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Enabling poor rural people  
to overcome poverty

## **President's report**

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

### **Shiyan Smallholder Agribusiness Development Project**

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**For: Approval**

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## Abbreviations and acronyms

AWPB	annual work plan and budget
CNY	Chinese Yuan Renminbi
EIRR	economic internal rate of return
HH	household
LPA	lead project agency
M&E	monitoring and evaluation
NCCP	“New Countryside” Construction Program
NPV	net present value
PLG	project lead group
PMO	project management office
PPPP	pro-poor public-private partnerships
RB-COSOP	results-based country strategic opportunities programme
RECMB	Rural Economic and Cooperative Management Bureau
RIMS	results and impact management system
SSADeP	Shiyuan Smallholder Agribusiness Development Project
VIG	village implementation group

## Map of the project area

### China

Shiyan Smallholders Agribusiness Development Project (SSADeP)

Design report



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.

IFAD Map compiled by IFAD | 16-04-2013

## People's Republic of China

### Shiyan Smallholder Agribusiness Development Project

#### Financing summary

<b>Initiating institution:</b>	IFAD
<b>Borrower:</b>	People's Republic of China
<b>Executing agency:</b>	Provincial Government of Hubei
<b>Total project cost:</b>	US\$116.9 million
<b>Amount of IFAD loan:</b>	SDR 28.55 million (equivalent to approximately US\$43.8 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:</b>	US\$20.14 million
<b>Contribution of partner banks:</b>	US\$28.5 million
<b>Contribution of beneficiaries:</b>	US\$24.46 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	IFAD

## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed loan to People's Republic of China for the Shiyan Smallholder Agribusiness Development Project, as contained in paragraph 43.

## **Proposed loan to the People's Republic of China for the Shiyan Smallholder Agribusiness Development Project**

### **I. Strategic context and rationale**

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

1. The People's Republic of China has been very successful in reducing poverty. However, pockets of extreme poverty persist in rural areas of many provinces and regions, especially those in the west and centre of the country. The poverty status of these areas is in sharp contrast to the rapid income growth in urban centres and other parts of the country. The Government is concerned by the large and widening income gap between the poor families living in these areas and the rest of the population. Often these areas have a high proportion of ethnic minorities, who because of language and culture are less able to exploit migrant labour opportunities.
2. Since the start of far-reaching economic reforms in the late 1970s, China's population has witnessed unparalleled economic growth, which has fuelled a remarkable increase in per capita income and decline in poverty. With a 9-10 per cent annual real growth of GDP over many years, more than 500 million people have been lifted out of poverty. All Millennium Development Goals have been reached or are within reach. Even though growth is expected to slow down between 2013 and 2017, China continues to shine among large economies. Growth in the economic sector varied from 8.1 per cent in industry (47 per cent of GDP) and services (43 per cent of GDP), to 4.5 per cent in agriculture (10 per cent of GDP). With a population of 1.34 billion, China recently became the second largest economy in the world, and is increasingly playing an important and influential role globally. Yet China itself insists that it remains a developing country and that its market reforms are incomplete. In 2012, China's gross national income per capita of US\$6,091 ranked ninetieth in the world, and about 128 million people still live below the national poverty line of CNY 2,300 per year. With the second largest number of poor people in the world after India, poverty reduction remains a fundamental challenge.

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

3. China's twelfth Five-Year Plan for National Economic and Social Development (2011-2015) aims to harmonize growth by enabling rural areas and populations to benefit from the country's economic opportunities and social development. Its 2011-2020 rural poverty alleviation and development programme recognizes the need for a long-term commitment to rural poverty alleviation, especially in the poorer western provinces, border and ethnic minority areas, and former revolutionary bases, which are mostly remote and mountainous. The Government's aim under both endeavours is poverty reduction by improving infrastructure, pursuing green agriculture, strengthening marketing and financial services for poor people, encouraging private entrepreneurs and farmers' organizations, developing off-farm economic activities and supporting controlled migration.

4. IFAD's 2011-2015 results-based country strategic opportunities programme (RB-COSOP) for China is fully aligned with the Government's five-year plan and rural poverty alleviation and development programme. Its three strategic objectives are: (a) poor rural people 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) poor rural people and their organizations are enabled to take advantage of improved market access and financial services for increased income generation and enhanced resilience to risks; (c) enhanced South-South cooperation and knowledge management provide opportunities for sharing knowledge generated through innovation and for the scaling up of good practices in rural development.
5. The Shiyang Smallholder Agribusiness Development Project (SSADeP) is the fourth intervention under the RB-COSOP. The project will: provide poor rural people with productive assets; develop commercial agriculture through access to improved value chains and remunerative markets; support the development of pro-poor farmer cooperatives; and strengthen local rural finance and agricultural service providers. In line with IFAD's catalytic role, such efforts will be in the form of pilot activities to be scaled up by the Government and others. The SSADeP will add value by developing innovative and effective strategies for this scaling up. It will ensure synergies between endeavours to reduce poverty, increase rural incomes and improve food security. Thus, the underlying rationale of the SSADeP is to facilitate investments in the remote, mountainous, rural Qinba Mountain Block Areas of Shiyang.
6. The SSADeP will establish links with relevant government and donor-funded interventions to maximize synergies, avoid duplication and share lessons. The most relevant of these include: (a) the "New Countryside" construction programme (NCCP), launched in 2006 to improve agricultural production, farmers' livelihoods and the rural environment; (b) the 2011-2020 rural poverty alleviation and development programme; and (c) the Ministry of Agriculture's "demonstration county for agricultural extension service reform", which started in 2009, introducing participatory extension approaches while improving working conditions in extension stations.
7. The project design is fully aligned with the strategic objectives of the RB-COSOP, and takes account of the achievements and lessons learned from completed and ongoing IFAD projects in China. In particular, it explores innovative approaches in: inclusive targeting; empowering farmers and their cooperatives to engage with companies in pro-poor public-private partnerships (PPPP) in developing business plans for mutual benefit; flexible implementation; synergetic development of infrastructure, commercial agriculture and value addition; and value chain financing. The provincial and prefecture project management offices (PMOs) in the target area implemented the IFAD-funded Qinling Mountains Area Poverty-Alleviation Project, which ran from 2003 to 2008. That project's effectiveness was evaluated as highly satisfactory at completion, and its experiences will facilitate the implementation of the SSADeP.

## **II. Project description**

### **A. Project area and target group**

8. In line with IFAD's targeting strategy and the Government's poverty reduction priorities, small farmers with economic potential in five counties of Shiyang Prefecture and three districts of Shiyang city have been selected to implement the SSADeP. The five counties are nationally designated poor counties in the Qinba mountains, and lie in one of 14 regions of focus for government poverty reduction efforts. The three districts of Shiyang city have poor rural areas, but have received inadequate support for poverty reduction because of their location. Shiyang prefecture has nine counties/districts with a total population of 3.36 million (in

2011), about 71 per cent of whom reside in rural areas. Average per capita net income for rural farmers in the prefecture was CNY 4,044 in 2011, about 58.6 per cent of the provincial average and 58.0 per cent of the national average. In 2011, the number of poor people stood at 1.16 million, or 48.8 per cent of the total rural population. The incidence of poverty was more than double the provincial average. Out of 125 townships in the selected counties and districts, project implementation will initially cover 47 townships, one of which is the only ethnic minority township in Shiyan. The total population in the target counties and districts was about 1.24 million in 2011.

9. The project area is mountainous and hilly. The main causes of poverty in the project area include: limited land resources, with an average per capita farm holding of 0.06 hectare, mainly in the uplands; mountainous terrain with poor infrastructure, with less than 20 per cent of farmland effectively irrigated; low level of development of agro-industries; low capacity of farmers due to limited access to improved technologies; and frequent natural calamities, including drought and hailstorms.

## **B. Project development objective**

10. The project goal is sustainable rural poverty reduction and improved livelihoods for small farmers involved in agricultural value chains in targeted areas. Its objectives are to empower the rural poor to participate in commercial farming, and to increase farm family incomes while decreasing income variability in target areas.

## **C. Components/outcomes**

11. The project has three components: value chain strengthening; commercial farming enhancement; and project management and coordination.
12. Value chain strengthening will improve value-addition, access to markets and rural financial services for smallholders. This will be achieved through institutional strengthening and capacity-building for cooperative development, support for PPPP business models, and establishment of a guarantee facility as a credit enhancement mechanism for pro-poor value chain financing.
13. The implementation arrangements for the activities will be as follows: Rural Economic and Cooperative Management Bureaux (RECMBs) will be in charge of strengthening the cooperatives, while the Bureaux of Agriculture organize the construction of township agricultural stations; day-to-day management of the PPPP funding mechanism will be dealt with by the prefecture PMO, based on the annual workplan and budget (AWPB) previously approved by the provincial PMO; the guarantee facility, will be managed by specialized guarantee agencies at county and prefecture levels and directed to banks and microfinance institutions with sizeable rural businesses willing to provide loans to the target group.
14. Commercial farming enhancement will raise smallholder incomes through the household commercial production of high-value crops and livestock. This will require a shift from subsistence farming to market-oriented agricultural production. The production of commercial crops will provide additional income for farmers through increased yields/productivity and higher prices. Improved market access will be provided through cooperative marketing. Production activities will also be tied to infrastructure improvement.
15. Support to commercial crop production will include the provision of seeds, seedlings and fertilizers; and the introduction of disease control and water charges. Such assistance will be channelled to farmers mainly through the cooperatives. In addition, those farmers and cooperatives that submit joint PPPP business plans with companies will also receive the inputs required under their business plans from partner companies and cooperatives. Specific provisions will be made for such internal value chain financing in the business plans. Furthermore, technical training



of beneficiaries will be provided by the companies and by the bureaux responsible for the subject matter concerned.

16. **Project management and coordination.** Project management will include the establishment of PMOs at provincial, prefecture, county and township levels. Village implementation groups (VIGs) will be set up to assist with coordination and implementation of project activities.

### **III. Project implementation**

#### **A. Approach**

17. The project implementation approach adopts the successful practices for ongoing and previous IFAD-funded projects in China. PMOs are already established at province, prefecture, county and township levels, and will be responsible for planning, coordinating, monitoring and reporting on the project. Implementation of project activities will remain with designated agencies at the county level for results-oriented synchronization of project activities with the Government's development activities in the area. AWPBs, developed through participatory approaches, will be used as the basis of project implementation. At the village level, VIGs will ensure appropriate targeting, participatory planning, implementation and monitoring, as well as sustainable maintenance of village-based physical outputs. Project implementation will adopt a value chain approach to strengthen the linkages between activities under components A and B, to enhance project impact and sustainable development. Cooperative development will not only benefit project-supported commercial farming, but also improve the bargaining power of smallholders. Thus, it will help move the beneficiaries up the value chain.

#### **B. Organizational framework**

18. As the authorized representative of the borrower for IFAD loans, the Ministry of Finance will receive and pass on the IFAD loan proceeds to the Department of Finance of Hubei Province, which will in turn pass them on to the bureaux of finance of the project counties and districts to finance the project. The Ministry will carry out oversight responsibilities through the department and bureaux of finance.
19. The project management and implementation arrangements will replicate the well proven practice of IFAD projects in China. Project lead groups (PLGs) will be established at provincial, prefecture and county levels to provide overall guidance and coordination. Each PLG will be led by a senior official and composed of representatives from the related departments and bureaux. The key responsibilities of PLGs include overall supervision of PMOs and project performance, coordination and mobilization of counterpart funds, review and approval of AWPBs, and coordination of implementing agencies.
20. The Department and bureaux of finance at all levels will be responsible for: opening and managing project accounts; administering and overseeing the use of project resources, including the IFAD loan and counterpart funds; reviewing and approving financing requirements; ensuring efficient flow of funds; providing appropriate training to project financial officers; and preparing withdrawal applications and ensuring timely reimbursement of eligible project expenditures.
21. The provincial government has designated the provincial Department of Agriculture as the LPA for the overall coordination and supervision of the project. The LPA will establish PMOs at all levels. A provincial PMO, to be comprised of a minimum of staff, will provide general oversight of the work of the prefecture, county and township PMOs. The latter will be the key agencies in charge of day-to-day management of the project. As such, they will need a full complement of permanent staff to ensure the successful implementation of the project. The prefecture PMO and each county PMO will be staffed with qualified and full-time

staff in adequate numbers – at a minimum comprising a director, deputy director, accountant, cashier, planning officer, monitoring and evaluation (M&E) officer and gender coordinator. The prefecture PMO will be responsible for coordinating project implementation across the five counties and three districts. The county PMOs will be responsible for coordinating project implementation at county level. Township PMOs (will be established within the township government, using existing facilities and staff on a part-time basis. Designated staff of township PMOs will provide support to the county PMOs and implementing agencies in village-level implementation as needed. At the time of the appraisal of the SSADeP, the entire institutional set-up of the project – from the provincial to prefecture to county levels – was already in place, including key staff of the provincial, prefecture and county PMOs, including the latter’s project directors and project managers. All staff have been fully engaged in project design from the start.

22. VIGs will be set up at each of the targeted administrative villages. They will be headed by the director of the existing village committee and generally comprise about 10 people, including all village committee members plus five new members (two of whom must be women) representing farmers from different household “categories of well-being”.

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

23. Planning under the SSADeP will follow the current practices for IFAD-funded projects in China, based on the development of AWPBs which will be demand-driven and participatory, involving all stakeholders. They will describe the financial and physical progress made, planned activities, the procurement plan for at least 18 months and the implementation plan by semester. The prefecture PMO will consolidate the AWPBs developed by each county PMO and submit them to IFAD for approval through the provincial PMO. The first AWPB will be submitted before project start-up.
24. **Monitoring and evaluation.** The SSADeP will adopt the M&E framework of IFAD in China, which is in line with IFAD’s results and impact management system (RIMS). Overall responsibility for M&E, and sharing of lessons learned with stakeholders, will be vested in the M&E officers of provincial, prefecture and county PMOs. Implementing agencies and VIGs will collect the household-level and activity M&E data. Key M&E functions include regular M&E reviews, technical backstopping and continuous external support for reporting and training of M&E officers. M&E results will guide the preparation of AWPBs and adjustments to the logical framework.
25. **Learning and knowledge management.** The project knowledge management strategy is drawn from the experiences of previous and ongoing IFAD projects. The PMOs will work with cooperatives to ensure that knowledge – technical, business and market-related – is shared among members. Together they will be responsible for capturing and documenting experiences, best practices and innovations, and organizing workshops to disseminate these for scaling up.

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

26. **Financial management.** The IFAD financial management assessment rated the overall financial risk as moderate. Inherent risks are considered moderate. Project-specific accountability risks may arise, mainly due to the geographic expansion of implementation and channelling of project funds to multiple beneficiary agencies and financial intermediaries who will receive funds from the PPPP fund, guarantee fund and leveraged credit. However, the project implementation agencies have quite extensive experience in managing externally financed projects – including those financed by IFAD – with generally acceptable outcomes and accountability frameworks. To ensure that risks are reduced to an acceptable level, upfront assessments of implementation arrangements against required minimum capacities

have been carried out. Specific risk-mitigating actions have been proposed as withdrawal conditions, including setting up a computerized accounting system and preparation of a project implementation manual to strengthen internal controls. The financial reporting and accounting practices of the Government are acceptable to IFAD. Accounts will be consolidated at the provincial level. A designated account will be opened by the Department of Finance of Hubei 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 designated account once the loan is signed and disbursement conditions are met. All subsequent replenishments of the designated account will be effected through withdrawal applications with supporting documents and statements of expenditure, in line with IFAD procedures. Project accounts in Chinese yuan will be opened in banks acceptable to the Fund and maintained by the PMOs and county bureaux of finance. Loan funds will flow from the designated account through the project accounts to the implementing agencies, service providers and end-users.

27. **Procurement.** Procurement of goods, works and consulting services financed under the project will be subject to the provisions of the borrower's national procedures, to the extent they are consistent with the provisions of the IFAD Procurement Guidelines. The procurement method will depend on the nature of the expenditure and the value of the contract. To the extent possible, procurements will be combined into sizeable bid packages to permit optimal use of competitive bidding. Under all circumstances, procurement will be well documented for ex post review and for audit purposes. Goods to be procured include farm inputs, vehicles, equipment and furniture. Vehicles will be procured through local competitive bidding and other items by local shopping. Civil works may be procured by either method. Technical services, training, workshops and studies will be procured locally. The credit facility for value chain enhancement will be procured through direct contracting with financial intermediaries.
28. **Audit.** In line with article IX, section 9.03 of the General Conditions for Agricultural Development Financing of IFAD and IFAD Guidelines on Project Audits, the provincial and county audit bureaux, which are constituted as independent bodies under the National Audit Office, will audit the project. They will review all statements of expenditure and consolidated financial statements, and issue an opinion on their eligibility. They will also review the efficiency of the flow of the loan funds and the delivery of counterpart financing, and the scope of the audit will extend to the end use of funds disbursed to beneficiary agencies, such as participating financial intermediaries and agencies who will receive funds from the PPPP fund, guarantee fund and leveraged credit.

#### **E. Supervision**

29. To facilitate project implementation and ensure the achievement of project objectives, IFAD and the Government will perform regular reviews. Annual IFAD supervision missions, to the extent possible held in consultation with the Government, will review: implementation progress and performance; fiduciary aspects; targeting and gender mainstreaming; results and impact; innovations and knowledge management; climate and environment focus; and sustainability.

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

#### **A. Project costs**

30. The total project cost over five years, including contingencies, is estimated at US\$116.9 million (CNY 714.5 million). Physical contingencies account for about 1 per cent of total baseline costs, or US\$0.74 million, while price contingencies make up about 3 per cent of total baseline costs, or US\$3.02 million. Investment

and recurrent costs amount to 96.5 per cent and 3.5 per cent of total baseline costs respectively.

Table 1  
Indicative table of estimated project costs by component

	(CNY Million)			(US\$ Million)			% Foreign Exchange	% Total Base Costs
	Local	Foreign	Total	Local	Foreign	Total		
<b>A. Value Chain Strengthening</b>								
1. Cooperative Development	35.99	1.89	37.88	5.89	0.31	6.20	5	5
2. PPPP Fund	177.19	-	177.19	29.00	-	29.00	-	26
3. Guarantee Fund	10.39	-	10.39	1.70	-	1.70	-	2
4. Leveraged Credit from Partner Banks	174.14	-	174.14	28.50	-	28.50	-	25
<b>Subtotal</b>	<b>397.70</b>	<b>1.89</b>	<b>399.59</b>	<b>65.09</b>	<b>0.31</b>	<b>65.40</b>	-	<b>58</b>
B. Commercial Farming Enhancement	249.80	0.25	250.04	40.88	0.04	40.92	-	36
C. Project Management	36.17	5.49	41.66	5.92	0.90	6.82	13	6
<b>Total BASELINE COSTS</b>	<b>683.67</b>	<b>7.63</b>	<b>691.30</b>	<b>111.89</b>	<b>1.25</b>	<b>113.14</b>	<b>1</b>	<b>100</b>
Physical Contingencies	4.53	-	4.53	0.74	-	0.74	-	1
Price Contingencies	18.32	0.10	18.43	3.00	0.02	3.02	1	3
<b>Total PROJECT COSTS</b>	<b>706.52</b>	<b>7.73</b>	<b>714.25</b>	<b>115.63</b>	<b>1.27</b>	<b>116.90</b>	<b>1</b>	<b>103</b>

Table 2  
Indicative table of project financing by categories/financiers

	The Government		IFAD		Partner Banks		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
1. Vehicles and equipment	0.21	15.0	1.16	85.0	-	-	-	-	1.37	1.1	0.82	0.41	0.14
2. Goods	2.78	15.0	15.73	85.0	-	-	-	-	18.51	15.6	-	18.51	-
3. Civil works	13.14	80.0	3.28	20.0	-	-	-	-	16.42	13.8	-	15.60	0.82
4. Technical assistance and training	-0.00	-	8.96	100.0	-	-	-	-	8.96	7.5	0.45	8.52	-
5. PPPP Facility	0.00	-	12.96	44.7	-	-	16.04	55.3	29.00	24.4	-	29.00	-
6. Credit Guarantee Fund	-	-	1.70	100.0	-	-	-	-	1.70	1.4	-	1.70	-
7. Leveraged Credit	-	-	-	-	28.50	100.0	-	-	28.50	24.0	-	28.50	-
8. Farm labour	-	-	-	-	-	-	8.33	100.0	8.33	7.0	-	8.33	-
9. Infrastructure O&M	0.08	50.0	-	-	-	-	0.08	50.0	0.17	0.1	-	0.17	-
10. Project management operating cost	3.94	100.0	-	-	-	-	-	-	3.94	3.3	-	3.94	-
<b>Total PROJECT COSTS</b>	<b>20.14</b>	<b>17.2</b>	<b>43.80</b>	<b>37.5</b>	<b>28.50</b>	<b>24.4</b>	<b>24.46</b>	<b>20.9</b>	<b>116.90</b>	<b>98.2</b>	<b>1.27</b>	<b>114.68</b>	<b>0.96</b>

## B. Project financing

31. The project is financed by IFAD (approximately US\$43.8 million), the Government (approximately US\$20.14 million), beneficiaries (approximately US\$24.46 million) – composed of farmers (in the form of farm labour), plus cooperative members and agribusinesses (in cash or in kind) – and partner banks for leveraged credit (approximately US\$28.50 million). The Government and IFAD will jointly fund the project investment costs, including all civil works, vehicles, equipment, goods, technical assistance and training. The Government and beneficiaries will cofinance all farm labour and recurrent costs.

Table 3  
Indicative table of estimated project financing by components/financier

People's Republic of China Shiyan Sustainable Agribusiness Development Components by Financiers (US\$ Million)													
	The Government		IFAD		Partner Banks		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
<b>A. Value Chain Strengthening</b>													
1. Cooperative Development	-	-	6.20	100.0	-	-	-	-	6.20	5.2	0.31	5.89	-
2. PPPP Fund	0.00	-	12.96	44.7	-	-	16.04	55.3	29.00	24.4	-	29.00	-
3. Guarantee Fund	-	-	1.70	100.0	-	-	-	-	1.70	1.4	-	1.70	-
4. Leveraged Credit from Partner Banks	-	-	-	-	28.50	100.0	-	-	28.50	24.0	-	28.50	-
<b>Subtotal</b>	<b>0.00</b>	<b>-</b>	<b>20.86</b>	<b>31.9</b>	<b>28.50</b>	<b>43.6</b>	<b>16.04</b>	<b>24.5</b>	<b>65.40</b>	<b>55.0</b>	<b>0.31</b>	<b>65.09</b>	<b>-</b>
B. Commercial Farming Enhancement	16.00	36.1	19.86	44.9	-	-	8.42	19.0	44.28	37.2	0.04	43.42	0.82
C. Project Management	4.14	57.4	3.08	42.6	-	-	-	-	7.22	6.1	0.91	6.17	0.14
<b>Total PROJECT COSTS</b>	<b>20.14</b>	<b>17.2</b>	<b>43.80</b>	<b>37.5</b>	<b>28.50</b>	<b>24.4</b>	<b>24.46</b>	<b>20.9</b>	<b>116.90</b>	<b>98.2</b>	<b>1.27</b>	<b>114.68</b>	<b>0.96</b>

### C. Summary benefit and economic analysis

32. **Benefits and beneficiaries.** Benefits will be mainly in the form of increased revenue for farmers after switching from subsistence to commercial farming. There will be added income from higher yields due to investments in irrigation, and from lower transportation and other transaction costs. Cooperatives, producer organizations and agribusiness companies are expected to see increases in turnover and sales, due to carefully targeted investments. Under component A, 90 cooperatives and producer organizations will benefit from improved member services, pro-poor business models and improved market linkages. Under component B, some 31,000 households will benefit from rural road improvements, approximately 28,600 households from irrigation improvements and approximately 7,300 households from land levelling. In addition, approximately 10,960 households will benefit from commercial crop, livestock and aquaculture production. The total number of project beneficiaries is expected to reach approximately 255,000 households (approximately 1.02 million people), of whom approximately 110,400 households (approximately 442,000 people) will be direct beneficiaries. In addition, employment opportunities will be generated for approximately 26,000 people.
33. **Economic analysis.** The project's overall economic internal rate of return (EIRR) of 32 per cent and net present value (NPV) of about US\$88 million have been calculated based on the investments in value chain enhancement (component A), productive infrastructure and production expansion (component B). Financial analysis of production activities indicates that they are all profitable investments. Only PPPP business plans with a positive financial analysis will be considered for funding. Leveraged credit applications will be subjected to partner banks' appraisal process and due diligence process. The results of the sensitivity analysis indicate that the investments would be profitable even if benefits should be significantly reduced or costs are higher than anticipated.

Table 4

**Indicative table of estimated sensitivity analysis**

	<i>EIRR</i>	<i>NPV (US\$)</i>
<b>Base case</b>	<b>32%</b>	<b>87 701 725.47</b>
Benefits reduced by 10%	29%	75 348 121.68
Benefits reduced by 20%	27%	63 478 388.86
Benefits reduced by 71%	8%	-
Costs increased by 10%	29%	82 764 354.25
Costs increased by 20%	26%	77 826 983.02
Costs increased by 245%	8%	-

### D. Sustainability

34. The overall sustainability of the SSADeP is rated high due to the increasing poverty alleviation efforts of mainstream government programmes, such as NCCP, to which SSADeP will be complementary, and the integration of the PMO at county and township levels into local government structures. The PMOs' experiences gained under the successful implementation of IFAD-supported projects in China will be replicated under this project. Government and beneficiary performance are expected to be good, in terms of both their ability to implement the project effectively and efficiently and the ability of PMOs at county and provincial levels to establish and run a comprehensive M&E system. Project activities are in line with the Government's rural development and poverty reduction strategies and policies. Also, all project partners, stakeholders and beneficiaries evince great interest in the proposed interventions, which will ensure their ownership and the subsequent sustainability of the project.

## **E. Risk identification and mitigation**

35. The project has been designed in line with the demands of potential beneficiaries after fully analysing the constraints and opportunities for development in the project areas. Risks for the project will arise from rapidly changing market conditions for farmers' products and the broader economic environment, results-oriented implementation processes and the potential impact of climate change. These risks, however, will be mitigated by the demand-driven nature and value chain approach of the project, which will ensure continuous adjustments to address problems encountered during project implementation and adoption of climate-smart practices. Strengthened PMOs will play an important role in monitoring these risks and ensuring that any issues that could jeopardize the project's success are addressed by relevant stakeholders in a timely fashion. To minimize the risks for the project's financial services, arrangements have been made to operate without a dedicated line of credit, and instead leverage existing liquidity in rural financial markets. The leverage will be achieved through the application of international best practices in establishing a guarantee fund.

## **V. Corporate considerations**

### **A. Compliance with IFAD policies**

36. The project design complies with IFAD's policies. The project aims at increasing the income of the poor and women from commercial agricultural production through innovative poverty reduction approaches and improved access to community assets, remunerative markets and know-how. Specifically, (i) a specific gender mainstreaming strategy has been designed in compliance with the IFAD Policy on Gender Equality and Women's Empowerment; (ii) a poverty focus, particularly the criteria for the selection of beneficiary villages and households, has been designed in line with IFAD's targeting policy; (iii) participatory approaches for project planning have been designed in line with relevant IFAD policy; (iv) promotion of innovative rural finance activities that are efficient and effective; (v) a strategy for scaling up of positive project results has been designed in line with IFAD's scaling-up policy; (vi) climate-related risks have been analysed and measures to mitigate potential negative impacts of climate change designed in line with IFAD's climate change policy; (vii) mode of engagement with Dragon Head Enterprises and other private enterprises has been designed in line with the private-sector strategy; and (viii) potential negative environmental impact has been analysed and mitigating measures designed accordingly.

### **B. Alignment and harmonization**

37. The SSADeP is aligned with the Government of China's poverty reduction strategies, notably the twelfth Five-Year Plan for National Economic and Social Development and the Government's rural poverty reduction and development programme. The project aims at reducing poverty and enhancing rural livelihoods, by: integrating smallholders into agricultural commodity value chains; enhancing the capacity of the rural poor in household management of agricultural productivity through strengthened information and technical services; and promoting commercialization of agriculture with the production of high-value, specialized products and secure market linkages. These activities will contribute to narrowing the regional disparities in rural development, while contributing to achieving the government objective of building the *Xiaokang* society.

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

38. The project's knowledge management strategy will build on the experiences of IFAD projects in China. The province, prefecture and county PMOs will be responsible for capturing and documenting experiences, best practices and innovations, and disseminating them through workshops and other knowledge events for scaling up. Plans for scaling up best practices and innovations will be

incorporated into the project's AWPBs, including encouraging local authorities and donors to incorporate scaling up into their own local development plans.

#### **D. Policy engagement**

39. Through the SSADeP, IFAD will seek to build consultative frameworks with selected institutional partners in the following areas: innovative rural financial services; niche commodity (root and tuber crops, horse-head goats, etc.) value chain research and development; gender mainstreaming in development programmes and policy dialogue; support for cooperatives and producer organizations for efficiency gains and improved sustainability; and pursuit of innovation and scaling up of best practices. IFAD will collaborate with central and provincial governments in the analysis of related policies by providing discussion inputs, and by assisting in setting up discussion forums and South-South cooperation seminars – with the clear understanding that policymaking is an exclusively national responsibility.

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

40. 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 is attached as an annex.
41. The People's Republic of China is empowered under its laws to receive financing from IFAD.
42. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD financing.

#### **VII. Recommendation**

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

RESOLVED: that the Fund shall make a loan on ordinary terms to the People's Republic of China in an amount equivalent to twenty-eight million five hundred and fifty thousand special drawing rights (SDR 28,550,000), 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:**

### **"Shiyan Smallholder Agribusiness Development Project (SSADeP)"**

(Negotiations concluded on 3 December 2013)

Loan Number:

Project Title: Shiyan Smallholder Agribusiness Development 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. 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 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 twenty eight million five hundred and fifty thousand Special Drawing Rights (28 550 000 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 United States Dollar.
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 a Designated Account denominated in USD opened and maintained by the Department of Finance of the Hubei Province in a commercial bank acceptable to the Fund through which the Loan proceeds shall be channelled. The Designated Account shall be protected against set-off, seizure or attachment on terms and conditions proposed by the Borrower and accepted by IFAD.

10. The Borrower shall provide counterpart financing for the Project and shall cause the Governments of the Hubei Province and each participating county governments to provide counterpart financing for the Project in a total amount equivalent to approximately USD 20.14 million including all recurrent costs. Project beneficiaries shall provide a contribution in cash or in kind of approximately USD 24.46 million and partner banks shall contribute approximately USD 28.5 million for leveraged credit. The counterpart funds shall be channelled and made available for the Project.

11. The Provincial and Prefecture Project Management Office (PPMO), all County Project Management Offices (County PMOs), County Bureaux of Finance (BOFs), Township Project Management Offices (TPMOs) and Implementing Agencies (IAs) shall maintain Project Accounts in local currency in Banks acceptable to IFAD to receive the proceeds of the financing and/or the counterpart funding.

### **Section C**

12. The Lead Project Agency shall be the Provincial Department of Agriculture (DOA) designated by the Government of the Hubei Province for the overall coordination and supervision of the Project activities.

13. Additional Project Parties include the Bureau of Water Resources, Bureau of Transportation, Bureau of Agriculture, Bureau of Livestock, the Rural Economic and Cooperative Management Bureau (RECMB).

14. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

### **Section D**

15. The Loan 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**

16. The following are designated as additional grounds for suspension of this Agreement:

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 designated as additional general conditions precedent to withdrawal:

- (a) The Provincial Project Management Office ("Provincial PMO"), the Prefecture Project Management Office ("Prefecture PMO") and at least one County PMO 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 Lead Project Agency, shall have submitted, and the Fund shall have received, an official document confirming the availability of adequate counterpart funds for the first Project Year;
- (c) The Designated Account shall have been duly opened and the authorized signatories shall have been submitted to the Fund;
- (d) A draft PIM shall have been prepared and is acceptable to the Fund; and
- (e) A computerized accounting system acceptable to the Fund shall have been identified and selected by the Prefecture PMO.

18. The following are designated as additional specific conditions precedent to withdrawal:

- (a) No withdrawals shall be made in respect of expenditures under Category V (Credit Guarantee Funds) until a separate operational manual for the operation modalities of the Guarantee facility including eligibility and selection criteria for the Guarantee agencies, and the participating banks shall have been prepared by the Lead Project Agency and shall have been approved by the Fund; and
- (b) No withdrawals shall be made in respect of expenditures under Category V (Credit Guarantee Funds) until a draft Guarantee Agency Subsidiary Agreement referred to in Schedule 1, Section II-B has been approved by the Fund.

19. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

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

For the Fund:

President  
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

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Authorized Representative  
[Title]

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

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Kanayo F. Nwanze  
President

## Schedule 1

### *Project Description and Implementation Arrangements*

#### I. Project Description

1. **Target Population.** The Project shall benefit poor women and men from rural households, with a focus on women's interests, participation and benefits in the following five (5) counties and three (3) districts in the Shiyan Prefecture of the Hubei Province: Yunxi County, Yunxian County, Danjiangkou County, Zhushan County, Zhuxi County, Shian city's Maojian, Zhangwan and Wudangshan Districts (the "Project Area").
2. **Goal.** The goal of the Project is to sustainably reduce rural poverty and improve the livelihood of rural households involved in both agricultural and livestock value chains in targeted areas.
3. **Objectives.** The objectives of the Project are to (i) empower the rural poor to participate in commercial farming for increasingly profitable agricultural production; and (ii) increase farm family incomes while decreasing income variability in target areas through enhancing production, diversification, commercialization and value addition of agricultural products along selected value chains.
4. **Components.** The Project shall consist of the following three components, which support and complement each other to achieve the anticipated impact in the Project Area, and integrate commercial farming, agribusiness development and improved market access through a value chain approach:

**Component A: Value Chain Strengthening.** The objective of this component is to improve value-addition, access to markets and rural financial services for smallholders. Through the following sub-components: (i) institutional and capacity building for cooperative development; (ii) support for Pro-poor Public Private Partnership (PPPP) business models; and (iii) the establishment of a guarantee facility as a credit enhancement mechanism for pro-poor value chain financing.

*Sub-component A.1 - Institutional and capacity building for cooperative development.*

This sub-component will be achieved through the following activities:

- (a) *Strengthening the Capacity of the RECMB and Cooperative Promoters.* The Project will finance cooperatives trainings on participatory techniques giving them exposure to international cooperative concepts and experience through study tours, support for cultivating and developing the social dimension of cooperatives.
- (b) *Improved Provision of Member Services.* Technical services such as training on cultivation skills and advice on pest and disease management will be provided as well as activities such as soil-testing to assess fertilizer requirements; food safety certification; mechanized land preparation; access to credit schemes; animal health care services; access to quality breeding sires etc.
- (c) *Improved Market Linkages.* Cooperative staff will be trained and supported to develop a long-term business strategy to improve link aging and increase profitability. Support will be provided for implementation of the value chain strategies and may include activities such as: product improvement and development, diversifying target markets, effective pricing strategies and

contract negotiation, introducing promotion campaigns. Cooperative promoters and staff of cooperatives will be trained in value chain analysis skills and the cooperatives and relevant enterprises will be supported to implement the marketing strategy.

*Sub-component A.2 - Support for PPPP business models.*

- (a) The Project will finance semi-public goods on a grant basis related to cooperative-led and company-led PPPP business models that link small farmers and their cooperatives with private companies and integrate small rural producers into profitable agricultural value chains to improve their access to secure markets and raise their incomes. The selection of PPPP business models will be on a competitive basis in accordance with the eligibility and selection criteria defined in the PIM including the record of accomplishment and commitment of the private sector company and the cooperative and the viability and pro-poor nature of the business proposal.
- (b) The PPPP financing will focus on investments in *semi-public goods* related to the PPPP business plans, e.g. technical assistance, market research, product development, certification, promotion, productive collective assets (warehouses, equipment, processing units, machinery, etc.), and other initial investments that are needed to execute the business plans.

*Sub-component A.3 - Establishment of a Guarantee Facility as a credit enhancement mechanism for pro-poor value chain financing.* The objective of this sub-component is to leverage the existing liquidity of participating Project partner banks to increase production and upgrade processing, storage and transport facilities. The Guarantee Facility will be managed by specialized guarantee agencies at county and prefecture level selected in accordance with the criteria defined in the PIM. The selected guarantee agencies shall have been approved by the Fund and the Lead Project Agency. The selected guarantee agencies will provide a partial guarantee cover for loans financed by eligible participating banks. The PIM will define the eligibility criteria for participating banks as well as for the beneficiaries who shall include agricultural cooperatives, associations, groups or enterprises.

**Component B: Commercial Farming Enhancement.** The objective of this component is to enhance incomes for the small holders through the following sub-components:

*Sub-component B.1 - Household-based commercial production.* Activities under this sub-component include: (a) support to commercial production including provision of seeds and seedlings for crop production, livestock and sericulture production, fish culture, provision of fertilizers, introduction of disease control, water charges, and provision of materials and equipment, plus, (b) technical training both Project staff and beneficiaries.

*Sub-component B.2 - Infrastructure improvement for commercial production.* Activities under this sub-component include: (a) the improvement of rural roads; (b) the improvement of irrigation systems; and (c) land preparation and levelling for proposed commercial production. The Project will support the establishment of village level road maintenance groups and water users' associations and their training and capacity/capability development.

## **Component C: Project Management and Coordination**

Project management will include the establishment and operation of PMOs at provincial, prefecture, county and township levels. Project implementation will be substantially decentralized to the County PMOs. The organization and management is outlined in Section II below.

### **II. Implementation Arrangements**

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

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

1.1. The Lead Project Agency shall be the DOA of the Hubei Province for the overall coordination and supervision of the Project.

##### **2. Project Leading Group (PLG)**

2.1. *Establishment and composition.* PLGs shall be established at provincial, prefecture and county levels respectively by the province, prefecture and each county where the Project will be implemented. Each PLG shall be chaired by a senior official of government of the same level and include the representatives from relevant departments, bureaux and institutions as appropriate.

2.2. *Responsibilities.* The PLGs shall provide overall guidance and be responsible for the coordination and planning of Project implementation at their respective levels. Key responsibilities of PLGs shall include: (i) overall supervision of PMO's operations and Project performance; (ii) coordination of counterpart funds; (iii) review and approval of Annual Work Plans and Budgets (AWPB) and progress reports; and (iv) coordination of Project IAs in implementation of Project activities and reporting.

##### **3. Provincial Project Management Office (Provincial PMO)**

3.1. *Establishment.* A Provincial PMO shall be established by the DOA who shall select one director and the deputy director. The Provincial PMO shall be located within the DOA.

3.2. *Composition.* The Provincial PMO shall be a small and agile unit composed of at least the following key positions: a director, a deputy director, an accountant, and a Monitoring and Evaluation Officer. Qualified staff shall be selected according to the Borrower's applicable procedures.

3.3. *Responsibilities.* The Provincial PMO shall be responsible for coordinating Project implementation across the Project Area. Its main responsibilities shall be to formulate government regulations and provide general oversight on the implementation of Project activities by the Prefecture, County and Township PMOs.

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

4.1. *Establishment.* A Prefecture PMO shall be established by the Bureau of Agriculture of the Prefecture government. The Prefecture PMO shall be responsible for the coordination and management of Project activities in the eight (8) Counties and Districts of the Project Area under its jurisdiction.

4.2. *Composition.* The Prefecture PMO shall be composed of at least the following key positions: a director, a deputy director, an accountant, a cashier, a M&E officer, a planning officer, a gender coordinator and a full time staff member specialized in value chains/agribusiness development/agricultural industrialization to overview and monitor closely the implementation of the business plans. Qualified staff shall be selected according to the Borrower's applicable procedures.

4.3. *Responsibilities.* Under the leadership of the Provincial PMO, the Prefecture PMO shall be responsible for overseeing the day-to-day management of the Project activities in the three (3) districts and perform an oversight and supervisory role with respect to the five (5) Counties under its jurisdiction. In addition, the Prefecture PMO shall perform overarching functions of planning, coordination and monitoring Project implementation at prefecture level, with the operations being substantially decentralised to the County PMOs. Its responsibilities shall include: (i) coordination of AWPBs submitted by the Counties and Districts; (ii) monitoring and evaluation of Project implementation; (iii) provision of appropriate training to County PMOs and IAs in terms of Project implementation; (iv) preparation and consolidation of SOEs, financial statements and withdrawal applications; (v) procurement under the Project; and (vi) Project reporting.

4.4. *Business Plan Appraisal Committee (BPAC).* Under the guidance of the Provincial PMO, the Prefecture PMO shall establish a Business Plan Appraisal Committee (BPAC). The composition and responsibilities of the BPAC, including its governance and administration, frequency of meetings, voting procedures, evaluation and review process of the business plans, record keeping shall be defined in the PIM. A qualified full-time staff member of the Prefecture PMO shall serve as secretary and non-voting member of the BPAC.

## 5. *County Project Management Offices (County PMOs)*

5.1. *Establishment.* County PMOs shall be established in each of the five (5) Counties of the Project Area through an official document from the county government. The County PMOs shall be located within the BOAs.

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

5.3. *Responsibilities.* The County PMOs 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.

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

6.1. *Establishment.* 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.

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

6.3. *Responsibilities.* TPMOs will provide support to the County PMOs 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.

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

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

7.2. *Composition.* The VIG will be chaired by the Head of the village committee and composed of approximately ten (10) to fourteen (14) people including all existing village committee members and approximately five (5) to seven (7) farmer representatives from different household categories of well-being such as, women and vulnerable target populations.

7.3. *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 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) organizing the operation and maintenance of community infrastructure built by the Project.

## **B. *Implementation of Components***

### **8. *Component A: Value Chain Strengthening***

8.1. *Sub-component A.1: Institutional and capacity building for cooperative development.* The training, promotion, coaching and inspection of cooperatives activities under this sub-component shall be implemented by the RECMB. Other specialist trainers, consultants and business support service providers shall be contracted in accordance with this Agreement.

8.2. *Sub-component A.2: PPPP business models.* Activities under this sub-component shall be implemented by the Prefecture PMO who shall be responsible to oversee and monitor the implementation of the business plans under the overall supervision of the Provincial PMO. The BPAC established by the Prefecture PMO shall be responsible for the review, assessment and selection of the business models in accordance with the selection and eligibility criteria defined in the PIM and make a recommendation to the Prefecture PMO.

8.3. *Sub-component A.3: Guarantee Facility.* Activities under this sub-component shall be implemented by specialized guarantee agencies at county and prefecture levels selected in accordance with criteria specified in the PIM. To this end, a subsidiary agreement shall be entered into by BOFs with each selected guarantee agency.



8.3.1. *The Guarantee Agency Subsidiary Agreement.* The BOFs shall enter into an agreement with each participating guarantee agency for the implementation of the guarantee facility sub-component A.3. To this end a subsidiary agreement shall be drafted which shall provide, among other things, that:

- (a) The guarantee agency shall declare its commitment to the goals and purposes of the Project as stated in Schedule 1 and, in furtherance of such goals and purposes, it shall undertake to carry out activities under the Guarantee Facility sub-component A.3 in accordance with this Agreement;
- (b) The Borrower through the DOF, shall transfer Project resources to the relevant guarantee agency in accordance with the AWPBs;
- (c) The guarantee agency shall implement the guarantee facility sub-component A.3 in accordance with the criteria described in the PIM.

8.3.2. The Borrower, through the Lead Project Agency, shall submit a draft of the Guaranty Agency Subsidiary Agreement to the Fund for non-objection.

8.3.3. *Agreements with Participating Banks.* The Prefecture PMO shall enter into an agreement with each participating bank selected in accordance with eligibility and selection criteria defined in the PIM. The agreement shall provide amongst other things: the financing of the loans through their own funds, the type and use of guarantee made available by the Guarantee agency and the interest rate levels.

## 9. **Component B: Commercial Farming Enhancement**

9.1. *Sub-component B.1: Household based commercial production.* Activities under this sub-component in relation to annual/perennial cash crops, tree crops and sericulture shall be implemented by the BOA under the coordination of the PMOs. The BOL shall be responsible for the implementation of the livestock and poultry development activities and the Bureau of Fisheries for the fish culture activity. The Project sites and villages where activities will be implemented under this sub-component shall be selected by the Prefecture and County PMOs in accordance with criteria defined in the PIM. The BOA of the Prefecture and of each County of the Project Area shall provide technical services to Project beneficiaries.

9.2. *Sub-component B.2: Infrastructure improvement for commercial production.* Implementation of the activities under this sub-component shall follow a participatory approach through village level road maintenance groups and water users associations. Under the coordination of the PMOs, the Prefecture and County Bureaux of Transportation (BOTs) shall be responsible for the implementation of the road improvement related activities through service providers such as professional construction contractors selected in accordance with this Agreement. Irrigation related activities shall be implemented by the Prefecture and County Bureaux of Water Resources (BOWRs) through service providers such as professional construction contractors who shall be selected in accordance with this Agreement. The BOWR shall be responsible for technical guidance and supervision. The BOA and farmers' cooperatives shall be responsible for the land levelling and preparation activities. The selection of infrastructure projects and intervention sites shall be done in accordance with the selection criteria specified in the PIM.

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

10. *Preparation.* The Prefecture PMO shall prepare a draft PIM which shall be approved by the Provincial PMO. The draft PIM shall include, among other things:

- (a) Terms of reference and implementation responsibilities of Project staff, consultants and likely service providers;
- (b) Criteria for the performance appraisal of the Project professional staff;
- (c) The composition of the BPAC and its responsibilities;
- (d) Selection and eligibility criteria for the PPP Business models;
- (e) Targeting and selection criteria for the interventions under the sub-components B.1 (Household based commercial production) and B.2 (Infrastructure improvement for commercial production) for participating villages, cooperatives and other beneficiaries;
- (f) Project operational, financial and procurement procedures, including participatory planning, implementation and monitoring procedures; and
- (g) M&E system and procedures including the Results and Impact Management System (RIMS).

11. *Approval and Adoption.* The Lead Project Agency, through the Provincial PMO, shall forward the draft PIM to the Fund for comments and approval. The Lead Project Agency shall cause the PMOs to adopt the PIM, substantially in the form approved by the Fund, and the Lead Project Agency, through the Provincial PMO, 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 Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Percentage
I- Equipment and Materials	460 000	100% net of taxes
II-A Goods, Services & Inputs	9 230 000	85% of total costs net of taxes
II-B Goods, Services & Inputs	7 610 000	45% of the total costs
III- Works	1 930 000	20% of total costs
IV- Consultancies	5 260 000	100% net of taxes
V- Credit Guarantee Funds	990 000	100% net of taxes
VI- Vehicles	220 000	100% net of taxes
Unallocated	2 850 000	
<b>TOTAL</b>	<b>28 550 000</b>	

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

"Equipment and Materials" under Category I shall mean eligible expenditures incurred related to equipment and materials under Component C (Project Management and Coordination).

"Goods, Services & Inputs-A" under Category II-A shall mean eligible expenditures incurred related to agriculture input and material under Component B (Commercial Farming Enhancement).

"Goods, Services & Inputs-B" under Category II-B shall mean eligible expenditures incurred related to support for PPPP business models under Sub-component A.2 (Support for PPPP business models).

"Works" under Category III shall mean eligible expenditures incurred related to civil works in the form of improvement of rural roads and irrigation interventions under Component B (Commercial Farming Enhancement).

"Consultancies" under Category IV shall mean eligible expenditures incurred related to technical assistance, research and studies, training, workshops and studies and technical and consultant services.

"Credit Guarantee Funds" under Category V shall mean eligible expenditures incurred related to additional capitalization into participating guarantee agencies/corporations to hedge against defaults of loans covered under Sub-component A.3 (Guarantee Facility).

## Logical framework

Narrative Summary	Verifiable Indicators <sup>1</sup>	Means of Verification	Assumptions
<b>GOAL<sup>2</sup></b>			
Sustainably reduce rural poverty and improve the livelihood of rural households involved in both agricultural and livestock commodity value chains in economically disadvantaged areas of Shiyan prefecture of Hubei	<ul style="list-style-type: none"> <li>• 15% drop in child malnutrition prevalence as compared to baseline (RIMS); and</li> <li>• 27,000 HHs have improved asset ownership index compared to baseline (RIMS)</li> </ul>	<ul style="list-style-type: none"> <li>• Government Statistics</li> <li>• RIMS</li> </ul>	
<b>OBJECTIVES</b>			
Capacity and capability of participating small farmers in Shiyan increased to benefit from the growth in commercial agriculture and related value chains;	<ul style="list-style-type: none"> <li>• Average incomes of the rural poor households supported with annual and perennial crop production packages increase by 20% at project completion; and</li> <li>• 11,000 HHs are actively participating in commercial farming by project year 5</li> </ul>	<ul style="list-style-type: none"> <li>• RIMS and benchmark surveys;</li> <li>• Impact assessment.</li> </ul>	<ul style="list-style-type: none"> <li>• Continued government support to poor rural areas;</li> <li>• Increased income improves assets;</li> <li>• Increased income of households leads to reducing child malnutrition.</li> </ul>
<b>OUTCOME BY COMPONENT (gender disaggregated)</b>			
<p><b>Component A: Value Chain Strengthening:</b></p> <p><b>Outcome:</b> Increased benefits accruing to small farmers participating in commercial agriculture and value adding agricultural production activities along selected commodity value chains.</p> <p><b>Outputs:</b></p> <ul style="list-style-type: none"> <li>• Capacity and capability of agricultural cooperatives increased;</li> <li>• Processing, transport and storage facilities upgraded.</li> <li>• Capacity of participating banks in value</li> </ul>	<p><b>Outcomes:</b></p> <ul style="list-style-type: none"> <li>• 20% increase in turnover of 90 cooperatives operating in targeted counties (market access)</li> <li>• 20% increase in cooperative sales (market access)</li> <li>• 13,500 smallholder HH with 30% increase in throughput (market access)</li> <li>• 70 participating cooperative and companies have obtained [long term and production?] loans and other financial services provided by the project</li> </ul> <p><b>Outputs:</b></p> <ul style="list-style-type: none"> <li>• Number of long-term supply contracts increased from xxx to xxx</li> <li>• 20% increase in customer base</li> <li>• post-harvest losses reduced by half (from xxx% to xxx%)</li> </ul>	<ul style="list-style-type: none"> <li>• RIMS and benchmark surveys;</li> <li>• Project M&amp;E reports;</li> <li>• Sector reports.</li> </ul>	<ul style="list-style-type: none"> <li>• Cooperative management are committed to smallholder membership</li> <li>• Cooperatives are increasingly member-driven, and responsive to smallholder needs</li> <li>• Smallholder farmers are interested to join cooperatives and willing to pay related subscriptions and for the services.</li> <li>• Cooperatives maintain and replace machinery, equipment, &amp; facilities.</li> <li>• Continued policy support to farmer cooperatives and private enterprises.</li> </ul>

<sup>1</sup> All targets refer achievements obtained by the end of the project implementation and female beneficiaries account for 50% of the total, unless stated otherwise.

<sup>2</sup> Indicators for achievements of project goal need to be confirmed and aligned with the 12<sup>th</sup> five year provincial poverty reduction plan, and baseline figures will be updated as soon as available.

Narrative Summary	Verifiable Indicators <sup>1</sup>	Means of Verification	Assumptions
<p>chain development and refinement strengthened</p> <ul style="list-style-type: none"> <li>• Pro-poor public-private partnerships in the agricultural sector increased.</li> <li>• Project promoted financial services facilitate access of project clients to financial services.</li> </ul>	<ul style="list-style-type: none"> <li>• smallholder membership increased from xxx to xxx</li> <li>• 70 pro-poor public-private business plans established and sustained</li> <li>• processing capacity increased from xxx ton/day to xxx ton/day; transport capacity increased from xxx tons to xxx tons and storage capacity increased from xxx tons to xxx tons</li> </ul>		
<p><b>Component B: Commercial Farming Enhancement</b></p> <p><b>Outcome:</b> Sustainably increased agricultural production by small farmers</p> <p><b>Outputs:</b></p> <ul style="list-style-type: none"> <li>• Rural infrastructure improved</li> <li>• Commercial production bases established</li> <li>• Farmers capacity in commercial production improved</li> </ul>	<p><b>Outcomes:</b></p> <ul style="list-style-type: none"> <li>• 8,000 beneficiary households report at least xxx% income increase from cropping sector;</li> <li>• Over 400 beneficiary households report at least xxx% income increase from livestock sector;</li> <li>• 67,000 household benefiting from infrastructure development.</li> </ul> <p><b>Outputs:</b></p> <ul style="list-style-type: none"> <li>• 26,000mu of commercial annual/perennial cash crops( including medicinal plants) developed;</li> <li>• 27,000 mu of commercial tree crops developed</li> <li>• 425 households engaged in project-supported commercial livestock, poultry and aquaculture production activities</li> <li>• 673ha of irrigation area improved</li> <li>• 213 km of rural roads improved</li> <li>• 276 ha of farmland levelled and prepared</li> </ul>	<ul style="list-style-type: none"> <li>• RIMS and surveys;</li> <li>• Project M&amp;E reports;</li> <li>• Agricultural census data.</li> </ul>	<ul style="list-style-type: none"> <li>• Continued policy support to farmer cooperatives and private enterprises.</li> <li>• Continued government investment in rural infrastructure</li> <li>• Production increases are sustainable given the environmental conditions</li> </ul>