticorruption policy in guiding operations. IFAD will not finance expenditures for goods, works or consulting services that have not been procured in accordance with the IFAD Project Procurement Guidelines and the financing agreement. In such cases, IFAD may, in addition, take remedial action under the financing agreement, including cancellation of the amount in question from the loan account by declaring it ineligible.

Target group engagement and feedback and grievance redress

71. The project will enhance target group engagement and feedback through its vertical institutional structure and associated departments and agencies. A stakeholder engagement plan will be developed for project implementation. Principles and steps to develop and operationalize the project-level grievance redress mechanism (GRM) are included in the project's Environmental, Social and Climate Management Plan; existing grievance systems used by the Government from central to county level will also be used. Village implementing groups will be trained on the GRM, and project information will be transparently and promptly publicized to the target groups. Stakeholders and beneficiaries will be fully informed about the GRM and IFAD's Complaints Procedure at start-up and during implementation.

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

72. **Planning.** The project will be implemented based on an AWPB. The provincial PMO will consolidate the county AWPBs and submit for IFAD's no objection prior to their effectiveness.
73. **Monitoring and evaluation.** An M&E system will be established to track results and support decision-making at the output, outcome and impact levels, with logical framework indicators, core outcome indicators and a management information system. Budget and staffing requirements are spelled out in the project design report.
74. **Knowledge management.** To enhance the learning process and the dissemination of results, a KM and communication strategy with a related action plan will be developed and integrated as part of project management. The budget for KM will be included in the AWPB. The strategy and action plan will indicate thematic areas of learning and the most appropriate channels for knowledge dissemination. The project will pursue knowledge-sharing through the SSTC mechanism.

Innovation and scaling up

75. **Innovative potential.** The project has identified relevant innovations for possible adaptation, replication and scaling up. These include: (i) business plan financing for inclusive participation of smallholder farmers and their organizations in agricultural value chain development; (ii) a sustainable community management model; (iii) adoption of green technologies by value chain actors of different levels; and (iv) rural ecotourism for diversification and rural labour transformation.
76. **Scaling up.** The project design draws on scalable good practices from recently completed and ongoing IFAD projects in China. The project will elaborate a scaling-up strategy once operations commence and the potential of good practices and innovations becomes evident. These will be linked closely with the project's KM, policy engagement and SSTC in terms of planning and execution.

C. Implementation plans

Implementation readiness and start-up plans

77. The financing agreement will stipulate priority actions as a condition for withdrawal, including set-up of an effective PMO structure and its preliminary staffing. This will also include the setting up of the inter-agency coordination mechanism, the opening of a designated account, a no objection of the revised project implementation manual, first-year counterpart financing and an AWPB with a detailed procurement plan to help ensure readiness for project implementation. Plans have been envisaged for start-up support, set-up of an M&E and management information system, and staff capacity-building.

Supervision, midterm review and completion plans

78. IFAD and the Government will conduct joint annual supervision missions and provide follow up support to review implementation progress, identify bottlenecks and assist the PMOs in improving implementation. A midterm review is tentatively scheduled for 2027.

V. Legal instruments and authority

79. 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. A copy of the negotiated financing agreement will be made available prior to the session.
80. The People's Republic of China is empowered under its laws to receive financing from IFAD.
81. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

82. 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-eight million United States dollars (US\$88,000,000) 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	1 Persons receiving services promoted or supported by the project				Project M&E	Annually	PMOs	Sustained investment from government to rural revitalization in the sectors/areas of this project (A) Marginalization of smallholder farmers and their organizations lagging in active participation and equitable sharing of development opportunities and benefits in the middle of industrialized agricultural sector modernization, agri-value chain development, and rural livelihood reengineering (R)
	Males - Number		102 000	154 000				
	Females - Number		68 000	154 000				
	Young - Number		34 000	92 400				
	Indigenous people - Number		5100	12 320				
	Total number of persons receiving services - Number		170000	308 000				
	Male - Percentage (%)		60	50				
	Female - Percentage (%)		40	50				
	Young - Percentage (%)		20	30				
	1.a Corresponding number of households reached				Project M&E	Annually	PMOs	
Women-headed households - Households		4 000	8 000					
Non-women-headed households - Households		46 000	100 000					
Households - Households		50 000	108 000					
1.b Estimated corresponding total number of households				Project M&E	Annually	PMOs		
Household members - Number of people		170 000	367 200					
Project Goal Contribute to the consolidation of no poverty (SDG1) and no hunger (SDG2), and food security with innovative and scalable good practices and	Supported rural households reporting growth rate of per capita disposal income with above national average level				COI survey, Government Statistics	Baseline, Mid-term and completion	PPMO, M&E service provider	Continuity of economic, social and marketing stability in the target project area. (A) Uncertainty remain with regard to human and animal epidemics, climate disasters
	Total households - Percentage (%)		60%	80%				
	Women-headed households - Percentage (%)		50%	70%				
Development Objective Support the country's ongoing Rural Revitalization by piloting inclusive and innovative business models in promoting sustainable and climate-resilient agriculture and building community adaptive capacities in the project area of Gansu Province	1.2.2 Households reporting adoption of new/improved inputs, technologies or practices				COI survey	Baseline, Mid-term and completion	PPMO, M&E service provider	Innovative and effective models and good practices supported by the project are adopted and replicable for scaling up through demonstration, knowledge management and proper uptake (A) Farmers reluctance to go with cooperative/enterprise/village led value chain or adopt the improved technologies or practice. (R) Communities and beneficiary participation are fully consulted during project design (A) The baseline, mid-term and completion surveys could interview the same group of sampled respondents for empowerment assessment (A)
	Households		3 000	21 600				
	Households (%)		30%	60%				
	Number of people		10 500	75 600				
	3.2.2 Households reporting adoption of environmentally sustainable and climate-resilient technologies and practices					Baseline, Mid-term and completion	PPMO, M&E service provider	
	Households - Percentage (%)		20%	40%				
	Households - Households		800	3 600				
	Total number of household members - Number of people		2 720	12 240				
	SF.2.1 Households satisfied with project-supported services				COI survey	Baseline, Mid-term and completion	PPMO, M&E service provider	
	Households (%) - Percentage (%)		50%	75%				
	Households (number) - Households		25 000	81 000				
	Household members - Number of people		85 000	275 400				
	SF.2.2 Households reporting they can influence decision-making of local authorities and project-supported service providers				COI survey	Baseline, Mid-term and completion	PPMO, M&E service provider	
	Households (%) - Percentage (%)		50%	75%				
	Households (number) - Households		25 000	81 000				
	Household members - Number of people		85 000	275 400				
	IE.2.1 Individuals demonstrating an improvement in empowerment				COI survey	Baseline, Mid-term and completion	PPMO, M&E service provider	
	Total persons - Percentage (%)		25%	54%				
	Total persons - Number of people		42 500	166 320				
Females - Percentage (%)		25%	60%					
Females - Females		17 000	92 400					
Males - Percentage (%)		25%	50%					
Males - Males		25 500	77 000					

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Outcome 1 Improve the access of rural households to opportunities of participation and benefit sharing of rural economic growth with use of climate-smart technologies and practices in sustainable green agriculture	2.2.1 Beneficiaries with new jobs/employment opportunities				COI survey or Project M&E	Baseline, Mid-term and completion	PPMO, M&E service provider	Smallholder farmers are interested to use climate-smart technologies and join the sustainable and green value chain in support of private sector player, cooperatives and village-based entities (A) Smallholder farmers are excluded to use the processing and storage facilities (R)
	Males - number		300	500				
	Females - number		200	500				
	Indigenous people - number		15	40				
	Young - number		150	300				
	Total number of persons with new jobs/employment opportunities - number		500	1 000				
	2.2.6 Households reporting improved physical access to markets, processing and storage facilities				COI survey	Baseline, Mid-term and completion	PPMO, M&E service provider	
Households reporting improved physical access to storage facilities (number)		300	1 200					
Households reporting improved physical access to storage facilities (%)		30%	60%					
Size of Households (number of people)		1 020	4 080					
Output 1.1 - Inclusive support to smallholder farmers	Supported rural producers establish linkage with agri-entities (contract farming, land transfer, employment, dividends)				Project M&E	Annually	PMOs, M&E service provider	Smallholder farmers are interested to join the sustainable and green value chain in support of private sector player, cooperatives and village-based entities (A)
	Number of household		10 000	25 000				
	Number of women-headed hh		500	1 750				
	CI 2.1.2: Persons trained in income-generating activities or business management				Project M&E	Annually	PMOs, M&E service provide	
	Persons trained-total		1 000	5 000				
	Male-number		500	2 500				
	Female-number		500	2 500				
Youth-number		300	1 500					
Indigenous people-number		40	200					
Output 1.2 - Eco-friendly Agricultural transformation	Technologies and techniques demonstrated and adopted for climate adaptation/mitigation				Project M&E	Annually	PMOs, M&E service provider	Local government and rural business entities committed to demonstrate and promote technologies for climate adaptation/mitigation (A) Eco-friendly technology might be costly and not be welcomed overwhelmingly. (R)
	Number of Technologies		5	13				
	Rural producers trained in eco-friendly agricultural technologies				Project M&E	Annually	PMOs, M&E service provider	
	Females-number		2 000	4 500				
	Males-number		2 000	4 500				
	Youth-number		1 200	2 700				
	Indigenous people -number		160	360				
Total-number		4 000	9 000					
Output 1.3 - Public productive infrastructures	3.1.4 Land brought under climate-resilient management				Project M&E	Annually	PMOs, M&E service provider	Local government are committed to climate resilient production infrastructure and able to identify prioritized geographic areas (A)
	Hectares of Land		2 000	4 500				
	2.1.5 Roads constructed, rehabilitated or upgraded				Project M&E	Annually	PMOs, M&E service provider	
	Length of roads (km)		40	80				
	Increased storage capacity for agro-products in project area				Project M&E	Annually	PMOs, M&E service provider	
	Increased storage capacity (tons)		5 000	15 000				
Outcome 2 Build adaptive capacities in community-governed rural development	Households reporting improved community infrastructure and services				COI survey	Baseline, Mid-term and completion	PPMO, M&E service provider	Community infrastructures and services are responsive to villager needs and with good O&M plan. (A) Community infrastructures are just one-time input without good maintenance
	Households - Percentage (%)		30%	70%				
	Households - Number		15 000	35 000				
	Households members- Number		51 000	119 000				
Output 2.1- Participatory planning and good governance.	Village officials and rural practitioners trained in good governance of Rural Revitalization				Project M&E	Annually	PPMO, M&E service provider	Trained village officials contributed to the innovative community governance models, which are responsive to villager needs and sustainable in operation (A)
	Number of village officials and rural practitioners		500	1 200				
Output 2.2 - Climate-resilient community infrastructures and service facilities	Households provided with improved waste management, increased water availability or clean energy				Project M&E	Annually	PPMO, M&E service provider	Community infrastructures and services are responsive to villager needs and with good O&M plan. (A)
	Households with improved waste management - Number		500	1 000				
	Households members- Number		1 700	3 400				
	Households with increased water availability - Number		25 000	50 000				
	Households members increased water availability- Number		85 000	170 000				
	Households with clean energy - Number		2 000	4 200				
	Households members with clean energy-Number		6 800	14 280				

Integrated project risk matrix

Overall Summary

Risk Category / Subcategory	Inherent risk	Residual risk
Country Context	Moderate	Moderate
Fragility and Security	Moderate	Moderate
Macroeconomic		No risk envisaged - not applicable
Governance		No risk envisaged - not applicable
Political Commitment		No risk envisaged - not applicable
Sector Strategies and Policies	Moderate	Low
Policy Development and Implementation	Moderate	Low
Policy alignment		No risk envisaged - not applicable
Environment and Climate Context	Moderate	Moderate
Project vulnerability to climate change impacts	Moderate	Moderate
Project vulnerability to environmental conditions	Moderate	Low
Project Scope	Moderate	Moderate
Technical Soundness	Moderate	Moderate
Project Relevance	Moderate	Low
Institutional Capacity for Implementation and Sustainability	Moderate	Moderate
Monitoring and Evaluation Arrangements	Moderate	Moderate
Implementation Arrangements	Moderate	Moderate
Project Financial Management	Moderate	Moderate
Project External Audit	Moderate	Moderate
Project Accounting and Financial Reporting	Moderate	Moderate
Project Internal Controls	Moderate	Moderate
Project Funds Flow/Disbursement Arrangements	Moderate	Moderate
Project Budgeting	Moderate	Moderate
Project Organization and Staffing	Substantial	Substantial
Project Procurement	Moderate	Moderate
A.1 Legal, Regulatory and Policy Framework	Moderate	Moderate
A.2 Institutional Framework and Management Capacity	Moderate	Moderate
A.3 Accountability, Integrity and Transparency of the Public Procurement System	Low	Low
A.4 Public Procurement Operations and Market Practices.	Low	Low
B.1 Assessment of Project Complexity	Moderate	Moderate
B.2 Assessment of Implementing Agency Capacity	Moderate	Moderate
Project Procurement Overall	Moderate	Moderate
Environment, Social and Climate Impact	Moderate	Low
Vulnerability of target populations and ecosystems to climate variability and hazards	Moderate	Moderate
Greenhouse Gas Emissions	Moderate	Moderate
Physical and Economic Resettlement	Low	Low
Community health, safety and security	Moderate	Low

Risk Category / Subcategory	Inherent risk	Residual risk
Labour and Working Conditions	Moderate	Low
Indigenous People	Moderate	Low
Cultural Heritage	Low	Low
Resource Efficiency and Pollution Prevention	Moderate	Moderate
Biodiversity Conservation	Moderate	Moderate
Stakeholders	Moderate	Moderate
Stakeholder Grievances	Moderate	Low
Stakeholder Engagement/Coordination	Moderate	Moderate
Overall	Moderate	Moderate

Country Context	Moderate	Moderate
Fragility and Security	Moderate	Moderate
Risk: The main risks pertain to: i) Swine fever that has been prevailing and poses some impact to pig production in many places of the country; ii) risk of COVID-19 comeback but unlikely with restrictive control as before. Uncertainty however remains with regard to human and animal epidemics, as globally.	Moderate	Moderate
Mitigations: (i) Government is promoting preventive measures for pig farms, meanwhile trying to limit household and small-scale pig raising business in consideration of environmental impact and economic viability; (ii) The project has limited if not no exposure to pig production at this design stage.		
Macroeconomic		No risk envisaged - not applicable
The macroeconomic situation and prospect of the country has been favorable and optimistic. Despite slowed pace of GDP growth during the last years and some trade frictions, Annual GDP growth has been forecast for more than 5% by several international financial agencies. The quality of development has been increasing as result of economic restructuring and boosting of domestic markets and consumption. Rural development continues to be given increased attention and support through various favorable policies and additional resource allocations. The macro economy shall maintain a stable and steady progress and is generally resilient to external shocks. The economy bounced back from slow-down in COVID-19 pandemic of 2019-2022 and recorded steady improvement. Consumption and market demand will remain steady growth and continue to anticipate increasing demand on quantity and quality agro-products from rural areas, as result of Government's strategy in boosting both domestic and export markets. Transportation and logistics condition continue to improve providing conducive marketing environment for rural products. As Chinese economy is integrated into global markets and with strong links with countries of One-Belt-One-Road; no major risks are foreseen so far in terms of macroeconomic dimension.		
Governance		No risk envisaged - not applicable

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. Particularly for rural revitalization and agricultural development related projects, government attaches higher emphasis in accountability and performances. The ongoing rural revitalization strategy envisages continued improvement of rural governance. For this project, the institutional set up and vertical/lateral coordination has been conducive for project management as the PMO was designed to be embedded in the structure of Rural Revitalization Bureau and Agriculture and Rural Affairs. No major risks are foreseen so far in terms of governance.		
Political Commitment		No risk envisaged - not applicable
The political commitment of both central and local governments to the project goals/objectives have been and will remain persistently strong during the project life. The Rural Revitalization is a state strategic policy and development programme that the project supports. 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. No major risks are foreseen in terms of political commitment by governments.		
Sector Strategies and Policies	Moderate	Low
Policy Development and Implementation	Moderate	Low
Risk: 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. Nevertheless, there is some risk in the responsive and thorough implementation of central policies to their full effect, e.g. the Farmer Cooperative Law. China's agricultural development has traditionally focused on production/productivity enhancement, with emphasis on infrastructure, with limited attention to post-production/marketing. This resulted in cases of local overproduction, which led to possibly reduced value add and farmers' income when the market efficiency is less. Supply-side reform was called for to the agricultural sector but there is still strong tendency at project area of focusing on production. Despite favourable and upper level government policies, at the local level there can be unwanted impediments in serving and facilitating the agribusiness entities and agribusiness sector.	Moderate	Low
Mitigations: The project places great emphasis to inclusive enhanced production and post-production and to developing agricultural value chains that promote equitable organizational arrangements, different channels/opportunities to farmers to link with market opportunities, and increased incomes for the target households. The project also invests in diversified income generating for the target groups, and call for extended application of agri-insurance in the project area. The project is well in line with government development policies and contributing to generating benefits for the vulnerable target group		
Policy alignment		No risk envisaged - not applicable

The project is well aligned with the government strategy and policies relating to rural development and modern agricultural modernization. The core focus of the project “Sustainable and inclusive green agriculture and building community resilient capacity” is a top priority of government’s most recent rural revitalization strategy. Governments expect 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 focuses of the project on 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. No major risks are identified in terms of policy alignment of the project.		
Environment and Climate Context	Moderate	Moderate
Project vulnerability to climate change impacts	Moderate	Moderate
Risk: Gansu Province has been experiencing climate change impacts including irregular ups and downs of temperature and declining precipitation. Extreme weather events such as drought, floods, heavy precipitation, snow, sudden frost and hail have become more frequent and intense . However, the natural hazard data has shown no relation to the total annual precipitation since serious droughts have also been reported for years with normal or above normal rainfall amount. Nevertheless, Climate change risks and predicted impacts directly relevant to the project areas are relatively low and do not pose significant threats in the short and medium terms. The most significant seasonal trends occurred during spring (March–May) and winter (December–February) for both mean temperature and for precipitation. Major climate risks are exposure to natural disasters, particularly flooding and landslide. Extreme temperature occasionally impact agricultural production for short periods.	Moderate	Moderate
Mitigations: <ul style="list-style-type: none"> • Climate smart infrastructure development is a priority of local government for agricultural production, as well an important intervention of the project especially relating to climate-smart irrigation, quality road building to improve productive conditions and mitigate climate related risks; • Project will introduce climate related services as part of the interventions, which includes training and advocacy activities as well as extension of climate adaption technologies; • Project supported climate-smart infrastructures and other productive assets for both the communities, agri-businesses and individual households; • Stress-tolerant seed development, courtyard economy, rural eco-tourism will help increase the overall resilience of agricultural production and rural life to the climate change. • Digital agriculture will also feature the climate-resilience of the industrialized agri-production 		
Project vulnerability to environmental conditions	Moderate	Low
Risk: In the project areas, water loss and soil degradation are regarded as the primary environmental concerns. A high percentage of the farmland in the project area is slope land, the risk of loss of organic substance and other nutrients can be high if environment friendly and conservative measures are not applied, causing the increasing infertile of soil in the farmland and its ability to preserve water and nutrients drops.	Moderate	Low
Mitigations: (i) The project will introduce sustainable water management techniques and combined management of irrigation and fertilizer will be one of the techniques for example. (ii) Organic fertilizer and low-carbon farming methods will be promoted, with renewable energy used where possible. (iii) Diversification of farmer income from other agricultural and economic activities that are not so demanding from the land is also supported by the project, such as herbal medicine, mushroom and fungus, tea, etc., and (iv) Facility agriculture will minimize the negative impacts on natural resources		
Project Scope	Moderate	Moderate
Technical Soundness	Moderate	Moderate

Risk: At the PCN stage no detailed technical design has been made. The final design will analyze the situation in this regard. The moderate level is given on the basis of possible technical complexity	Moderate	Moderate
Mitigations: N/A		
Project Relevance	Moderate	Low
Risk: The mains risks pertain to the fact that the benefit generated by the project may not adequately support those economically less active households for their increased income, also their overall benefit sharing is to some extent ensured by the country's rural development policy and programmes, 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) inadequacy of project in fully capturing and adapting to post-poverty reduction strategy evolvments	Moderate	Low
Mitigations: (i) Encouraging contract farming, labor employment, land rent and dividend generated from project invest assets in order to benefit different kind of vulnerable households. (ii) Encourage development business models of cooperative linking to disadvantaged people, company-cooperative/REE-households target the active vulnerable and provide preferential access with project incentive; (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) promotion of women and youth entrepreneurship and capacity building tailored to the disadvantaged target segments. The project will also bridge between the current and future COSOPs, ensure the continuity of support in the Country Programme. If necessary, the project will make due adjustments in order to be fully compliant with the new COSOP expected in 2024-2025		
Institutional Capacity for Implementation and Sustainability	Moderate	Moderate
Monitoring and Evaluation Arrangements	Moderate	Moderate
Risk: Risk of delayed implementation of MIS and M&E system is present	Moderate	Moderate
Mitigations: The Project should set up the MIS and M&E system at the first months of implementation before operations roll out. PMOs should take full ownership and accountability of the M&E work to ascertain quality and more importantly make use of the M&E information. Periodical reports, internal workshops and knowledge products will need to make full use and build on the M&E information.		
Implementation Arrangements	Moderate	Moderate
Risk: While overall institutional setting with the RRB structure will be in line with the ongoing Rural Revitalization, the transition from poverty alleviation to sustainable rural development and modern agricultural transformation could experience some learning curve. Coordination and networking capacity is required to management such development project with high expectation on innovation. Some counties may have technical capacities and staffing of various levels; Knowledge and experience of managing IFAD project can be lagging; Technical knowledge and experience in working with and supporting agribusinesses can also be a weakness for several counties; risk of unpredictable staff rotation is also present in some counties.	Moderate	Moderate
Mitigations: Continued capacity building is essential for the project to be well implemented. Recruitment of technical expertise to support the technical parts of the project interventions, review and implementation should help minimize changes of business failure.		
Project Financial Management	Moderate	Moderate
Project External Audit	Moderate	Moderate

<p>Risk: The Provincial Audit Office will be delegated to be responsible for auditing the project. PAO has rich experiences with WB and ADB project auditing. The annual audit report of project financial statements will be due to IFAD within 6 months after the end of each calendar year.</p> <p>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.</p>	Moderate	Moderate
<p>Mitigations: The Gansu provincial NAO will be responsible for external audit and IFAD will communicate IFAD requirements on financial reporting and auditing to the auditors.</p>		
Project Accounting and Financial Reporting	Moderate	Moderate
<p>Risk:</p> <ul style="list-style-type: none"> 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>The administration, accounting and reporting of the project will be set up in accordance with Circular No. CAIJI (2011)-10: “Provisional Measures for Financial Management of Projects Financed by Loans and Grants from International Financial Organizations” issued in 2011 by Ministry of Finance.</p>	Moderate	Moderate
<p>Mitigations: The administration, accounting and reporting of the project will be set up in accordance with Circular No. CAIJI (2011)-10: “Provisional Measures for Financial Management of Projects Financed by Loans and Grants from International Financial Organizations” issued in 2011 by Ministry of Finance. It is planned to adopt the "Information Management System" developed by project accounting and project funds for each level of the project and its implementing agencies. An integrated accounting/information (MIS) system is used for other two projects financed by IFAD The MIS is able to record all expenditures transactions by categories, components, project activities and sources at all level of this project the county makes advance payments to start the construction; the detailed construction information then is recorded in the MIS immediately; when applying for disbursement, after the expenses have been verified and approved, the application will be submitted to the provincial level after approving.</p>		
Project Internal Controls	Moderate	Moderate
<p>Risk: The Treasury Department in DOF, is responsible for checking and approving the funds /disbursement from designated accounts; DOF is responsible for reconciliations such as bank statement, accounting statements. Monthly bank reconciliation will be performed at each level by DOF and Project PMU.</p> <ul style="list-style-type: none"> Limited suppliers for goods and services and less capacity may lead to overpayment for services. Staff capacity and awareness of anti-corruption policy. 	Moderate	Moderate
<p>Mitigations:</p> <ul style="list-style-type: none"> Detailed PIM with detailed FM and Procurement procedures along with extensive training on PIM will be provided to the project staff. Segregation of duties in the project will be set up. External audit of the project to be conducted annually. IFAD anti-corruption policy will be included in PIM and training delivered to staff and stakeholders. Effective computerized software shall be used to ensure the reconciliation of account and chasing of payment. 		
Project Funds Flow/Disbursement Arrangements	Moderate	Moderate
<p>Risk:</p> <ul style="list-style-type: none"> Delay during the start-up of project activities. Delay in submission of IFRs and WAs to IFAD. DA and project account arrangements cannot be clear to the project staff. 	Moderate	Moderate

Mitigations: <ul style="list-style-type: none"> • Retroactive financing will be suggested to ensure the timely launching of the project. • Ensure good accounting system that capable to provide IFR and WA in required formats. • Capacity building workshops on preparation of IFRs. • IFR timing will be set 30 days rather than 45 in FMFCL. • FM manual will provide detailed guidance on DA and PA arrangements. 		
Project Budgeting	Moderate	Moderate
Risk: The specific budget of the project shall be prepared by the project personnel (CPMOs) at the county level according to the local needs which shall be submitted to the provincial finance department for examination and approval by (PMO) after summarization by the provincial project office. The annual budget is issued by DOF and MOF by the annual plan. The counterpart funds shall be included in the budget of each level according to the total annual project financing. Preparation of AWPB might be delayed due to staff capacity and approval procedures. AWPB might not be realistic or not achievable. The budget preparation and revision process have rigorous procedures within the entity and may cause strict control but some delays in loan disbursement.	Moderate	Moderate
Mitigations: The PPMO shall apply standard form for AWPB shared by IFAD based on good practices of other projects in China. Budget allocation for each activity will be specified for subsequent monitoring. Training to PPMO and CPMO staff on preparation of AWPB. A mechanism in place to timely capture the progress of expenditure Vs. budget.		
Project Organization and Staffing	Substantial	Substantial
Risk: A provincial PMO (PPMO) shall be set up within the Rural Revitalization Bureau (RRB) under DARA/BARA. It will be responsible for project coordination, management support, monitoring and reporting, ensuring adherence to agreed standards, guidelines, and procedures, providing overall guidance on operational aspects to the various implementing units, and facilitating intra-knowledge transfer among project provinces and with external domestic and international agencies. There is a risk that the implementing entity does not have the necessary number of adequately qualified and experienced financial management staff in the national and county levels.	Substantial	Substantial
Mitigations: PMOs are staffed with officers who need to have experience in project management, financial management, procurement, and monitoring and evaluation. PPMOs and CPMOs will be in charge of day to day management of project activities, overseeing project designs, implementing and supervising project activities, arranging for counterpart-funding and local labour contribution, preparing annual work plans, financial plans, procurement plans, monitoring and reporting on project progress, outputs, and outcomes.		
Project Procurement	Moderate	Moderate
A.1 Legal, Regulatory and Policy Framework	Moderate	Moderate
Risk: Legal, regulatory and policy framework are clear and mainstreamed with international procurement practices. Few sub indicators exhibit gaps that have limited impact on procurement performance. The national procurement framework has limited provisions on SPP and obligations deriving from international agreement.	Moderate	Moderate
Mitigations: When needed, make reference to the IFAD procurement framework.		
A.2 Institutional Framework and Management Capacity	Moderate	Moderate

Risk: Institutional Framework and Management Capacity exhibit some gaps and weaknesses. In particular, the capacity of developing and improving the public procurement system are relatively weak.	Moderate	Moderate
Mitigations: N/A		
A.3 Accountability, Integrity and Transparency of the Public Procurement System	Low	Low
Risk: Overall, public procurement operations and market practices is effective and efficient.	Low	Low
Mitigations:		
A.4 Public Procurement Operations and Market Practices.	Low	Low
Risk: Overall, the public procurement system operates with integrity, that has appropriate controls, and that has appropriate anti-corruption measures in place. There are some constraints on engagement of civil society and stakeholder support to strengthen integrity for procurement policy development, provisions on fraud, corruption and other prohibited practices in consistence with IFAD policies.	Low	Low
Mitigations:		
B.1 Assessment of Project Complexity	Moderate	Moderate
Risk: The project complexity is low and is similar to previous projects in China. Project area is geographically spread in different locations. The governance structures of project exists a certain fragile risk.	Moderate	Moderate
Mitigations: The PMU needs to continually put the necessary personnel, resources, and qualified consulting agency into project to mitigate the relevant risks.		
B.2 Assesment of Implementing Agency Capacity	Moderate	Moderate
Risk: Main risks of IA's Procurement Legal & Regulatory Frameworks involve the aspect of SECAP, Bid Evaluation and advertised time of bid. These risks will lead limited impact on project.	Moderate	Moderate
Mitigations: The project will adopt effective management measures, reasonable procedural arrangements and appropriate rule adaptation to mitigate the corresponding risks.		
Project Procurement Overall	Moderate	Moderate
Risk: Overall country framework and project level framework identifies moderate risk which have been adequately mitigated. Basically, IA's organization structure and management system are relatively complete. However, there are some limited impacts on the project in terms of personnel, experience, partial management approaches and customary implementation procedures.	Moderate	Moderate
Mitigations: The Project will improve procurement staffing, secure resource inputs, strengthen institutional capacity building and recruit the necessary consulting agencies to mitigate these adverse impacts and risks.		
Environment, Social and Climate Impact	Moderate	Low
Vulnerability of target populations and ecosystems to climate variability and hazards	Moderate	Moderate
Risk: The project area belongs to the arid and semi-arid zone, which is a climate change sensitive and ecologically fragile zone with complex climate hazards, mainly drought, torrential rainfall and flooding, wind and hail (wind, dust and hail) and low temperature, etc. Climate hazards account for 88.5% of natural disasters, which is higher than the national average of 18.5%. Climate disaster losses accounted for 3.5% of GDP in Gansu Province, and the average of 3% in the 21st century, which is about three times of the national level.	Moderate	Moderate
Mitigations: 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		

Greenhouse Gas Emissions	Moderate	Moderate
Risk: The risk that the project may significantly increase greenhouse gas emissions and thereby contribute to anthropogenic climate change.	Moderate	Moderate
Mitigations: The project will contribute to the reduction of Greenhouse Gas as result of promoting low-carbon agriculture. The project activities will not involve excessive CO2 emissions.		
Physical and Economic Resettlement	Low	Low
Risk: No project activities are anticipated to result in the physical or economic displacement of the local population. Minor Temporary restrictions may apply in the context of some activities (re-route of traffic due to road or canal rehabilitation) . No changes will be caused by the project to land tenure, or adverse impacts to property rights. The project may contribute to increase of farmers' property rights with project invested assets assigned to them through quasi share-holding arrangements or relevant benefiting mechanism. The land rights of households and community including ethnic minorities are strictly protected by Land Administration Law of the People's Republic of China. The project will not lead to temporary or permanent and full or partial physical displacement.	Low	Low
Mitigations: In the rare and isolated case that land acquisition may be required in relation to the project, there will be a compensation and consultation process in line with the Law of the People's Republic of China on Land Administration and materially consistent with the requirements of Standard 7. The compensation standards for land expropriation include compensation for the loss of production and business caused by the expropriation of houses. Under the principle of the national unified guarantee of the basic living standards and property rights and interests of the expropriated farmers, each province and city formulated specific compensation standards for road construction according to the different levels of local economic development.		
Community health, safety and security	Moderate	Low
Risk: Community health and safety has been considered. 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, Health and Safety Guidelines", while also considering the safety risks to third parties and affected communities. Construction insurances are purchased as required. The residents in the project area provided material support in accordance with the local government's emergency plan, which included funding and material assistance for various activities.	Moderate	Low
Mitigations: The project also intends to invest in building the community adaptive resilience and differentiated services for elderly, women and youth are foreseen.		
Labour and Working Conditions	Moderate	Low
Risk: Labour and Working Conditions are highly regulated and there is no evidence of violation or deviation reported in relationship with the project design. The project implementation manual would have standard contract templates for labor and require strict implementation during project implementation. The project's beneficiary feedback and grievance redress system are in place in complementarity with the government's vertical complaint system. The personal safety protection would be strictly implemented to ensure the safety of labor. 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.	Moderate	Low
Mitigations: Default mitigation text		
Indigenous People	Moderate	Low

Risk: The project area has limited number of ethnic minority people (4.17%), furthermore they are integrated in the mainstream of the society and almost no differentiation is made to the ethnic 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 people in the project areas	Moderate	Low
Mitigations: The project will likely contribute to the safeguard of livelihoods of the ethnic minorities, in including their voices and interests in the village committee or councils. The project includes an IPPF and FPIC.		
Cultural Heritage	Low	Low
Risk: The project activities do not foresee impact to degradation or loss of resources of historical, religious or cultural significance. During design, the team has confirmed that the project will not involve alterations to landscape and natural features with cultural significance, nor there is significant excavations, demolitions, movement of earth or alterations that could incur in adverse impacts to features of cultural significance.	Low	Low
Mitigations: The project has confirmed that no impacts on cultural, artistic, traditional or religious values or intangible forms of culture will be affected by project activities.		
Resource Efficiency and Pollution Prevention	Moderate	Moderate
Risk: Resource efficiency and pollution prevention have been taken into consideration in the project design. As additional information on exact interventions and activities has been made available during design, the project team has been able to ensure that all risks in relation to resource efficiency and pollution are predictable in nature, site-specific and with low probability of serious adverse effects to human health or the environment, therefore able to confirm residual risk as moderate. All risks in relation to this aspect have identified mitigation measures that are known to the local population. For example, in terms of the impact during the construction period, it is anticipated that the project may generate noise, dust, wastewater, exhaust gas, solid waste, etc., which will have moderately adverse effects. All the project activities and its impacts will be implemented in compliance with the Environmental Protection Law, ensuring mitigation measures are materially consistent with the objectives of Standard 2 on Pollution prevention.	Moderate	Moderate
Mitigations: Overall, the project will ensure to consistently integrate all necessary mitigation measures to ensure all risks in relation to pollution prevention and resource efficiency are implemented. Modern integrated water and fertilizer irrigation systems would be taken to expand irrigation coverage, improve irrigation reliability and the efficiency of irrigation water use, thereby improving agricultural productivity, climate resilience and income generation for farmers, while reducing greenhouse gas emissions. For farming of yak, sheep, and cattle, the pollution mainly lies in the pollution of manure on farmland and groundwater. The faecal treatment technologies would be adopted to avoid the environmental pollution of livestock manure. For example, the project would support the smallholders in Huating county to carry out harmless treatment on beef cattle manure with compost fermentation technologies, which would be utilized as fertilizer for maize planting. The manure treatment facilities would meet environmental requirements. The pipeline network of sewage treatment would be improved to avoid the environmental pollution of agricultural products processing and rural sewage in project areas; the toilets would be constructed and transformed to improve the rural environment. In this context, the residual risk can be considered moderate. The project involves crop production which naturally requires inputs of fertilizers. But impact can be appropriately managed as the project will be introducing efficient measures such as integrated irrigation-fertilization, responding to its objective of facilitating the adoption of green and resilience concepts in rural revitalization		
Biodiversity Conservation	Moderate	Moderate

Risk: No evidence on biodiversity threatened in the project design. The biodiversity and habitat protection status in the Gansu project area is good, and the project would consider ecological vulnerability assessment. There are no ecological problems such as biodiversity reduction, land fragmentation, overexploitation, biological invasion, etc. in the project area.	Moderate	Moderate
Mitigations: The project will not undertake activities that may cause significant threats to or the loss of biodiversity and ecosystem and its services. In fact the project activities will help to conserve soil and water resources, promote the production of quality and diversified locally specialize products/food. By adopting good agricultural practices, the project will also be conducive to the sustainable use of natural resources.		
Stakeholders	Moderate	Moderate
Stakeholder Grievances	Moderate	Low
Risk: 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	Low
Mitigations: VIGs will conduct regular notifications to the villagers on the planned activities and means/criteria of participation		
Stakeholder Engagement/Coordination	Moderate	Moderate
Risk: 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
Mitigations: (i) IFAD supervision mission will continuously encourage counties to expand their diversity of PPP to avoid narrowly focusing on a few products; (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.		

Schematic presentation of the theory of change

