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Enabling poor rural people  
to overcome poverty

## **President's report**

### **Proposed loan and grant to the People's Republic of China for the**

### **Hunan Agricultural and Rural Infrastructure Improvement Project**

#### **Note to Executive Board representatives**

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**For: Approval**

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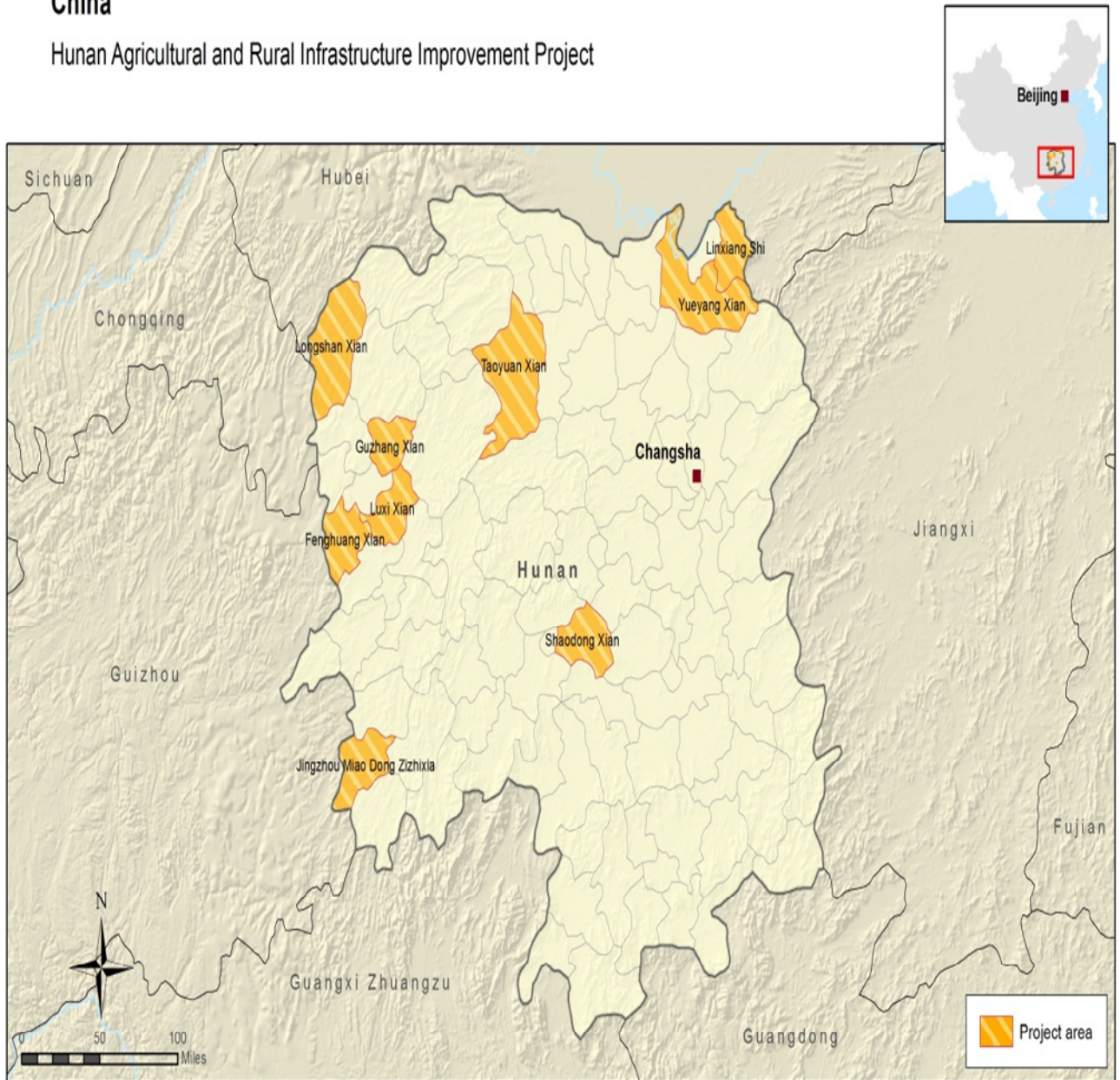
## Abbreviations and acronyms

AWP/B	annual workplan and budget
BoA	Bureau of Agriculture
BoF	Bureau of Finance
BoH	Bureau of Healthy
BoL	Bureau of Livestock
BoSG	Bureau of State Electricity Grid
BoT	Bureau of Transportation
BoW	Bureau of Water Resources
DoF	Department of Finance
DRC	Development and Reform Commission
EIRR	economic internal rate of return
HARIIP	Hunan Agricultural and Rural Infrastructure Improvement Project
PCG	project coordination group
PLG	project leading group
PMO	project management office
RIMS	Results and Impact Management System
VIG	Village Implementing Groups

## Map of the project area

### China

### Hunan Agricultural and Rural Infrastructure Improvement Project



14-11-2011



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

## People's Republic of China

### Hunan Agricultural and Rural Infrastructure Improvement Project

#### Financing summary

<b>Initiating institution:</b>	IFAD
<b>Borrower/recipient:</b>	People's Republic of China
<b>Executing agency:</b>	Ministry of Finance
<b>Total project cost:</b>	US\$93.2 million
<b>Amount of IFAD loan:</b>	SDR 30.25 million (equivalent to approximately US\$46 million)
<b>Amount of IFAD grant:</b>	SDR 0.66 million (equivalent to approximately US\$1.0 million)
<b>Terms of IFAD loan:</b>	18 years, including a grace period of 5 years, with an interest rate equal to the reference interest rate per annum as determined by the Fund semi-annually
<b>Contribution of borrower/recipient:</b>	Approximately US\$45.6 million
<b>Contribution of beneficiaries:</b>	Approximately US\$0.6 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	Directly supervised by IFAD

## Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the People's Republic of China for the Hunan Agricultural and Rural Infrastructure Improvement Project (HARIIP), as contained in paragraph 52.

# Proposed loan and grant to the People's Republic of China for the Hunan Agricultural and Rural Infrastructure Improvement Project

## I. Strategic context and rationale

### A. Country and rural development and poverty context

1. **Macroeconomic performance.** China has experienced an unparalleled economic expansion over the past 30 years. Real growth in gross domestic product (GDP) averaged 10 per cent for more than 10 years, until 2007, and was still close to 9 per cent in 2009 and 2010 despite the worldwide financial crisis and soaring food prices. As a result of rapid economic growth and a declining population, per capita GDP rose from CNY 381 in 1978 to CNY 29,700 (US\$4,500) in 2010; in 2009, per capita gross national income (GNI) in nominal terms (calculated by the Atlas method) was an estimated US\$3,650. These results were achieved against a backdrop of far-reaching structural transformation. A gradual but significant shift in the composition of GDP took place, with the share of agriculture declining from 30 per cent in 1980 to 10 per cent in 2009 in favour of industry and services. Throughout this period, China also improved on indicators of human development. Overall life expectancy at birth stood at about 75 years in 2010.
2. **Agriculture and rural development.** Some 745 million persons – 56 per cent of the population (1.341 billion people in 2010) – still reside in rural areas, where 64 per cent of the population are engaged in farming, forestry, animal husbandry and aquaculture. Although the average per capita income for rural people rose from CNY 686 in 1990 to CNY 5,919 in 2010, it was still less than a third of the then per capita disposable income of urban households of CNY 19,109. Despite these figures, achievements in the agricultural sector since 1978 are impressive. Overall per capita food crop production rose from 319 kg in 1978 to 400 kg in 2010, mainly thanks to productivity increases. China experienced its seventh consecutive year of bumper harvests in 2010, recording more than 500 million tons of grain harvested for the fourth consecutive year. With only 9 per cent of the world's arable land, China is feeding 20 per cent of the world's people. The Government has consistently met the food security goal under its agricultural policy while at the same time reducing rural poverty.
3. **Poverty reduction.** Broad participation in reform-driven economic growth, together with a well-funded national poverty reduction programme, have brought about a remarkable reduction in absolute rural poverty in China during the past 30 years. Based on the previous poverty line of CNY 1,274 per capita, the rural poor population declined from 250 million in 1978 to 27 million in 2010, representing a drop in prevalence from 31 per cent to 4 per cent. On 29 November 2011, the government raised the poverty line to a per capita net income of CNY 2,300 per annum, which brings the number of poor to about 128 million people. Even so, China already exceeds the Millennium Development Goal of halving the proportion of its population with incomes below US\$1 a day between 1990 and 2015. However, the distribution of poverty between and within provinces varies widely. An increasing share of the remaining rural poor are concentrated in the western

provinces, including Hunan. Poverty reduction in these areas, beset by poor resources and adverse conditions, is more challenging.

4. Poverty in China remains primarily a rural phenomenon. Poor households tend to derive a larger share of their income from agriculture, where productivity is low, than do rural households as a whole. The main causes of poverty include: frequent natural calamities, increasingly caused by extreme weather conditions; remoteness and poor infrastructure and facilities; a limited natural resource and asset base; lack of skills; and limited access to inputs, markets and productive assets. Labour migration is, consequently, an integral part of rural household livelihood coping strategies. In 2010, some 153 million rural labourers took up employment outside their villages, representing just over 20 per cent of the current rural population and more than 35 per cent of the rural labour force. About 65 per cent of the migrant workers are reportedly male, confirming the increasing trend of rural labour feminization. Around 84 per cent of the migrant workers are aged 16-40 years, highlighting the risk of losing the most active and educated component of rural labour for agricultural development.
5. Hunan province is located in central China. It had an estimated population of 65.7 million in 2010, consisting of 41 ethnic groups, about 90 per cent of whom are Han and 10 per cent ethnic minorities. Hunan is one of China's poorer provinces, with some 20 nationally-designated poor counties, out of a total of 122, where rural net income per capita averaged CNY 2,418 in 2009 compared to the province-wide average of CNY 4,910. The proposed Hunan Agricultural and Rural Infrastructure Improvement Project (HARIIP) will cover mainly these poor counties. Hunan province is considered one of the country's agricultural provinces – yet its inadequate rural infrastructure limits productivity enhancement and livelihood improvement opportunities. Effective irrigation area is less than 50 per cent for the already very limited cultivated land, and 90 per cent of irrigation canals are unlined and therefore prone to losses.

## **B. Rationale and alignment with government priorities and RB-COSOP**

6. China's twelfth five-year plan for national economic and social development (2011-2015) calls for harmonized growth to enable poor areas and populations to benefit from the country's economic growth and social development. The 10-year (2011-2020) rural poverty reduction and development programme also recognizes rural poverty as a long-term challenge that persists especially in the poor western provinces, border areas, ethnic minority areas and the former revolutionary bases, which are mostly remote and mountainous. The Government's aim under both endeavours is to reduce poverty by improving infrastructure, pursuing green agriculture, strengthening marketing and financial services for the poor, encouraging private entrepreneurs and farmer organizations, developing off-farm economic activities and supporting controlled migration.
7. IFAD's 2011-2015 results-based country strategic opportunities programme (COSOP) for China is fully aligned with the government's twelfth five-year plan and the above-mentioned 2011-2020 rural poverty reduction and development programme. Its three strategic objectives are: (a) the rural poor in targeted areas sustainably use enhanced productive natural and economic assets and improved technology and advisory services in a changing environment and market conditions; (b) the rural poor and their organizations are enabled to take advantage of improved market access and financial services for increased income generation and enhanced resilience to risks; and (c) enhanced South-South cooperation and knowledge management provide opportunities for sharing knowledge generated through innovation and the scaling up of good practices in rural development.
8. This is the second intervention under the RB-COSOP. IFAD's involvement in it will: (a) provide the rural poor with productive assets and community facilities;

(b) develop commercial agriculture through improved value chains and market access; and (c) support farmers' cooperatives. These will be in the form of successful modules to be scaled up by the Government, IFAD and others. Thus, the underlying rationale of HARIIP is to facilitate government investments in the remote mountainous and hilly rural areas of Hunan, populated by smallholder farmers and ethnic minorities. It will add value to government programmes by developing innovative and effective strategies for scaling up.

9. **Links with complementary projects.** HARIIP will establish links with relevant government and donor-funded interventions in the project areas, to take advantage of complementarities, maximize synergies and avoid duplications, and share lessons learned. The most relevant of these include: (a) the national T-Bond Biogas Development Project, initiated in 2003; (b) the Demonstration County Agricultural Extension Service Reform launched in 2009, which introduces participatory approaches into the agricultural extension system and improves township extension stations; and (c) the Eco-Farming Project, which provides 18 counties with biogas systems and supports the development of livestock and agriculture.
10. **Integration within the IFAD country programme.** The HARIIP design took into account achievements and lessons learned under completed and ongoing IFAD projects, mainly in connection with the modular approach, demonstration and scaling up, capacity-building, targeting and the M&E framework. HARIIP will further explore innovative approaches in the following fields: (a) enhanced leverage of productive infrastructure; (b) diversified on-farm and off-farm income-generating activities (IGAs); (c) orchard-poultry integrated farming; (d) sustainable agroforestry; (e) improved market access through grass-roots cooperative strengthening; (f) service-centred support system; and (g) interlinking and mutual leverage among productive assets and resources, income generation modalities and service support mechanisms.

## II. Project description

### A. Project area and target group

11. HARIIP will be implemented in nine counties of Hunan province. Four are nationally-designated poor counties, and the others have persistent pockets of poverty. Five are ethnic autonomous counties. The project area is in the poorest, least fertile, least accessible and least developed areas of the province. The total arable area of the nine project counties is 564,000 ha, of which 27 per cent is cultivated (21 per cent with paddy field and 6 per cent dryland), 43 per cent is protected forest, and 25 per cent is economic forest. The nine counties administer 204 townships and 4,022 administrative villages, comprising 1,285,250 households (4.3 million people). Of the 204 townships, 97 have been selected for the project area based on their poverty and vulnerability, inadequate infrastructure and potential for innovation. Among these, some 589 target villages, with a total population of about 760,000 (182,000 households), have been identified as prime recipients of project support.
12. Project support will focus on counties and villages with the highest incidence of poverty. Within project villages, priority will be given to poor households whose members are economically active and physically able to participate in project activities. Of these, women and minorities will receive special attention as they are socio-economically disadvantaged. While the social status of women is generally perceived as high, they are not on an equal footing with men in terms of economic situation and status. About 27 per cent of the population of the project area belong to ethnic minorities (mostly the Miao, Tujia, Dong and Yao people). In general, they are economically more vulnerable due to their remoteness, typically in mountainous areas with poor infrastructure, and low levels of education and healthcare. More than 50 per cent of HARIIP-funded activities, including the root and tuber crops development module, are aimed at counties where ethnic minorities predominate.



## B. Project development objective

13. The project goal is rural development and poverty reduction in targeted areas of Hunan Province. Its specific objective is to increase incomes and improve food security for 182,000 rural households by improving agricultural production and rural infrastructure.

## C. Components/outcomes

14. HARIIP has three components: (a) community infrastructure improvement; (b) sustainable agricultural development and market access support; and (c) project coordination and management.
15. **Community infrastructure improvement** will lay the groundwork for expanded and improved agricultural production, decreased physical isolation and, thus, improved integration into marketing value chains, and improved productive and household assets for rural communities in the project area. Project interventions include: lining existing earthen irrigation canals, improving village roads, building drinking water supply facilities and upgrading the rural electricity grid. Training for beneficiaries and project staff will also be supported. Implementation responsibilities will rest with the technical bureaus at county level depending on the activity, including the Bureau of Water Resources (BoW), the Bureau of Health (BoH), the Bureau of Transportation (BoT), and the Bureau of State Electricity Grid (BoSG). At the village level, the village implementing groups (VIGs) will oversee the works. Participation by the poorest farmers, women and minorities will ensure that their interests are taken into consideration.
16. **Sustainable agricultural development and market access support** will work towards the sustainable development of diversified and adaptive agriculture by providing improved production inputs, technologies, technical services support and market access. It includes support for six modules:<sup>1</sup> cash crop/off-farm IGAs, orchard-poultry integrated farming, agroforestry development, support to farmers cooperatives, technical service support, and root and tuber crops development. Training will be provided to the institutions responsible for implementation prior to module start-up.
17. *Cash crop/off-farm IGAs (module 1)* aims to increase and diversify farmers' income sources to strengthen their resilience to natural calamities and market shocks. Activities include agricultural input supply and beneficiary training. The Bureau of Agriculture (BoA) will be in charge of implementation.
18. *Orchard-poultry integrated farming (module 2)* aims to achieve a more effective and efficient use of limited available resources by combining poultry production with that of fruits and non-timber forest products. Project support will include improving poultry sheds and supplying chicks, feed, medicine and beneficiary training. The Bureau of Livestock (BoL) will be the implementing agency.
19. *Agroforestry development (module 3)* explores the sustainable income generation potential of economic trees. Project support includes planting materials, inputs, on-farm facilities, beneficiary training and model dissemination. The module will promote improved varieties of economic trees. The State Forestry Administration (SFA) will be in charge of implementing the module.
20. *Support to farmers cooperatives (module 4)* will strengthen their capacities and connect them with appropriate value chains. Economically active poor households and female-headed households will be systematically mainstreamed into the cooperatives. The expected outcomes include a larger premium share in the value chain for members, sustainable technical support capacity among cooperatives and better market intelligence. BoA will be in charge of implementation.

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<sup>1</sup> A module is a small-scale set of interrelated activities aimed at achieving a specific objective that can be implemented independently of other modules and is replicable.

21. *Technical service support (module 5)* aims to improve the grass-roots agrotechnical services network and enhance the effectiveness of service delivery and farmer-to-farmer extension. Module activities include supplying essential equipment, tools and transportation; staff training; and trial and demonstration activities. BoA level will be the implementing agency. This module is also applicable to the forestry sector when local needs arise, in which case the SFA will be the implementing agency.
22. *Root and tuber crops development (module 6)* is intended to increase and diversify farmers' income sources in five project counties through the development of root and tuber crops, to build resilience to food price fluctuations, natural calamities and market shocks. Activities include: input supply, irrigation development and beneficiary training. The module will be cofinanced with an IFAD grant and implemented by BoA, working closely with the concerned research institutions.
23. **Project coordination and management** will involve the establishment of an effective management and coordination structure in project management offices (PMOs) at provincial, county and township levels, and for the prefecture of Xiangxi. HARIIP will support a VIG in each village to assist with coordination and implementation at village level.

### III. Project implementation

#### A. Approach

24. The project approach adapts the successful practices of IFAD projects in China. PMOs at all levels will be responsible for planning, coordinating, monitoring and reporting. Implementation will remain with designated implementing agencies, which will ensure coordination with government activities. Annual workplans and budgets (AWP/Bs), developed through participatory approaches, will be the basis for implementation. A VIG has been established in each village to take charge of appropriate targeting, participatory planning, implementation, monitoring and sustainable maintenance of project outputs. The project's targeting strategy incorporates the following elements: eligible counties and townships were identified through a participatory poverty analysis during design; priority will be given to poor and vulnerable groups, identified through participatory perceived wealth ranking exercises conducted by VIGs; and inclusive targeting for community level activities will be combined with focused targeting for production activities to ensure that benefits accrue to poor households.

#### B. Organizational framework

25. **The Ministry of Finance** is IFAD's country counterpart. As the authorized representative of the borrower, it will receive the proceeds from IFAD's loan and grant for HARIIP and pass them on to the Department of Finance (DoF) of Hunan province, which will subsequently pass them on to the project prefecture and counties.
26. **The lead project agency** is the Department of Agriculture of Hunan Province, which will be responsible for the overall coordination and supervision of the project activities.
27. A project coordination group (PCG) will be established at the province level to provide overall implementation guidance and coordination support. It will be chaired by the Director General of the Hunan Province DOA and composed of representatives from the local DOA, DOF and the Development and Reform Commission (DRC). Other relevant line agencies will be invited to participate as necessary.
28. **Project leading groups.** At the Xiangxi Prefecture and county levels, PLGs will be established to oversee implementation. PLGs will be led by a senior official and composed of representatives from local bureaux of finance, DRC and key line agencies, including BoA, Bureau of Water Resources, BoT, the local Women's

Federation and the Poverty Alleviation Office. They will be responsible for overall supervision and oversight, coordination of the government bureaus and agencies involved in project implementation, review and endorsement of AWP/Bs and annual progress reports, and coordination of counterpart resources.

29. **The Department and Bureaus of Finance (DoF/BoFs)** will be responsible for operating project accounts, administering project resources, ensuring the effective flow and use of project resources, preparing withdrawal applications and reimbursing eligible project expenditures on time.
30. **Project management offices.** The project will establish a provincial PMO in Changsha, a prefecture PMO in Jishou for the prefecture of Xiangxi to oversee project activities in the four counties under its jurisdiction, county PMOs in the nine project counties, and, where appropriate, a township PMO in each of the 97 townships. These are dedicated structures or focal points within existing institutions. Operations will be substantially decentralized to the county PMOs to ensure sustainability, with the provincial and prefecture PMOs performing overarching functions of planning, coordination, monitoring and reporting. The responsibilities of the provincial PMO include: consolidation of AWP/Bs; overseeing implementation; consolidation of statements of expenditures and processing withdrawal applications; procurement; and organizing baseline and Results and Impact Management System (RIMS) surveys. County PMOs will be responsible for implementation at county level. Township PMOs will provide support to the county PMOs and implementing agencies, oversee VIGs, identify eligible villages, review village implementation plans and consolidate M&E data.

### **C. Planning, monitoring and evaluation, and learning and knowledge management**

31. **Planning.** HARIIP will follow the current practice of IFAD-funded projects in China in relying on AWP/Bs as a planning tool. Their preparation will be demand-driven and participatory, and will involve VIGs and implementing agencies. They will describe the financial and physical progress made, planned project activities, the procurement plan for at least 18 months, and the implementation schedule by semester. The provincial PMO will consolidate the AWP/B and submit it to IFAD for approval. The first AWP/B will be submitted before project start-up. From the second year on, the provincial PMO will submit consolidated AWP/Bs to IFAD for comment before 31 October of each year.
32. **Monitoring and evaluation.** HARIIP will adopt the M&E framework of IFAD in China, which is in line with IFAD's RIMS. Overall responsibility for M&E, and for sharing lessons learned with all stakeholders, will be vested in the M&E specialists in provincial PMOs and county PMOs. Key M&E functions will include: regular M&E reviews; measuring project impact on incomes and food security; technical backstopping and continuous external support for reporting; and training for M&E officers. The M&E results will guide preparation of the next AWP/B and adjustments to the logical framework.
33. **Learning and knowledge management.** The project knowledge management strategy will build on the experiences of IFAD projects in China. The provincial PMOs and county PMOs will be responsible for capturing and documenting lessons learned, and organizing regular workshops to disseminate these for scaling up.

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

34. **Financial management.** The financial reporting and accounting practices currently followed by the DoF of Hunan province are acceptable to IFAD. Two designated accounts for the IFAD loan and grant will be opened by the DoF in a bank acceptable to IFAD, through which all IFAD funding will be channelled. An agreed amount, approximately equal to eligible expenditures over the first six months, will be deposited into the accounts once the loan and grant enter into force and their

disbursement conditions are met. Subsequent replenishments of the designated accounts will be effected through withdrawal applications with supporting documents or statements of expenditures, in line with IFAD procedures. Project accounts denominated in Chinese Yuan will be opened and maintained by the provincial PMOs, county BoFs, and county PMOs. Most of the financing will flow from the designated accounts to the accounts held by BoFs and then to those held by county PMOs. Part of the funds will flow from the designated accounts to the PMOs' project accounts. For Xiangxi Prefecture, funds will flow to the four county PMO project accounts via the prefecture BoF's project account in CNY.

35. **Retroactive financing.** As an exception to the General Conditions for Agricultural Development Financing, provision is made for retroactive financing of up to SDR 650,000 from the IFAD loan for the first year of the project to prefinance essential items of equipment and materials, start-up training and workshops, technical assistance and studies and agricultural materials excluding vehicles, incurred as from 2 December 2011.
36. **Procurement.** Project procurement will follow national procedures when they are consistent with the IFAD Procurement Guidelines. To the extent possible, goods, civil works and consulting services financed by IFAD will be combined into sizeable packages to optimize competitive bidding. Procurement will be documented for ex post review by IFAD and for audit purposes. Goods to be procured include vehicles, equipment and furniture. Vehicles will be procured through local competitive bidding, other items by local shopping. Civil works may be procured by means of either method. Technical services, training, workshops and studies will be procured by local shopping. Community participation in procurement may apply for some modules or activities.
37. **Auditing.** In line with article IX, section 9.03. of the General Conditions for Agricultural Development Financing and the IFAD Audit Guidelines, the provincial, prefecture and county audit offices, which operate as independent bodies under the respective government offices, will audit project accounts. They will review all statements of expenditure and consolidated financial statements, and issue an independent opinion on their eligibility. They will also review the efficiency of the flow of IFAD funds and counterpart financing. IFAD may engage independent auditors to audit project accounts and/or conduct visits, inspections and enquiries in accordance with section 10.03. of the General Conditions, to verify adherence to acceptable standards.

## **E. Supervision**

38. To facilitate project implementation and ensure the achievement of its objectives, IFAD and the Government will perform regular reviews. Annual supervision missions sent by IFAD, and to the extent possible jointly with the Government, will review: implementation progress and performance; fiduciary aspects; targeting and gender mainstreaming; results and impact; risks and opportunities; innovations and knowledge management; and sustainability. The first supervision mission will focus on: adherence to the project strategies and institutional performance, including implementation arrangements, targeting and appropriateness of procurement; functioning of the M&E system; and financial management. It will include a team leader/institutional expert, a rural engineer, an agriculturalist, a cooperative and marketing expert, and a social scientist.

## **IV. Project costs, financing, benefits**

### **A. Project costs**

39. The total project costs, including contingencies, are estimated at US\$93.2 million (CNY 613.6 million) over five years (table 1). Physical and price contingencies account for about US\$0.3 million and US\$4.5 million, or 0.3 per cent and 5 per cent respectively of total project base costs. Applicable direct and indirect taxes are

US\$4.4 million or 5 per cent of total project costs. Investment costs amount to US\$85.8 million or CNY 522 million (92 per cent of base costs), and recurrent costs US\$7.37 million or CNY 49.0 million (8 per cent).

## B. Project financing

40. IFAD financing and government resources, including beneficiary contributions, will be used to fund project expenditures jointly at an average ratio of about 1:1 (table 2). Both IFAD and counterpart funds will be used to jointly finance project investment costs, including all module implementation costs, vehicles, equipment and materials, as well as the cost of workshops, training, technical assistance and studies. The Government and beneficiaries will finance all recurrent costs. Beneficiaries will finance only the operation and maintenance of community infrastructure.

Table 1  
Project costs by components

	(CNY '000)			(US\$ '000)			% Foreign Exchange	% Total Base Costs
	Local	Foreign	Total	Local	Foreign	Total		
A. Community Infrastructure	372,042	-	372,042	58,132	-	58,132	-	66
B. Sustainable Agriculture & Marketing Access	141,387	-	141,387	22,092	-	22,092	-	25
C. Project Management Office (PMO)								
1. Provincial & Xiangxi Prefecture PMO	9,623	721	10,344	1,504	113	1,616	7	2
2. County PMO	41,730	225	41,955	6,520	35	6,555	1	7
Subtotal Project Management Office (PMO)	51,353	946	52,299	8,024	148	8,172	2	9
<b>Total BASELINE COSTS</b>	<b>564,782</b>	<b>946</b>	<b>565,728</b>	<b>88,247</b>	<b>148</b>	<b>88,395</b>	<b>-</b>	<b>100</b>
Physical Contingencies	1,781	-	1,781	278	-	278	-	-
Price Contingencies	46,044	92	46,136	4,516	9	4,525	-	5
<b>Total PROJECT COSTS</b>	<b>612,607</b>	<b>1,038</b>	<b>613,645</b>	<b>93,042</b>	<b>157</b>	<b>93,199</b>	<b>-</b>	<b>105</b>

Table 2  
Project financing: Components by financiers (in thousands of US dollars)

	IFAD		IFADGart		The Government		Beneficiaries		Total		Fr. Exch.	Local (Excl. Taxes)	Dues & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. Community Infrastructure	31,182	50.8	-	-	29,589	48.2	588	1.0	61,359	66.8	-	58,320	3,039
B. Sustainable Agriculture & Marketing Access	13,265	57.1	881	3.8	9,094	39.1	-	-	23,240	24.9	-	23,043	197
C. Project Management Office (PMO)													
1. Provincial & Xiangxi Prefecture PMO	599	34.7	56	3.3	1,089	62.0	-	-	1,725	1.9	121	1,449	154
2. County PMO	953	13.9	63	0.9	5,859	85.2	-	-	6,875	7.4	36	5,792	1,047
Subtotal Project Management Office (PMO)	1,552	18.0	119	1.4	6,928	8.06	-	-	8,600	9.2	157	7,241	1,202
<b>Total PROJECT COSTS</b>	<b>46,000</b>	<b>49.4</b>	<b>1,000</b>	<b>1.1</b>	<b>46,611</b>	<b>48.9</b>	<b>588</b>	<b>0.6</b>	<b>93,199</b>	<b>100.0</b>	<b>157</b>	<b>88,604</b>	<b>4,437</b>

## C. Summary benefit and economic analysis

41. **Beneficiaries and benefits.** Some 182,000 households will benefit directly, of which more than 50 per cent are poor and vulnerable, and 50 per cent headed by women. Immediate project benefits will be increased revenue and food security from the yearly incremental production of at least 51,000 metric tons of cash crops, fruits and vegetables, root crops and tea. These increases will be achieved through the demonstration and scaling up of niche and cash crops, improved irrigation and transport infrastructure, improved access to information and markets, better conditions for technical training and extension, and enhanced effectiveness of technical services. Rural women and ethnic minorities in the project area will be empowered economically and socially.
42. **Economic analysis.** The overall economic internal rate of return (EIRR) of the project is estimated at 29 per cent for the base case. Project net present value of the net benefit stream, discounted at 8 per cent, is US\$193.2 million or CNY 1,205 million. Sensitivity analysis indicates that a 10 per cent increase in project costs would reduce the EIRR to about 27 per cent; a 20 per cent cost overrun coupled with a 20 per cent decrease in benefits would reduce it to 23 per cent; while a two-

year lag would only reduce it to 22 per cent. This indicates that the project is relatively robust (see table 3).

Table 3  
Sensitivity analysis

	Change in incremental project benefits					
	-20%	-10%	0%	10%	20%	
Change in project costs	-20%	28.6%	30.4%	32.0%	33.5%	34.9%
	-10%	26.8%	28.6%	30.2%	31.7%	33.1%
	0%	25.2%	27.0%	<b>28.6%</b>	30.0%	31.4%
	10%	23.9%	25.6%	27.1%	28.6%	29.9%
	20%	22.6%	24.3%	25.8%	27.3%	28.5%

## D. Sustainability

43. The overall sustainability of HARIIP is rated high, taking into account several built-in success factors: the existence of the government programme that HARIIP will complement, the seamless integration of PMOs into local government structures, and high community ownership of project activities and infrastructure. In addition, clear sustainability strategies and approaches included in design include the following: (i) all civil works will be handed over to government agencies or local communities for operation and maintenance; (ii) the crops and livestock development modules are highly appreciated by farmers, thus guaranteeing their scaling up; (iii) supported cooperatives will operate under normal market conditions, draw on services from existing public operators, and work in partnership with private operators; and (iv) implementation approaches are flexible, in particular the modular approach.

## E. Risk identification and mitigation

44. Project design is based on the demands of potential beneficiaries. Activities are in line with the Government's policies and strategies for poverty reduction and rural development. Project risks will therefore relate to the rapidly changing socio-economic environment and its impact on implementation. Other risks may arise, such as natural disasters (flood, drought, etc.) due to climate change. All risks will be mitigated by the demand-driven nature and modular approach of the project, which allows for ongoing adjustments to address problems. Also, government programmes and institutions will step in to mitigate relevant risks if they arise. PMOs will play an important role in monitoring risks and ensuring that those jeopardizing project success are addressed appropriately.

## V. Corporate considerations

### A. Compliance with IFAD policies

45. The HARIIP design is in line with IFAD's policies. Specific gender mainstreaming strategies have been designed in compliance with IFAD's gender policy; a poverty focus, and particularly the criteria for the selection of beneficiary villages and households, are in line with IFAD's targeting policy; participatory approaches for project planning are designed in line with IFAD's governance policy; the strategy for scaling up is in line with IFAD policy; climate-related risks are analysed and measures to mitigate potential negative impacts of climate change are designed in line with IFAD's climate change policy; and potential negative environmental impact have been analysed and mitigation measures designed in line with IFAD's environmental policy.

## **B. Alignment and harmonization**

46. HARIIP is aligned with the government's twelfth five-year plan for 2011-2015, and with the 10-year rural poverty reduction and development programme for 2011-2020. IFAD's Strategic Framework 2011-2015 is also fully consistent with both the plan and the programme. The project will contribute to government endeavours for reducing rural poverty and promoting agricultural development. It will follow local procurement and financial management procedures when they are in line with IFAD's own, in addition to using existing implementing units within the provincial governments.

## **C. Innovations and scaling up**

47. The project knowledge management strategy will build on the experiences of previous and ongoing IFAD projects in China. Both provincial PMOs and the county PMOs will be responsible for capturing and documenting lessons, and organizing regular workshops to disseminate best practices and innovations for scaling up. Plans to scale these up within the project area will be incorporated into the project's AWP/Bs. Development partners (government and others) will be encouraged to incorporate scaling up the best practices and innovations into their own development plans. Ambitions of project partners regarding innovations will be screened systematically and periodically reassessed. Priority will be given to identifying and mobilizing local sources of innovation.

## **D. Policy engagement**

48. Under HARIIP, IFAD will seek to build consultative frameworks with selected institutions to identify relevant topics and policy advisory actions for research and study. The key issues to be considered are: (a) root and tuber crops research and development for food security; (b) natural resource management within the context of climate change and natural disasters; (c) support for decentralization to farmers' organizations or cooperatives; and (e) pursuit of innovation and scaling up best practices. IFAD will provide discussion inputs and set up discussion forums and South-South cooperation seminars, on the clear understanding that policymaking is an exclusively national responsibility.

## **VI. Legal instruments and authority**

49. A project 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 is attached as an annex.
50. The People's Republic of China is empowered under its laws to receive financing from IFAD.
51. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

## **VII. Recommendation**

52. 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 equivalent to thirty million two hundred and fifty thousand special drawing rights (SDR 30,250,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the People's Republic of China in an amount equivalent to six hundred and sixty thousand special drawing rights (SDR 660,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze  
President



**Negotiated financing agreement:  
"Hunan Agricultural and Rural Infrastructure  
Improvement Project (HARIIP)"**

(Negotiations concluded on 6 September 2012)

Loan Number: \_\_\_\_\_

Grant Number: \_\_\_\_\_

Project Title: Hunan Agricultural and Rural Infrastructure Improvement Project  
(the "Project")

People's Republic of China (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

**Section A**

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions"), are annexed to this Agreement, and all provisions thereof shall apply to this Agreement, (except for Section 4.08 (a) (i) in respect of the provision identified in Schedule 2, paragraph 2). For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan and a Grant to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

**Section B**

4. The amount of the Loan is thirty million two hundred fifty thousand Special Drawing Rights (30 250 000 SDR). The amount of the Grant is six hundred sixty thousand Special Drawing Rights (660 000 SDR).
5. The Loan is granted on ordinary terms and shall have a maturity period of eighteen (18) years including a grace period of five (5) years.
6. The Loan Service Payment Currency shall be the currency of the United States of America.
7. The first day of the applicable Fiscal Year shall be 1 January.

8. Payments of principal and interest shall be payable on each 15 June and 15 December.
9. There shall be two Designated Accounts denominated in US dollars opened and maintained by the Department of Finance (DOF) of the Hunan Province in a Bank acceptable to the Fund through which respectively the Loan and Grant proceeds shall be channelled. DOF shall be responsible for the Designated Accounts. The Borrower shall inform the Fund of the officials authorized to operate the Designated Accounts.
10. The Borrower shall cause the government of Hunan to provide counterpart financing for the Project in the amount equivalent to USD 45.6 million.
11. There shall be Project Accounts opened in Banks acceptable to the Fund and maintained by each of the County where Project activities will be implemented. For the Xiangxi Prefecture, the funds will be channelled from the DOF to the four (4) Counties through the Xiangxi Bureau of Finance (BOF). The Provincial Project Management Office (PPMO), the Prefecture Project Management Office (Prefecture PMO) of Xiangxi, all County Project Management Offices (CPMOs) and Implementing Agencies (IAs) shall maintain Implementation Accounts in local currency to receive the proceeds of the financing and/or the counterpart funding.

### **Section C**

12. The Lead Project Agency shall be the Department of Agriculture (DOA) of the Hunan Province for the overall coordination and supervision of the Project activities.
13. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

### **Section D**

14. The Financing will be administered and the Project supervised by the Fund. In addition to supervision missions which shall normally be carried out each six (6) months, the Fund shall conduct a mid-term review to be carried out towards the third year of Project implementation.

### **Section E**

15. The following are designated as additional conditions precedent to withdrawal:
  - (a) The PPMO and at least one CPMO shall have been duly established and composed in accordance with Schedule 1, Section II and the respective Project staff shall have been selected;
  - (b) The Borrower through the DOA of the Hunan Province shall have caused the PPMO to submit, and the Fund shall have received, an official document confirming the availability of adequate counterpart funds for the first Project Year;
  - (c) The Designated Accounts shall have been duly opened and the authorized signatories shall have been submitted to the Fund.

16. The following is designated as an additional condition for suspension:
- (a) The Project Implementation Manual (PIM), or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project.
17. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

Ministry of Finance  
No. 3 Nansanxiang, Sanlihe, Xicheng District  
Beijing 100820  
People's Republic of China

Facsimile Number: +86 10 68551125

For the Fund:

International Fund for Agricultural development  
Via Paolo di Dono, 44  
00142 Rome, Italy

This Agreement, dated [\_\_\_\_\_], has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

PEOPLE'S REPUBLIC OF CHINA

\_\_\_\_\_  
[Name of Authorized Representative]  
[Title]

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

\_\_\_\_\_  
Kanayo F. Nwanze  
President

## Schedule 1

### *Project Description and Implementation Arrangements*

#### **I. Project Description**

1. *Target Population.* The Project shall benefit men and women from rural households, with a focus on poor and vulnerable households, including ethnic minorities, in the following nine (9) Counties of the five (5) Prefectures of the Hunan Province: Linxiang and Yueyang of Yueyang Prefecture, Taoyuan of Changde Prefecture, Shaodong of Shaoyang Prefecture, Longshan, Guzhang, Luxi and Fenghuang of Xiangxi Prefecture and Jingzhou of Huaihua Prefecture (the "Project Area"). Any changes in the Prefectures and/or Counties shall be agreed upon by the Borrower and the Fund.
2. *Goal.* The goal of the Project is rural development and poverty reduction in the Project Area.
3. *Objectives.* The specific Project objective is to increase revenues, improve family food security, and strengthen the resilience of approximately 182 000 rural households in nine (9) Counties, from improved agricultural production and rural infrastructure. By the end of Project implementation, the following results will have been achieved: incomes of the rural poor in targeted areas increased by approximately 25%, at closing date; and approximately 70% of beneficiary households report improved food security as compared to the agreed baseline.
4. *Components.* The Project shall consist of the following Components: (a) community infrastructure improvement, (b) sustainable agricultural development and market access support, and (c) Project coordination and management.

**Component A - Community infrastructure improvement.** The objective of this Component is to strengthen the economic capacities at community level, especially the productive and livelihood assets for expanded and improved agricultural production, decreased physical isolation and improve integration into the market value chains. The Component will be achieved through the following activities:

- (a) Improvement of irrigation facilities. The goal of this intervention is to support irrigation canal lining to improve farmland productivity, especially the lining of lateral canals connecting with the fields of farmer households. This intervention includes beneficiary training for the application of water-saving irrigation techniques and the sustainable operation and maintenance of the works. Under this activity, the following steps will be undertaken: (i) a water resources study will be conducted to assess the availability and downstream impact of the water sources, (ii) a topographic survey will be performed by the Bureau of Water Resources (BOWR), (iii) Water Users Associations (WUAs) will be established and registered officially in accordance with prevailing laws and regulations, (iv) design of an irrigation scheme to be discussed with the WUAs, and (v) implementation of the irrigation scheme.
- (b) Paving of existing village roads. The goal of this intervention is to improve the access of the rural poor to markets, information and technical services through the pavement of existing earthen roads of bad conditions with concrete, which connect administrative villages or natural villages to the outside road network.

- (c) Construction of community facilities of safe water drinking supply. The goal of this intervention is to improve the access of the rural poor to the sources of safe drinking water through building collective drinking water supply systems in villages which currently have difficult access to safe drinking water. This intervention includes trainings to the WUAs and beneficiaries in order to ensure sustainability.
- (d) Upgrading the rural electricity grid in selected Counties.

### **Component B - Sustainable agricultural development and market access**

**support.** The objective of this Component is to strengthen the self-development capacities of the rural men and women and improve their income generation opportunities by supporting the sustainable development of diversified and adaptive agriculture at the levels of production and service support. To this end a modular approach will be adopted and the capacity-building of the extension services and the Bureau of Agriculture (BOA) tasked with the implementation of the modules, shall be enhanced through training.

*Module 1: Cash crop/off-farm.* This module aims at increasing and diversifying farmers' income sources in the Project Area through the development of cash crops. Activities under this module include the provision of planting materials and inputs and training.

*Module 2: Orchard-poultry integrated farming.* This module aims to introduce an optimal integrated farming model at smallholder level by combining poultry production with short-term and quick returns with the production of fruits and non-timber forest products with long-term benefits. Activities under this module include the improvement of poultry sheds and provision of chickens, feeding materials, medicines and training.

*Module 3: Agro-forestry.* The objective of this module is to sustainably explore the income generation potential of diverse economic trees while maintaining a sound balance in forestry conservation and protection. The module promotes the introduction of improved varieties of economic forest species and the improvement of existing low-yield economic forests. Activities under this module include the provision of planting materials, fertilizer and other inputs on farm facilities and training.

*Module 4: Support to farmers' cooperatives.* The aim of this module is to provide support to the existing and newly established cooperatives through training, the provision of office equipment and essential equipment required for the improvement of production and marketing. Activities under this module include: (i) inventory and selection of potential cooperatives according to agreed selection criteria, (ii) analysis of the current state of cooperative and assistance for the drafting of new internal rules and regulation for the running of the cooperative, (iii) training needs assessment of the cooperatives, (iv) development of an agreed strategic plan and action plan for the cooperatives.

*Module 5: Technical service support.* The objective of this module is to improve the grassroots agro-technical services network and enhance the effectiveness of service delivery. Module activities include the support to the provision of essential equipment, tools and transport means, training and trial and demonstration activities and capacity building of the township extension agent.

*Module 6: Root and tuber crops.* The objective of this module is to increase and diversify farmers' income sources through the development of root and tuber crops in Counties agreed upon by the Fund and the Borrower. Activities under this module include: provision of seeds and fertilizers, irrigation development and training.

**Component C - Project coordination and management.** This Component includes the establishment and operations of a PPMO in Changsha, one Prefecture PMO in Jishou for the prefecture of Xiangxi, CPMOs in each of the Counties of the Project Area and Township PMOs (TPMOs) in each township as appropriate.

## **II. Implementation Arrangements**

### **A. Organization and Management**

#### **1. Lead Project Agency**

1.1. The Lead Project Agency shall be the Department of Agriculture (DOA) of the Hunan Province for the overall coordination and supervision of the Project.

#### **2. Project Coordination Group (PCG)**

2.1. *Establishment and Composition.* A PCG shall be established at the Province level. The PCG will be led by the Director General of DOA and shall be composed of representatives from local DOA, DOF and the Development and Reform Commission (DRC). Key line agencies including the Poverty Alleviation Office (PAO), Department of Water Resources (DOWR), Department of Transportation (DOT) and local China Women's Federations may be invited to participate as appropriate.

2.2. *Responsibilities.* The PCG shall provide overall guidance and coordination for Project implementation. Its responsibilities shall include: (i) overall supervision of PMOs' operations, (ii) coordination of counterpart funds for carrying out the Project, (iii) review and approval of Project Annual Work Plans and Budgets (AWPBs) and reports, and (iv) coordination of IAs in Project implementation and reporting.

#### **3. Project Leading Groups (PLGs)**

3.1. *Establishment.* PLGs shall be established at the Xiangxi Prefecture and County levels respectively by the Prefecture and by each County where the Project will be implemented.

3.2. *Composition.* Each PLG will be led by a senior official of government of the same level and composed of representatives from local BOF, DRC and key line agencies including the BOA, PAO, BOWR, Bureau of Transportation (BOT) and local China Women's Federations.

3.3. *Responsibilities.* PLGs shall provide overall guidance and coordination for Project implementation at their respective levels. Their responsibilities shall include: (i) overall supervision of PMOs' operations, (ii) coordination of counterpart funds for carrying out the Project, (iii) review and approval of Project AWPBs and reports, and (iv) coordination of IAs in Project implementation and reporting.

#### **4. Provincial Project Management Office (PPMO)**

4.1. *Establishment.* A PPMO shall be established by the government of Hunan in Changsha. The PPMO shall be located within the DOA.

4.2. *Composition.* The PPMO shall be composed of at least the following key positions: a director, a deputy director, an accountant, a Monitoring and Evaluation (M&E)/planning officer, a knowledge management and gender coordinator. Qualified staff shall be selected according to the Borrower's applicable procedures.

4.3. *Responsibilities.* The PPMO shall be responsible for coordinating Project implementation across the Counties of the Project Area. Its responsibilities shall include: (i) consolidation of AWPBs, (ii) establishment of Project M&E system, (iii) monitoring and supervision of Project implementation, (iv) provision of appropriate training to CPMOs and IAs, (v) consolidation of Statements of Expenditures (SOEs), financial statements, and the preparation of Withdrawal Applications (WAs), (vi) procurement under the Project, and (vii) Project reporting.

#### 5. *Prefecture Project Management Office (Prefecture PMO)*

5.1. *Establishment.* A Prefecture PMO shall be established in Jishou by the government of Xiangxi Prefecture to oversee Project activities in the four (4) Counties under its jurisdiction, namely Longshan, Guzhang, Luxi and Fenghuang.

5.2. *Composition.* The Prefecture PMO shall be composed of at least the following key positions: a coordinator, a deputy coordinator, an accountant, a M&E/planning officer, and a knowledge management and gender coordinator. Qualified staff shall be selected according to the Borrower's applicable procedures.

5.3. *Responsibilities.* Under the coordination of the PPMO, the Prefecture PMO shall be responsible for performing overarching functions of planning, coordination and monitoring Project implementation at Prefecture level, with the operations being substantially decentralised to the CPMOs. Its responsibilities shall include: (i) coordination of AWPBs submitted by the four (4) Counties, (ii) monitoring and supervision of Project implementation, (iii) provision of appropriate training to CPMOs in terms of Project implementation, (iv) preparation of SOEs, financial statements and claim documents, and (v) Project reporting.

#### 6. *County Project Management Offices (CPMOs)*

6.1. *Establishment.* CPMOs shall be established in each County of the Project Area through an official document from the government. The CPMOs shall be located within the BOAs.

6.2. *Composition.* The CPMOs shall be composed of at least the following key positions: a director, a deputy director, an accountant, a M&E/planning officer, and a knowledge management and gender coordinator. Qualified staff shall be selected according to the Borrower's applicable procedures.

6.3. *Responsibilities.* The CPMOs shall be responsible for coordinating Project implementation at County level. Their responsibilities shall include: (i) development of AWPBs through participatory approaches, (ii) monitoring and supervision of Project implementation, (iii) facilitation of the establishment of the Village Implementing Groups (VIGs), (iv) provision of appropriate training to IAs, TPMOs and VIGs in terms of Project implementation, (v) preparation of SOEs, financial statements and claim documents, (vi) organising of Project procurement, and (vii) Project reporting.

#### 7. *Township Project Management Offices (TPMOs)*

7.1. *Establishment.* Where appropriate, TPMOs shall be established by the township governments through an official document from the government, in each township of the Project Area utilising the existing local government facilities.

7.2. *Composition.* The local government shall assign qualified staff to the TPMOs.

7.3. *Responsibilities.* TPMOs will provide support to the CPMO and IAs for implementation of Project activities at village level on an as-required basis. Their responsibilities shall include: (i) oversee the works of VIGs, (ii) identify eligible villages that could participate in Project activities, (iii) facilitate village-level participatory planning activities to determine what activities will be implemented in the villages, (iv) review village implementation work plans, (v) coordinate the township technical stations/centres in Project implementation, (vi) consolidate the M&E data collected by VIGs and submit to CPMOs, and (vii) facilitate the liaison with target villages.

## 8. *Village Implementing Groups (VIGs)*

8.1. *Establishment.* A VIG shall be established by the local authorities with the support of the CPMOs in each selected administrative village.

8.2. *Composition.* The VIG will be chaired by the Head of the village committee and shall include all farmer representatives, women and other representatives of the poor and vulnerable target populations.

8.3. *Responsibilities.* The responsibilities of the VIGs shall include: (i) participatory perceived well-being ranking of households within the village on a need basis, (ii) identifying Project modules and activities prioritized by eligible groups through participatory approach, and reporting to the PMOs for the development of AWPBs, (iii) organizing the poor and vulnerable households to participate in Project activities, (iv) assisting PMOs monitor Project implementation and collecting M&E data as required, and (v) organising the operation and maintenance of community infrastructure built by the Project.

## **B. Implementation of Components**

### 9. *Component A - Community infrastructure improvement*

9.1. The activities under this Component shall be implemented by the BOWRs for the improvement of irrigation facilities as well as the Bureau of Health and the construction of community facilities of safe drinking water supply, the BOTs for the implementation of the village road activities and the Bureau of State Electricity Grid for grid updating. At village level, the VIGs will also be involved in the supervision and implementation of Project activities. The BOWRs and BOTs shall be responsible for the identification of eligible villages in accordance with the criteria set forth in the PIM, the design of the works by site, the formation of interest groups for Project works and to report to CPMO on the progress and results of implementation.

9.2. Bureaux of State Grid (BOSGs) shall be responsible for the implementation of the grid network. The responsibilities of the BOSGs shall include the identification of eligible villages in accordance with agreed criteria, the design of the works by site, the implementation for the grid upgrading, the operation and maintenance of the Project works and reporting to CPMO on the progress and results of implementation.

### 10. *Component B - Sustainable agricultural development and market access support*

10.1. The BOAs shall be responsible for the implementation of the modules. The responsibilities of the BOAs shall include: the identification of eligible townships, villages and cooperatives in accordance with agreed selection criteria, the identification of target households together with VIGs, the adjustment of the modules to fit local conditions with given criteria, technical support and follow-up services to beneficiaries on module activities, facilitation of the formation of beneficiary group or farmers' cooperatives, reporting to CPMO on the progress and results of implementation.



10.2. The County Bureaux of State Forestry Administration (BOSFAs) will be responsible for the detailed planning, implementation and monitoring of the agro-forestry module under the coordination of the CPMOs and the implementation of the modules of support to farmers' cooperatives and technical service support if the agro-forestry module leads to increasing demands by farmers' cooperatives. The BOSFAs shall be responsible for the identification of eligible villages and household in accordance with agreed selection criteria together with VIGs, the adjustment of the modules to fit local conditions with given criteria, technical support, facilitation of the establishment of beneficiary groups by trade and linking them with relevant farmers' cooperatives, facilitation of the formation of beneficiary group or farmers' cooperatives, reporting to CPMO on the progress and results of implementation.

10.3. The BOWRs shall be responsible for the implementation of the development of irrigation schemes and drinking water supply facilities as well as their maintenance under the coordination of the CPMOs. Smaller maintenance work shall be carried out by the Village Committees and the WUAs. The responsibilities of the BOWRs shall include the identification of eligible villages in accordance with agreed selection criteria, the facilitation of the formation of interest groups for the operation and maintenance of Project works, design of the works by site, the organization of the construction of the infrastructure and reporting to CPMO on the progress and results of implementation.

10.4. The BOTs shall be responsible for the implementation of the development and maintenance of the village roads under the coordination of the CPMOs. The responsibilities of the BOTs shall include the identification of eligible villages in accordance with agreed selection criteria, the facilitation of the formation of interest groups for the operation and maintenance of Project works, design of the works by site, the organization of the construction of the infrastructure and reporting to CPMO on the progress and results of implementation.

### **C. Project Implementation Manual**

11. *Preparation.* The PPMO shall prepare a draft PIM. The draft PIM shall include, among other things:

- (a) Terms of reference and implementation responsibilities of Project staff, consultants and likely service providers and IAs;
- (b) Criteria for the performance appraisal of the Project professional staff;
- (c) Targeting and selection criteria for participating townships, villages, cooperatives and other beneficiaries;
- (d) Project operational, financial procedures and procurement procedures, including participatory planning, implementation and monitoring procedures;
- (e) M&E system and procedures including the Results and Impact Management System (RIMS); and
- (f) Implementation modalities for all modules.

12. *Approval and Adoption.* The Lead Project Agency shall cause the PPMO to forward the draft PIM to the Fund for comments and approval. The Lead Project Agency shall adopt the PIM, substantially in the form approved by the Fund, and the Lead Project Agency shall promptly provide copies thereof to the Fund. If the Fund does not comment on the draft PIM within thirty (30) days after receipt, it shall be deemed approved.

## Schedule 2

### Allocation Table

1. *Allocation of Loan and Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the Grant and the allocation of the amounts of the Loan and the Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	Percentage of total expenditures
I. Civil works	18 260 000		51% of total cost
II. Vehicles	190 000		100% net of taxes
III. Equipment & Materials	650 000		100% net of taxes
IV. (a) Training, Workshops, Technical assistance & Studies	1 720 000		100% net of taxes
(b) Training, Workshops, Technical assistance & Studies - GRANT		210 000	100% net of taxes
V. (a) Agricultural materials	6 420 000		55% of total costs
(b) Agricultural materials - Module 6		390 000	100% net of taxes
Unallocated	3 010 000	60 000	
<b>TOTAL</b>	<b>30 250 000</b>	<b>660 000</b>	

(b) The terms used in the Table above are defined as follows:

“Category IV(a) Training, Workshops, Technical assistance & Studies” means eligible expenditures for training, workshops, technical assistance and studies except for those covered under Category IV(b).

“Category IV(b) Training, Workshops, Technical assistance & Studies - GRANT” means eligible expenditures under Category IV(b) related to the training of beneficiaries under Module 6, trainings and/or dissemination under Module 3 described under Component B and eligible expenditures of the RIMs & Innovation for the Provincial and Xiangxi Prefecture PMOs under Component C.

“Category V(a) Agricultural materials” means all eligible expenditures for agricultural materials and inputs except those covered under Category V(b).

“Category V(b) Agricultural materials – Module 6” means eligible expenditures for agricultural inputs under Module 6 of Component B.

2. *Retroactive Financing.* Withdrawals not exceeding in the aggregate the equivalent of SDR 650 000 to pre-finance activities may be made from the Loan Account in respect of expenditures for: essential items of equipment and materials, start-up training and workshops, technical assistance and studies under Category III, Category IV(a) and agricultural materials excluding vehicles under Category II, incurred as from 2 December 2011. Such expenditures may be considered Eligible Expenditures for all purposes of this Agreement.

## Logical framework

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions
<b>GOAL</b>			
Rural development and poverty reduction in targeted areas of Hunan Province achieved.	Incomes of the rural poor in the targeted areas increased by 25%, at project closing.	-Government's policies; -Donors' reports.	
<b>OBJECTIVES</b>			
Increased incomes, improve food security, & strengthened resilience for 182,000 rural households from diversified agricultural production in 9 project counties is achieved.	-35% of HHs with improved asset ownership index compared to baseline (RIMS); -15% drop in child malnutrition prevalence compared to baseline, by gender (RIMS); -70% of HHs reporting improved food security as compared to baseline.	-RIMS and benchmark surveys; -Impact assessments.	-Continued government support for poverty reduction, agricultural development and agro-food production; -Increased income of households leads to improving HH assets and reduction in child malnutrition.
<b>OUTCOME BY COMPONENT (gender disaggregated)</b>			
<b>Preparatory phase</b> Staff at county, prefecture, township & village levels equipped to supervise and manage the implementation of the project.	-PLGs, PMOs, VIGs, & WUAs, plus other O&M committees duly established & trained; -Relevant project staff at all levels trained; -VIGs trained in well-being ranking.	-Field investigations; -Progress reports.	-Continued community commitment and ownership; -PMOs commitment assured at all levels
<b>Component A: Community infrastructure improvement:</b> Improve living and production conditions for rural men and women, by developing community infrastructure, including irrigation facilities, village roads, drinking water supply facilities and rural electricity grid upgrading	-174,000 HHs benefit from improved community infrastructure; -45% of HHs report increased productivity resulting from improved irrigation & 50% of HHs report improved access to markets; -90% of the village infrastructure O&M committees (including WUAs and drinking water users' groups) operational after 5 years, and have introduced user fee-based maintenance mechanisms; <b>-Drinking water:</b> 83,000 persons report access to 104 improved drinking water supply systems; 90% of the project supported systems operational after 5 years; & 21,000 villagers trained in schemes O&M; <b>-Electric grids:</b> 11 rural electricity grid stations upgraded, benefitting 8,800 persons. <b>-Irrigation:</b> 865 km of canals lined; 179 ponds built; 86,000 villagers trained on	-RIMS and benchmark surveys; -Project M&E reports; -Agricultural census data -Sector development reports -Field visits to villages	-Continued government investment in the development of rural infrastructure; -VCs are capable in organizing maintenance of community infrastructure; -VIGs play an important role in carrying out the well-being ranking and the supervision of the implementation of the rural infrastructure, thereby creating ownership and commitment with the villagers.

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions
	irrigation O&M; 75% of the villages with investments in irrigation have an operational WUA; <b>-Village roads:</b> 370 km of village roads paved; 250 km earth roads improved.		
<p><b>Component B: Sustainable agricultural development and market access support</b> Increased household incomes through improved access to services, improved technologies and techniques, markets, and value chains.</p>	<p>-103,000 HHs benefit from project support for sustainable agricultural development and market access support, of whom 50% are women; -75% of farmers trained adopt recommended technologies, by sector; 75% of HHs report increased incomes; 75% of supported farmer cooperatives are operational after 5 years; -50% of members report increased proportion of products marketed through cooperatives, by gender; and -75% of project-supported technical extension stations operational after 5 years.</p>	<p>-RIMS &amp; benchmark surveys; -Project M&amp;E reports; -Sector reports. -Field visits</p>	<p>-Recommended technologies are effective in increasing production; -Farmers adopt new technologies; -Service function of cooperatives recognized by farmers. -Government continues to support the reform of farmer-centred extension service system.</p>
<p><b>Component C: Project management</b> Project is implemented successfully, and M&amp;E system functions effectively</p>	<p>-Project planning, implementation, M&amp;E and reporting function effectively and timely; -100% of IFAD financing proceeds disbursed</p>	<p>-Project M&amp;E reports; -IFAD project reviews; &amp; -Project completion report.</p>	<p>-PMOs have good coordination and management capacity and function well; -PLGs function adequately.</p>