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Investing in rural people

President's report

Proposed loan and grant to the People's Republic of China for the Jiangxi Mountainous Areas Agribusiness Promotion Project (JiMAAPP)

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Abbreviations and acronyms

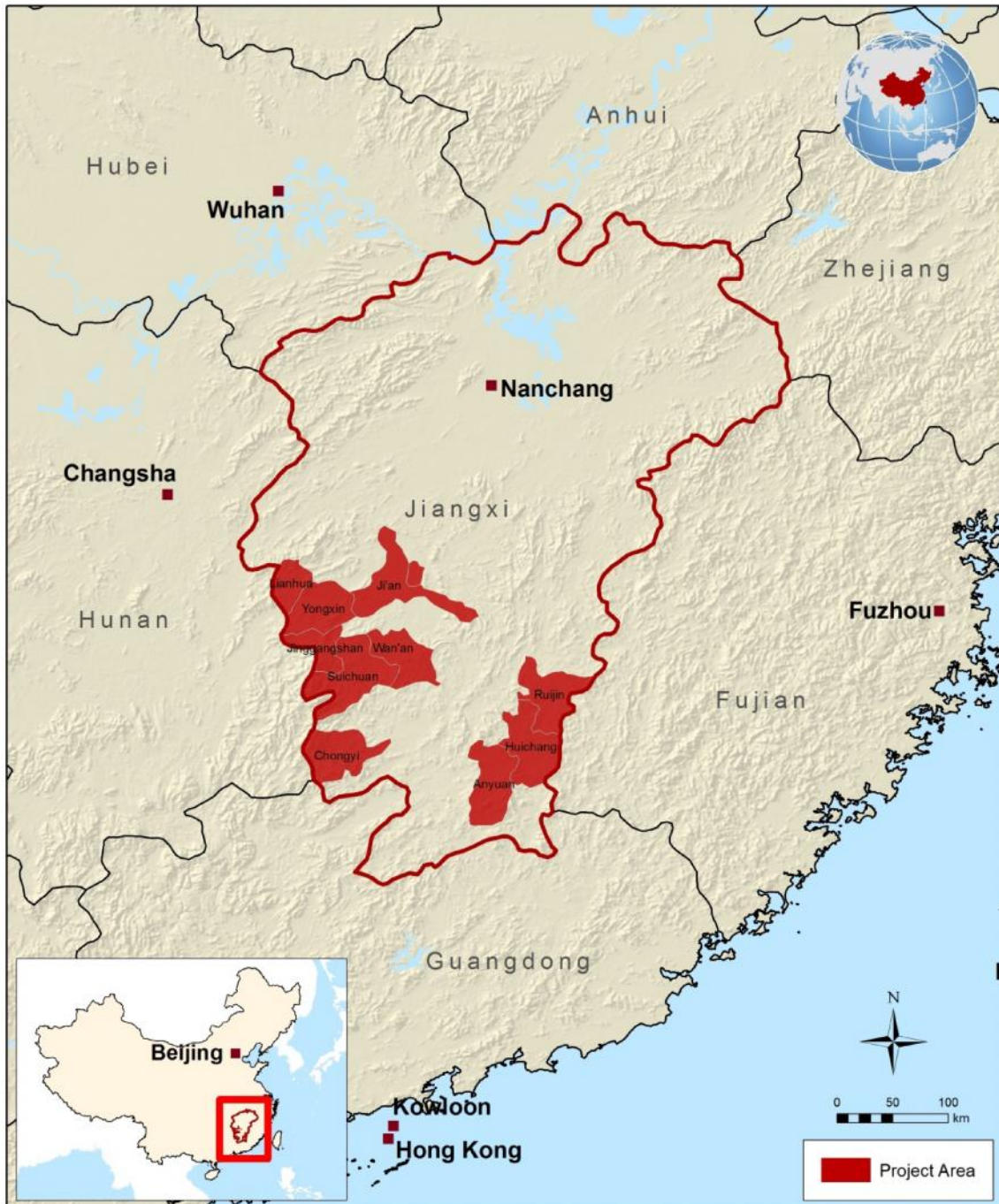
AWP/B	annual work plan and budget
BDS	business development services
BOA	Bureau of Agriculture
BOF	Bureau of Finance
BOL	Bureau of Livestock
CPMO	county project management office
DOA	Department of Agriculture
DOF	Department of Finance
JiMAAPP	Jiangxi Mountainous Areas Agribusiness Promotion Project
LPA	lead project agency
M&E	monitoring and evaluation
PFI	participating financial institution
PLG	project leading group
PMO	project management office
PPMO	provincial project management office
RB-COSOP	results-based country strategic opportunities programme
VIG	village implementation group

Map of the project area

People's Republic of China

Jiangxi Mountainous Areas Agribusiness Promotion Project

President's 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.

Map compiled by IFAD | 03-06-2014

People's Republic of China

Jiangxi Mountainous Areas Agribusiness Promotion Project (JiMAAPP)

Financing summary

Initiating institution:	IFAD
Borrower:	People's Republic of China
Executing agency:	Provincial Government of Jiangxi, Department of Agriculture
Total project cost:	US\$125.22 million
Amount of IFAD loan:	EUR 34.35 million (equivalent to approximately US\$43.0 million)
Amount of IFAD grant:	SDR 0.55 million (equivalent to approximately US\$0.8 million)
Terms of IFAD loan:	18 years, including a grace period of five years, with an interest rate equal to the reference interest rate per annum as determined by the Fund semi-annually
Cofinancier(s) and amount of cofinancing:	Participating financial institutions (PFIs): US\$25.20 million Cooperatives and enterprises: US\$3.36 million in kind
Terms of cofinancing:	PFIs: loan; cooperatives and enterprises: in kind
Contribution of borrower:	US\$40.75 million
Contribution of beneficiaries:	US\$12.11 million
Appraising institution:	IFAD
Cooperating institution:	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 Jiangxi Mountainous Areas Agribusiness Promotion Project (JiMAAPP), as contained in paragraph 40.

Proposed loan and grant to the People's Republic of China for the Jiangxi Mountainous Areas Agribusiness Promotion Project (JiMAAPP)

I. Strategic context and rationale

A. Country and rural development and poverty context

1. The People's Republic of China has been successful in achieving over three decades of rapid economic and social development, with a GDP growth averaging 9-10 per cent annually. It succeeded in lifting more than 600 million of its 1.34 billion people out of poverty. In the process, the share of agriculture in GDP dropped from 25 per cent in 1995 to 10 per cent in 2011, while industry and services grew by 5 per cent and 10 per cent respectively. A large part of the growth in rural incomes was due to wages from off-farm activities. On the downside, rapid economic growth brought about high inequality, rapid urbanization, challenges to environmental sustainability, external imbalances and demographic pressures, with an aging population and the feminization of agriculture. Over 128 million people still live below the US\$1.25-a-day poverty line, and poverty reduction remains a challenge. Also, worrying and widening disparities in incomes not only between regions, but between urban and rural areas and by gender, need to be addressed.
2. The Chinese rural population dropped from 80 per cent in 1980 to 49 per cent in 2011. The total cultivated farm area was about 122 million hectares in 2011, overall about 0.1 ha per capita. Some 49 per cent of farmland is irrigated. The proportion of total arable area planted with food crops is declining in favour of diversification into cash crops. However, total food crop production is unaffected due to productivity improvements. On the other hand, increasing commercialization of agriculture is resulting in reduction in direct state intervention in production and marketing, while offering the opportunity to link rural farmers to enterprises and cooperatives.

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

3. The Government has adopted a development-oriented poverty reduction strategy focusing on infrastructure improvement, ecologically sound agricultural development, strengthened marketing and financial services for the poor, and development of off-farm economic activities. In 2007, it also issued a Farmer Cooperative Regulation, which promotes farmer organizations and improves market linkages between farmers and enterprises. The Government expects IFAD to continue bringing both global best practices in innovative approaches to poverty reduction and additional financial resources. In addition, IFAD has demonstrated its comparative advantage in tackling poverty in remote and resource-scarce areas – a capacity cherished by China, given that it has many such areas.
4. IFAD's 2011-2015 results-based country strategic opportunities programme (RB-COSOP) for China is aligned with the government plan and the rural poverty reduction programme. Its three strategic objectives are: (i) poor rural people in

targeted areas sustainably use enhanced natural and economic productive assets and improved technology and advisory services in a changing environment and market conditions; (ii) 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 risk; and (iii) enhanced South-South cooperation and knowledge management provide opportunities to share knowledge generated through innovation and to scale up good practices in rural development.

5. The Jiangxi Mountainous Areas Agribusiness Promotion Project (JiMAAPP) is the fifth intervention under the present RB-COSOP. It will synergize various activities, including to: use value chain approaches to add value to community productive assets; develop market-oriented agroproducts; and enhance farmers' access to technical and information services, remunerative markets, natural resources and appropriate financial services. Emphasizing IFAD's catalytic role, these will be pilot activities. Their positive results will be scaled up by Government and others. A key rationale for the JiMAAPP is to add value to existing and improved agricultural production by developing innovative and effective strategies. It will link with relevant government and donor-funded interventions to maximize synergies and avoid duplication, including: the New Countryside construction programme (NCCP), launched in 2006 to improve agricultural production, farmers' livelihoods and the rural environment; the 2011-2020 rural poverty alleviation and development programme; and the Ministry of Agriculture's "demonstration county for agricultural extension service reform", launched in 2009, which is introducing participatory extension approaches while improving extension stations.

II. Project description

A. Project area and target group

6. In line with IFAD's targeting strategy and government poverty reduction priorities, project target groups consist of poor rural men and women, in the nationally designated poor Luoxiao Mountain Block Area of Jiangxi, that are economically active and/or can take advantage of the improved agricultural production and agribusiness opportunities offered. Farmer cooperatives and agroenterprises will be linked with poor producers. The role of women will be a particular focus. Ten counties have been selected for JiMAAPP implementation: JiAn, Suichuan, Jinggangshan, Yongxin and WanAn of JiAn Prefecture; Huichang, Anyuan, Chongyi and Ruijin of Ganzhou Prefecture; and Lianhua of Pingxiang Prefecture. Their total rural population was 3.36 million in 2012. Farmers' net income per capita in the area was 4,849 Chinese yuan renminbi (RMB), which was 62 and 61 per cent of the provincial and national levels respectively, and lower than the average of Jiangxi's poor counties. The average per capita farmland was only 0.05 ha in the project counties. Some 80 per cent of the project area is characterized by mountains and hills.
7. Agriculture and labour migration are the main sources of rural household income. Agriculture also employs about half the rural labour force in the area, contributing more than a third of rural household incomes, of which over 21 per cent are from crops and 11 per cent from livestock. Outmigration is common, with about 41 per cent being women, mostly aged 18-45. About 26 per cent of household income is attributable to employment from outside the region.

B. Project development objective

8. The project goal is to help China develop and implement pilot programmes that sustainably address the chronic poverty prevailing in pockets of remote and mountainous areas. Its objectives are to increase farmers' production bases, improve agricultural production efficiencies, enhance product quality and improve margins along value chains, especially at the farm level. It will promote

agribusiness development via cooperatives and enterprises, emphasizing market access for farm products.

C. Components/outcomes

9. The project has three components: agribusiness promotion and development; farm production expansion and productivity enhancement; and project management and coordination.
10. **Component 1: Agribusiness promotion and development** will be achieved through building the capacity of cooperatives and agribusinesses and creating linkages between them and farmers; establishing a guarantee facility to leverage credit funds from banks; and providing business development services (BDS) to develop and execute business plans. Rural economic and cooperative management bureaux will be in charge of strengthening the cooperatives. BDS will be coordinated by project management offices (PMOs), but services will be delivered by local service providers, selected through competitive procedures. County-level guarantee companies (GCs), with a majority government ownership, will implement the guarantee facility. Complementary training and management development will be provided to all stakeholders. Start-up technical assistance and an initial assessment of participating GCs will form part of the activities.
11. **Component 2: Farm production expansion and productivity enhancement** will raise incomes of smallholders through efficient production of cash crops and livestock and improved production infrastructure. Marketing of farm produce will be ensured by the linkages established under component A. Major project interventions include: improving product quality; achieving economies of scale for land preparation and irrigation; adopting improved farming techniques; certifying agricultural produce; introducing improved crop varieties and livestock; and rehabilitating idle land into productive areas by planting citrus, tea and other commercially viable perennial crops. Bureaux of agriculture (BOAs) and of livestock (BOLs) will be in charge of farm production, extension service improvement and staff and farmer training. County bureaux of transportation and of water resources will guide implementation of road improvement and irrigation development activities respectively.
12. **Component 3: Project management and coordination** will include establishing and operating PMOs at province, prefecture, county and township levels. Project implementation will be decentralized to the county PMOs (CPMOs) to ensure sustainability, with the provincial project management office (PPMO) performing overarching functions of planning, coordinating, monitoring and reporting.

III. Project implementation

A. Approach

13. The implementation approach of this five-year project will follow the successful practices of ongoing and previous IFAD-funded projects in China. PMOs are already established at all levels and will be responsible for planning, coordinating, monitoring and reporting. Implementation of project activities will remain with designated agencies and private entities at the county level, ensuring synergies with government development activities. Annual work plans and budgets (AWP/Bs), developed through participatory approaches, will be the basis for project implementation. Village implementation groups (VIGs) will ensure appropriate targeting, participatory planning, implementation and monitoring, as well as sustainable maintenance of village-based physical outputs. The project uses a value chain approach to enhance impact and ensure sustainable development. The cooperative development activities will benefit project-supported commercial farming production and improve the bargaining power of smallholders.

B. Organizational framework

14. As the authorized representative of the borrower, the Ministry of Finance will receive and pass on the IFAD loan and grant proceeds to the Department of Finance (DOF) of Jiangxi, which will subsequently pass them on to the Bureaux of Finance (BOFs) of the project counties. The Ministry will carry out its oversight responsibilities through the DOF and BOFs. The project organizational framework replicates the practice of IFAD projects in China. Project leading groups (PLGs) are established at provincial, prefecture and county levels to provide overall guidance and coordination. Each PLG is led by a senior official and composed of representatives of the related departments and bureaux. Key responsibilities of PLGs include overall supervision of PMOs and project performance, coordination and mobilization of counterpart funds, and review and approval of AWP/Bs. The DOF and BOFs will be responsible for: opening and managing project accounts; administering and overseeing the use of project resources; reviewing and approving financing requirements; ensuring the efficient flow of funds; training project financial officers; and preparing withdrawal applications and ensuring timely reimbursement of eligible project expenditures.
15. The provincial Department of Agriculture (DOA) of Jiangxi Province is the lead project agency (LPA) for overall project coordination and supervision. As LPA, it established PMOs at all levels. These are dedicated structures located within the DOA/BOAs. The PPMO will provide general oversight over PMOs at all other levels, which are in turn in charge of day-to-day project management. At prefecture level, project support offices are established, and at the township level, project facilitators are designated to support implementation. The PPMO and each CPMO are staffed with qualified full-time staff in adequate numbers, including a director, a planning and monitoring and evaluation (M&E) officer, an agribusiness and financing officer, a knowledge management and gender coordinator, an accountant and a cashier. On completion of design of the JiMAAPP, the entire institutional set-up of the project was in place at all levels. Relevant staff of these institutions have been engaged in project design from the start.

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

16. Planning under the JiMAAPP will follow current practices for IFAD-funded projects in China, based on AWP/Bs developed through participatory approaches. 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 AWP/Bs developed by each CPMO and submit them to IFAD for approval through the PPMO. The first AWP/B will be submitted before project start-up.
17. **Monitoring and evaluation.** The JiMAAPP will establish an effective and efficient management information system in line with IFAD's Results and Impact Management System, from the PPMO through CPMOs and township project facilitators, down to the VIGs. M&E officers in the PPMO and CPMOs will be responsible for monitoring and evaluating project implementation and sharing lessons learned semi-annually and annually with all stakeholders, in order to improve implementation and achieve project objectives. Implementing agencies and VIGs will collect 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 AWP/Bs and adjustments to the logical framework.
18. **Learning and knowledge management.** The project knowledge management strategy is drawn from the experiences of previous and ongoing IFAD projects. The PPMO and CPMOs will be responsible for capturing and documenting experiences, successful cases and innovations resulting from project implementation, and will

organize semi-annual and/or annual workshops to disseminate these experiences and innovations for scaling up. Moreover, project management will actively participate in regional knowledge-networking activities in areas related to the project.

D. Financial management, procurement and governance

19. **Financial management.** The IFAD financial management assessment for the JiMAAPP rated the overall financial risk as medium. Current organizational structures of the implementing agencies, especially within the LPA, are found appropriate and adequate. Projected fund flow arrangements are also conducive to smooth implementation. Current accounting standards, policies, procedures, asset management, budgeting, auditing, reporting and the accounting system of the implementing agencies are mostly effective. Thus the JiMAAPP will use them for its fiduciary arrangements, with the following risk mitigations: specific guidelines for financial management, accounting and disbursement, tailored and adapted to the requirements of the project, will be introduced; required staff for financial management are in place and plans have been made to build their capacity to ensure efficient project management, especially for CPMOs; a computerized accounting software will be installed and used effectively in all PMOs; and supervision and monitoring will take place to ensure that the prescribed guidelines and requirements are complied with. The Fund will provide appropriate support in the initial phase of the project to ensure fiduciary accountability.
20. IFAD will provide a loan and a grant to finance the JiMAAPP in accordance with the terms and conditions specified in the financing agreement. Immediately after entry into force of the financing agreement, two designated accounts (DA), denominated in United States dollars, will be opened and maintained by the DOF of Jiangxi for the IFAD loan and grant respectively, in (a) commercial bank(s) acceptable to IFAD, through which IFAD funding will be channelled. An agreed amount, approximately equal to eligible expenditures over the first six months, will be deposited into each DA once the financing agreement is signed and disbursement conditions are met. All subsequent replenishments of the DAs will be effected through withdrawal applications with supporting documents and statements of expenditure, in line with IFAD procedures. Project accounts in Chinese yuan renminbi will be opened in banks acceptable to the Fund and maintained by the PMOs and county BOFs. IFAD funds will flow from the DAs through the project accounts to the implementing agencies, service providers and end-users. Project financial management arrangements will ensure a robust flow of reliable information on project activities to facilitate accountability, transparency and disclosure.
21. **Retroactive financing.** As an exception to the General Conditions for Agricultural Development Financing, provision is made for retroactive financing for the loan of up to EUR 800,000 to prefinance start-up activities from the loan account in respect of expenditures for: training and capacity-building; workshops for project beneficiaries and staff of the various PMOs and the implementing agencies; consulting services related to the studies and field surveys; seasonally dependent crop demonstration activities by the cooperatives; exposure visits for knowledge management; and experience-sharing incurred as from the date (8 April 2014) of the memorandum of understanding entered into by the design completion mission and the Government and up to entry into force of the IFAD financing agreement.
22. **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 that they are consistent with those of IFAD's Project 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 audit. 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.

23. **Audit.** In line with article IX, section 9.03 of the General Conditions for Agricultural Development Financing and the IFAD Guidelines on Project Audits (for Borrowers' Use), 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 based on the scope and detail of the audit of financial statements, including a separate opinion on the statements of expenditure, DAs and follow-up audit recommendations from previous years. They will also review the efficiency of the flow of IFAD funds and the delivery of counterpart financing. The scope of the audit will extend to the end use of funds disbursed to beneficiary agencies, such as banks and guarantee companies.

E. Supervision

24. To facilitate project implementation and ensure achievement of project objectives, IFAD and the Government will perform project supervision/reviews that include annual supervision and midterm and completion reviews. The 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; innovation and knowledge management; climate and environmental focus; and sustainability.

IV. Project costs, financing, benefits

A. Project costs

25. The estimated cost of the five-year project, including contingencies, is US\$125.22 million (RMB 766.34 million). Physical and price contingencies amount to US\$11.31 million and account for 10 per cent of total project costs. Cost estimates include all nationally applicable direct and indirect taxes; for all project interventions, taxes are estimated at US\$2.11 million and account for 1.7 per cent of total project costs.

B. Project financing

26. The project is financed by: IFAD (including a loan of EUR 34.35 million equivalent to approximately US\$43.00 million and a grant of SDR 0.55 million equivalent to approximately US\$800,000); the Government (approximately US\$40.75 million); partner banks leveraged credit (guaranteed by the IFAD loan) (approximately US\$14.83 million); partner banks with own funds not guaranteed (US\$10.36 million); cooperatives and enterprises (US\$3.36 million); and beneficiaries (US\$12.11 million). The financing ratio between IFAD and all other cofinanciers, including the farmer beneficiary share and the government contribution, is 1:1.85.

Table 1
Indicative project costs by component and financier
 (Thousands of United States dollars)

	IFAD loan	IFAD grant	PFI with guarantee fund	PFI with own funds	Enterprises & existing coops	Government	Beneficiaries	Total
	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount
1. Agribusiness promotion and development								
1.1: Support to existing farmer cooperatives	0.35				0.21	0.14		0.70
1.2: Promotion of new farmer cooperatives	1.21					1.21		2.43
1.3: Business development services		0.45			0.11	0.09		0.65
1.4: Leverage credit or guarantee facility	5.62		7.10		3.04	0.57		16.33
Subtotal	7.19	0.45	7.10		3.36	2.01		20.11
2. Farm production expansion and productivity enhancement								
2.1: Farm production improvement	28.87		7.73	10.36		18.70	12.11	77.78
2.2: Infrastructure development	2.92					7.14		10.06
2.3: Extension station improvement and staff and farmer training	2.80					2.80		5.60
Subtotal	34.58		7.73	10.36		28.64	12.11	93.43
3. Project management								
3.1: Provincial project management office		0.35				1.75		2.09
3.2: Prefecture-level project management						1.88		1.88
3.3: County project management offices	1.23					6.48		7.71
Subtotal	1.23	0.35				10.10		11.68
Total project costs	43.00	0.80	14.83	10.36	3.36	40.75	12.11	125.22

PFI = participating financial institution

Table 2
Indicative project costs by expenditure category and financier*
 (Thousands of United States dollars)

	IFAD loan		IFAD grant		PFI with guarantee fund		PFI with own funds		Enterprises & coops		Government		Beneficiaries		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
I. Investment costs																
A. Services and consultancies	2.5	53.8	0.7	14.3					0.0	0.4	1.5	31.5			4.7	3.7
B. Credit					14.8	51.6	10.4	36.0	3.0	10.6	0.5	1.9			28.8	23.0
C. Guaranteed fund	5.0	100.0													5.0	4.0
D. Equipment and material	0.4	41.2									0.5	58.8			0.9	0.7
E. Goods, services and inputs	28.9	48.7									18.3	30.9	12.1	20.4	59.3	47.4
F. Operating cost											0.2	100.0			0.2	0.1
G. Workshops											0.6	100.0			0.6	0.5
H. Training	1.5	31.8	0.1	2.8					0.3	6.2	2.8	59.2			4.7	3.8
I. Works	4.7	35.5									8.6	64.5			13.4	10.7
Total investment costs	43.0	36.6	0.8	0.7	14.8	12.6	10.4	8.8	3.4	2.9	33.1	28.2	12.1	10.3	117.6	93.9
II. Recurrent costs																
A. Salaries and allowances											5.4	100.0			5.4	4.3
B. Operating cost											2.2	100.0			2.2	1.8
Total recurrent costs											7.6	100.0			7.6	6.1
Total project costs	43.0	34.3	0.8	0.6	14.8	11.8	10.4	8.3	3.4	2.7	40.8	32.5	12.1	9.7	125.2	100.0

* Final disbursement categories will be decided during negotiations based on IFAD's procedures, which will include a maximum of five cost categories for reasons of efficiency.

C. Summary benefit and economic analysis

27. **Benefits and beneficiaries.** Investments in productive infrastructure will enable farmers to switch from subsistence to commercial farming, and to intensify current cash crop production. Improved irrigation will raise yields significantly, and investments in rural roads will connect farmers and cooperatives to markets at reduced transportation cost and with less damage to products. Farmers will also receive farm inputs, technical extension services and rural financial services that will allow them to invest in higher-value crops and livestock production systems, currently inaccessible to them because of the high costs of entry.
28. The expected incremental agricultural output will be in the region of 27,000 metric tons (MT) of citrus, 22,000 MT of rice, 94,000 MT of live animals, 9,200 MT of vegetables, 8,300 MT of mushrooms, 1,400 MT of tea and 9,300 MT of other crops, such as melon and lotus. About 100 cooperatives and many enterprises will benefit from improved services, pro-poor business models and improved market linkages. By improving the management and business skills of cooperatives and enterprises, the project will provide long-term sustainable benefits and strengthen their capacity to participate in markets. The total number of project beneficiaries is expected to reach cumulatively 387,000 households (1,548,000 people), of which 194,000 households (776,000 people) will directly benefit from farming activities (27,400 households) and infrastructure development for irrigation and roads (119,000 households) – in addition to technical training, extension services and improved value chain access. Moreover, employment opportunities will be created for many poor rural people. The main beneficiaries are farmers with an average of 3-5 mu of arable land (1 ha = 15 mu). Some are currently cultivating cash crops and the remainder will be supported to start doing so.
29. **Economic analysis.** An overall project economic internal rate of return (EIRR) and net present value (NPV) have been calculated, based on investments under component 1 coupled with productive infrastructure and production expansion under component 2. Financial analysis has been carried out for production activities, which were all found to be profitable investments. The results obtained from economic and sensitivity analyses indicate that investments would be profitable even if benefits were significantly reduced or costs higher than anticipated.
30. In the base case, the economic analysis yields an EIRR of 31 per cent and an economic benefit-cost ratio of 1.37 at 10 per cent discount rate. The economic NPV is estimated at RMB 877,694,000 for a period of 20 years under a discount rate of 10 per cent; RMB 680,504,000 at 12 per cent; and RMB 1,132,468,000 at 8 per cent. A series of sensitivity analyses were carried out to test the robustness of the project, including: 10, 20 and 40 per cent increases in all costs result in the EIRR dropping to 24, 18 and 8 per cent respectively; 10 and 20 per cent reductions in all benefits result in the EIRR dropping to 24 and 16 per cent respectively; and benefits realized after delays of one and two years of project investment result in the EIRR dropping to 19 and 12 per cent respectively. The analysis shows robustness for all scenarios except the cases of a 40 per cent cost increase and benefit decrease, and of benefits delayed by two years. Overall, it implies that the project is more sensitive to decreases and delays in benefits than to cost increases.

D. Sustainability

31. Overall sustainability of the JiMAAPP is rated high due to the continuing and increasing efforts of mainstream government programmes for poverty alleviation and the commitment of PMOs at provincial, prefecture and county levels. It is likely that the Government will continue supporting overall development of the project area after project completion. Successful innovations will be scaled up by the Government and others for development of the rural economy and poverty reduction. Nevertheless, PMOs and relevant implementing agencies should be made

aware of the importance of the project's exit strategy and sustainability plan, which will include scaling up of positive project activities and sustainable technical and follow-up services to project beneficiaries. A key element of sustainability will be the training of all stakeholders in business plan development, and of farmers and their advisors in farm budgeting. In addition, sustainability of activities will be dependent on developing the correct funding mechanism for each proposal (credit, in kind funding and grants).

E. Risk identification and mitigation

32. The project is designed based on demand by potential beneficiaries, after fully analysing constraints on and opportunities for development in project areas. Activities are in line with government policies and strategies for poverty reduction and rural development in Jiangxi. Thus risks to the project will be due to rapidly changing market conditions and the broader economic environment, results-oriented processes of implementation and the impacts of climate change. Institutional risks relate mainly to the fact that many cooperatives will be new and inexperienced. These risks will be mitigated by the demand-driven nature and value chain approach of the project, which ensure continuous adjustments during implementation, and the adoption of climate-smart practices. Strengthening PMOs, cooperatives, enterprises and farmers will ensure that they promptly address issues that could jeopardize project success. To minimize risks to the project's financial services, arrangements are being made to leverage existing liquidity in rural financial markets, instead of relying on a dedicated credit line. The application of international best practices¹ in such guarantee fund development and implementation – as a financing instrument for smallholder farming – is not yet fully tested in the country and will thus require intensive development and supervision.

V. Corporate considerations

A. Compliance with IFAD policies

33. The design of the JiMAAPP is in line with IFAD policies. Specifically, (a) specific gender mainstreaming strategies have been designed in compliance with the IFAD policy on gender equality and women's empowerment; (b) the selection of beneficiary villages and households is in line with the IFAD targeting policy reaching the rural poor; (c) participatory approaches for project planning were designed in line with IFAD's applicable policies, rules and procedures; (d) promotion of innovative rural finance is in line with the IFAD rural finance policy; (e) the strategy for scaling up positive project results was designed in line with IFAD's scaling-up policy; (f) climate-related risks were analysed and measures to mitigate their potential negative impacts were designed in line with IFAD's climate change strategy; (g) engagement with enterprises was designed according to IFAD's private-sector development and partnership strategy; and (h) potential negative environmental impacts were analysed, and mitigating measures designed, in line with the IFAD environment and natural resource management policy, resulting in the project being classified as Category B (not likely to have a significant negative environmental impact).

B. Alignment and harmonization

34. The JiMAAPP is aligned with the Government's poverty reduction strategies, notably the Twelfth Five-Year Plan (2011-2015) for National Economic and Social Development, and the Government's rural development policies (especially the 10-year (2011-2020) rural poverty reduction and development programme). The project aims to reduce poverty by: integrating smallholders into agricultural commodity value chains; enhancing the capacity of poor rural people for household

¹ Credit Guarantee Systems for Agriculture and Rural Enterprises Development (Rome: FAO, 2103).

management of agricultural productivity through strengthened information and technical services; and promoting commercialization of agriculture through production of high-value products and secured market linkages. These activities will contribute to narrowing the regional disparities in rural development, while contributing to achieving the objective of building the *xiaokang* society.²

C. Innovations and scaling up

35. Scaling up of successful cases and innovations will be incorporated into the project's AWP/Bs. Local governments will incorporate scaling up of successful ventures into their development plans, either through support to scaling up innovations locally or through their replication and expansion outside the immediate project areas, by governments and others. In addition, through the innovative guarantee systems for leveraged finance under this project, IFAD and the Government will gain useful experience that will ensure greater outreach beyond the project.

D. Policy engagement

36. Through the JiMAAPP, IFAD will seek to build consultative frameworks with selected institutional partners in the following areas: innovative rural financial services; value chain research and development for improved farmer access to premium markets; land consolidation; gender mainstreaming in development programmes; support to farmer cooperatives for efficiency gains and improved sustainability; and pursuit of innovation and scaling up of best practices. IFAD will encourage the provincial government's involvement in analysis of related policies, and its active participation in discussion forums and South-South cooperation seminars.

VI. Legal instruments and authority

37. 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/recipient. A copy of the negotiated financing agreement is attached as an annex.
38. The People's Republic of China is empowered under its laws to receive financing from IFAD.
39. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the policies and criteria for IFAD financing.

VII. Recommendation

40. I recommend that the Executive Board approve the proposed financing in terms of the following resolutions:

RESOLVED: that the Fund shall provide a loan on ordinary terms to the People's Republic of China in an amount equivalent to thirty-four million three hundred and fifty thousand euros (EUR 34,350,000), 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 five hundred and fifty thousand special drawing rights (SDR 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

² A "moderately well-off" society and "economic opportunity for all", with a focus not just on material gains, but also on social harmony.

Negotiated financing agreement:

"Jiangxi Mountainous Areas Agribusiness Promotion Project (JiMAAPP)"

(Negotiations concluded on 27 November 2014)

Loan Number: _____

Grant Number: _____

Project Title: Jiangxi Mountainous Areas Agribusiness Promotion 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 Financing 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 Financing consists of a Loan in the amount of thirty four million three hundred and fifty thousand euros (EUR 34 350 000) and a Grant in the amount of five hundred and fifty thousand Special Drawing Rights (SDR 550 000).
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 EUR.
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 one Designated Account denominated in EUR opened and maintained by the Department of Finance (DOF) of the Jiangxi Province in a commercial bank acceptable to the Fund to receive the Loan proceeds (the "Loan Designated Account"). There shall be one Designated Account denominated in United States dollar (USD) maintained by the DOF of the Jiangxi Province in a commercial bank acceptable to the Fund to receive the Grant proceeds (the "Grant Designated Account"). The Designated Accounts 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 Government of the Jiangxi Province and each participating county government to provide counterpart financing for the Project in a total amount equivalent to approximately USD 40.75 million to cover activities such as work, goods, services, equipment, material and recurrent costs for all Project Management Offices (PMOs) and taxes. Project beneficiaries shall provide a contribution in cash or in kind of approximately USD 12.11 million, enterprises and cooperatives shall contribute approximately USD 3.36 million and participating banks shall contribute approximately USD 25.2 million for leveraged credit. The counterpart funds shall be channelled and made available for the Project.

11. Project Accounts shall be maintained by the Provincial Project Management Office (Provincial PMO), Prefecture Project Management Offices (Prefecture PMOs), County Bureaux of Finance (BOFs) and County Project Management Offices (County PMOs) in Chinese Yuan (CNY) in commercial banks acceptable to IFAD, to receive the proceed of the financing and/or counterpart funds.

Section C

12. The Lead Project Agency shall be the provincial Department of Agriculture (DOA) designated by the Government of the Jiangxi Province, acting through the Jiangxi Provincial Rural Social Development Bureau, for the overall coordination and supervision of the Project activities.

13. Additional Project Parties shall include the DOF/BOFs, the Bureaux of Water Resources (BOWRs), the Bureaux of Transportation (BOTs), the Bureaux of Agriculture (BOAs), Bureaux of Livestock (BOLs), the Rural Economic and Cooperative Management Bureaux (RECMBs), Township Project Facilitators (TPFs), Village Implementing Groups (VIGs).

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

Section D

15. The Financing shall be administered and the Project supervised by the Fund. In addition to supervision missions, which shall normally be carried out at least once a year, the Fund shall conduct a mid-term review to be carried out towards the third year of the Project.

Section E

16. The following is designated as an additional ground for suspension of this Agreement:

- (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 designated as additional general conditions precedent to withdrawal:

- (a) The Provincial PMO, the Prefecture PMOs and at least one County PMO shall have been duly established and composed in accordance with Schedule 1, Section II and the respective key 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 Loan Designated Account shall have been duly opened, the Grant Designated Account shall have been maintained separately and the authorized signatories shall have been submitted to the Fund;
- (d) A draft PIM shall have been prepared and has been approved by the Fund; and
- (e) A computerized accounting system acceptable to the Fund shall have been identified and selected by the Provincial PMO.

18. The following is designated as an additional specific condition precedent to withdrawal:

- (a) No withdrawals shall be made in respect of expenditures under Category IV until a draft Participating Bank or 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

 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 target groups shall primarily be the poor rural men and women in the Luoxiao Mountain Block Area, in Jiangxi Province and their cooperatives, and the agro-enterprises that are committed to developing linkages with poor producers. The Project shall be implemented in the following ten counties from three prefectures: JiAn, Suichuan, Jinggangshan, Yongxin and WanAn of JiAn Prefecture; Huichang, Anyuan, Chongyi and Ruijin of Ganzhou Prefecture; and Lianhua of Pingxiang Prefecture (the "Project Area").
2. **Goal.** The Project goal is to help the Borrower develop and implement pilot programmes that sustainably address the chronic poverty prevailing in pockets of remote and mountainous areas.
3. **Objectives.** The objectives of the Project are to increase farmers' production bases, improve agricultural production efficiencies, enhance product quality and improve margins along the value chains, especially at the farm level. The Project will promote agribusiness development through cooperatives and enterprises, emphasizing market access for farm products.
4. **Components.** The Project shall consist of the following three components:

Component A: Agribusiness Promotion and Development

The objectives of this component are to (i) enhance capacity building for cooperatives, enterprises and micro-enterprises and establish linkages between these and target farmers; and (ii) assist cooperatives and enterprises to enhance their role in the development of value chains within the chosen sector.

This component will be implemented through the following sub-components: (i) Support to Existing Farmer Cooperatives; (ii) Promotion of New Specialized Farmer Cooperatives (SFC); (iii) Business Development Services; (iv) Establishment of a Credit Leverage or Guarantee Facility.

Sub-component A.1 - Support to Existing Farmer Cooperatives. The Project will finance training, advisory services, technical assistance and support for selected existing farmer cooperatives in order to improve their management, business capacity, their access to the credit and profitability and to expand their business. The Project will support the development of business plans and link cooperatives into value chains.

Sub-component A.2 - Promotion of New Specialized Farmer Cooperatives (SFC). The following activities are foreseen under this sub-component:

- (a) *Establishment of new SFC.* The Project will finance the training advisory support for the establishment of the new SFC in accordance with national laws, including training to improve the business operations of the cooperative as well as the internal governance processes and basic office facilities and equipment.
- (b) *Strengthening Capacity of Economic Management Stations (EMSs).* The Project will finance training to cooperative promoters within the County EMSs to enable them to perform their role fully as coaches and facilitators for the process of cooperative development. The Project will provide training to cooperative promoters in each county of the Project Area.
- (c) *Promotion of Cooperative Federations.* The Project will support the creation of one Federation in each county of the Project Area.

Sub-component A.3 - Business Development Services. The Project will finance: (i) a need assessment study of the capacity-building requirements of the implementing agencies (IAs) and the support to IAs to develop, coordinate and monitor business linkages between

the farmers, the cooperatives and the enterprises; (ii) the capacity-building of farmers and enterprises selected in accordance with the criteria defined in the PIM, to improve their management and business capacity, expand their business and improve their profitability, while at the same time improving the value chain linkages between enterprises and poor rural households and their cooperatives; (iii) support the development of business plans by enterprises and/or cooperatives selected in accordance with criteria defined in the PIM; and (iv) undertake studies to value chains most important for the Project Area and Target Population in accordance with criteria defined in the PIM.

The PIM will set forth the selection and eligibility criteria for the business plans and participating farmers who will be linked into a business model. A Memorandum of Understanding drafted in accordance with the model provided for in the PIM, will be signed between the participating farmers and their business partners (enterprise and/or cooperative).

Sub-component A.4 - Establishment of a Credit Leverage or Guarantee Facility. The objective of this sub-component is to provide a guarantee cover loans to selected cooperatives and agro/enterprises in order to enable them to access credit and other banking services for eligible activities as determined in the PIM. Participating banks or guarantee agencies will be selected in accordance to criteria defined in the PIM.

Subsidiary Agreement: A subsidiary agreement will be entered into between the BOF and the selected guarantee agency or bank in the form provided in the PIM. The draft subsidiary agreement shall be approved by the Fund and the Lead Project Agency prior to its signature.

Other activities such as technical assistance for the establishment of the Credit Leverage or Guarantee Facility, training in due diligence, risk management, studies and workshops will be financed under this sub-component to Project staff, government officials, SFC and guarantee agencies and participating banks.

Component B: Farm Production Expansion and Productivity Enhancement

The objective of this component is to support the building of appropriate infrastructure and the establishment of farm production capacity. Training and technical assistance shall be provided to improve target farm business management skills and to support the improvement of production efficiencies. The objectives shall be achieved through the following sub-components:

Sub-component B.1 - Farm Production Improvement. Activities under this sub-component include: (i) technical assistance to improve farming techniques and on management, disease and pest control; (ii) the supply of quality seeds; (iii) the provision of inputs for the construction of inter alia, livestock sheds/poultry, initial sows/calves/chicks as well as working capital etc.; and (iv) the conclusion of contract farming arrangements through farmer cooperatives or enterprises, for the collection of farmers' produce, and their subsequent processing and marketing. The eligibility and selection criteria for these activities shall be defined in the PIM.

Sub-component B.2 - Infrastructure Development. The activities under this sub-component include: (i) funding of projects to improve on-farm irrigation and production road systems within the production bases of their cooperatives; (ii) funding of projects for improvement of public irrigation and village road system; (iii) training for cooperative members; and (iv) establishment and training of road maintenance groups and water users associations. The eligibility and selection criteria for these activities shall be defined in the PIM.

Sub-component B.3 - Extension Services Improvement and Staff and Farmer Training. The objective of this sub-component is to provide capacity-building to the Township Integrated Technical Service Stations (TITSSs). The activities under this sub-component include: (i) the financing of infrastructure and equipment base for selected poor TITSSs; (ii) training of TITSSs staff on updated technologies of agricultural production and

particularly on the knowledge of agribusiness and value chain; (iii) linking farmer cooperatives and Project target farmers with experts of other service providers as required to address issues met during the Project implementation; and (iv) organizing knowledge exchange, cross visits, and participation in technical workshops to promote scaling up of positive results.

The eligibility and selection criteria for the infrastructure and equipment base activities shall be defined in the PIM.

Component C: Project Management and Coordination

The Project will support the establishment and effective function of PMOs at provincial, prefecture and county 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 Jiangxi Province, acting through the Jiangxi Provincial Rural Social Development Bureau, for the overall coordination and supervision of the Project.

2. Project Leading Groups (PLGs)

2.1. *Establishment and composition.* The PLGs shall be established at provincial, prefecture and county levels respectively by the province, prefecture and each county where the Project shall 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 mobilisation for carrying out the Project; (iii) review and approval of Project Annual Work Plans and Budgets (AWPBs); and (iv) coordination of Project IAs.

3. Provincial Project Management Office (Provincial PMO)

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

3.2. *Composition.* The composition of the Provincial PMO shall include the following key positions: a director, a planning and monitoring and evaluation (M&E) officer, an agribusiness and financing officer, a knowledge management and gender coordinator, an accountant and a cashier. 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 Project regulations and provide general oversight on the implementation of Project activities by the Prefecture, County and Township PMOs and shall also include the following:

- (a) Consolidation of AWPBs and coordination of Project implementation;
- (b) Establishment of Project M&E system;
- (c) Training and coaching of County PMOs and IAs;
- (d) Support the financial management of the Project, including processing reimbursement of Project expenses and withdrawal of funds;
- (e) Undertaking and overseeing procurement under the Project;
- (f) Manage the Credit Leverage or Guarantee Facility and conclude subsidiary agreements with participating banks or guarantee agencies; and
- (g) Project reporting.

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

4.1. *Establishment.* A Prefecture PMO shall be established by the BOA of the Prefecture government. The Prefecture PMO shall be responsible for the coordination and management of Project activities in the counties of the Project Area under its jurisdiction.

4.2. *Composition.* The composition of the Prefecture PMO shall include the following key positions: a director, a planning and M&E officer, an agribusiness and financing officer, a knowledge management and gender coordinator, an accountant and a cashier. 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 responsibilities in its respective jurisdiction, shall include, among others:

- (a) Monitoring and supervision of Project implementation under its jurisdiction;
- (b) Facilitating Project reporting and communication;
- (c) Providing implementation support, where necessary;
- (d) Providing appropriate training to County PMOs and IAs;
- (e) Promoting knowledge capturing and sharing, including learning among counties; and
- (f) Coordinating Project financing and other support needed to counties.

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

5.1. *Establishment.* The County PMOs shall be established in each county of the Project Area by the DOA and located within BOAs.

5.2. *Composition.* The composition of the County PMOs shall include the following key positions: a director, a planning and M&E officer, an agribusiness and financing officer, a knowledge management and gender coordinator, an accountant and a cashier. 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 include, among others:

- (a) Development of AWPBs through participatory approaches;
- (b) Coordination and supervision of Project implementation;
- (c) Provision of appropriate training to IAs, TPFs and VIGs and other partners in terms of Project strategy and implementation requirements;
- (d) Preparation of documents for reimbursement;
- (e) Transfer or monitoring the transfer of Project funds to IAs on time;

- (f) Organizing and/or monitoring of Project procurement;
- (g) Undertaking Project M&E and reporting;
- (h) Promoting Project knowledge capturing and sharing; and
- (i) Applying eligibility criteria to identify target groups and enterprises, cooperatives for participating in the Project.

5.4. *Business Plan Appraisal Committee (BPAC)*. Under the guidance of the Provincial PMO, the County PMO shall establish a 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 for the County PMO shall serve as secretary and non-voting member on the BPAC.

6. *Township Project Facilitators (TPFs)*

6.1. *Composition*. The TPF shall be appointed among the existing staff of township government, to support Project implementation utilizing existing facilities on a part-time basis. At least two designated staff shall provide support to the County PMO and IAs in implementing Project activities within the township, on a part-time basis.

6.2. *Responsibilities*. The TPF's key responsibilities include:

- (a) Oversee the implementation of Project activities in the township;
- (b) Identify and ascertain eligibility of participating enterprises, cooperatives and villages in line with Project targeting strategy;
- (c) Facilitate village-level mobilization and validate activities to be implemented in line with Project objective;
- (d) Review activity prioritization of the township and extent of poverty coverage;
- (e) Coordinate the township technical stations/centres and other participating partners in Project implementation;
- (f) Consolidate the M&E data collected by VIGs, enterprises and cooperatives and report to County PMOs; and
- (g) Liaise with target villages, farmer cooperatives and enterprises within the township.

7. *Village Implementing Groups (VIGs)*

7.1. *Establishment*. The 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 6-8 people, including approximately 3-4 farmer representatives from different well-being household categories and including women and the poor and vulnerable.

7.3. *Responsibilities*. The VIGs' major responsibilities include:

- (a) Categorization of households based on participatory well-being ranking within the village;
- (b) Identification of Project activities, prioritization of eligible groups through participatory approach, and reporting to the PMOs for the development of AWPBs;
- (c) Organization of the poor and vulnerable households to participate in Project activities;
- (d) Monitoring Project implementation and collecting M&E data as required; and
- (e) Organization of the operation and maintenance of community infrastructure built by the Project, where relevant.

B. Implementation of Components

8. Component A: Agribusiness Promotion and Development

8.1. *Training, Technical Support and Capacity Building.* The training, advisory service, technical assistance and support to cooperatives activities under this component shall be implemented by the RECMB as well as specialist trainers, consultants and business support service providers contracted in accordance with this Agreement.

8.2. *Development and Execution of Business Plans.* Activities related to the development and execution of business plans will be implemented by the County 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 County PMOs shall be responsible for the review, assessment and selection of the business plans in accordance with the selection and eligibility criteria defined in the PIM and shall make a recommendation to the County PMO.

8.3. *Credit Leverage or Guarantee Facility.* Activities under sub-component A.4 shall be implemented by selected specialized guarantee agencies and banks at county level selected in accordance with criteria specified in the PIM. To this end, a subsidiary agreement shall be entered into by BOFs with each selected participating bank or guarantee agency.

8.3.1. *Agreements with Participating Banks.* The BOFs 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.

8.3.2. *The Participating Bank or Guarantee Agency Subsidiary Agreement.* The relevant BOFs shall enter into an agreement with each participating bank or guarantee agency for the implementation of the Credit Leverage or Guarantee Facility sub-component A.4. To this end a subsidiary agreement shall be drafted which shall provide, among other things, that:

- (a) The participating bank or 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 Credit Leverage or Guarantee Facility Component A in accordance with this Agreement;
- (b) The Borrower through the BOF, shall transfer Project resources to the relevant participating bank or guarantee agency in accordance with the AWPBs;
- (c) The participating bank or guarantee agency shall implement the Credit Leverage or Guarantee Facility in accordance with the criteria described in the PIM.

8.3.3. The Borrower, through the Lead Project Agency, shall submit a draft of the Participating Bank or Guarantee Agency Subsidiary Agreement to the Fund for non-objection.

9. **Component B: Farm Production Expansion and Productivity Enhancement**

9.1. *Sub-component B.1 - Farm Production Improvement.* Activities under this sub-component in relation to annual/perennial cash crops shall be implemented by the BOA under the coordination of the PMOs. The BOL shall be responsible for the implementation of the livestock development activities. The Project sites and villages where activities will be implemented under this sub-component shall be selected by the County PMOs in accordance with criteria defined in the PIM. The BOA of each county of the Project Area shall provide technical services to Project beneficiaries.

9.2. *Sub-component B.2 - Infrastructure Development.* 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 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 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 farmer 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.

9.3. *Sub-component B.3 – Extension Services Improvement and Staff and Farmer Training.* Implementation responsibility for this sub-component shall remain with the BOAs. Since each of the BOAs includes an agriculture sub-sector and a livestock sub-sector, on behalf of the BOA these two sub-sectors shall carry out the specific responsibilities for cropping activities and livestock activities, respectively, under coordination of the PMO. The training activities shall be undertaken by specialist trainers, consultants and business support service providers contracted in accordance with this Agreement.

C. Project Implementation Manual

10. *Preparation.* The Provincial PMO shall prepare the draft PIM with the input from the Prefecture and County PMOs. 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) Eligibility and selection criteria for the capacity-building activities of TITSSs foreseen under sub-component B.3;
- (e) Eligibility criteria for the activities foreseen to support farmer cooperatives including training and development of business plans;
- (f) Targeting, eligibility and selection criteria for the intervention under sub-component B.1 (Farm Production Improvement) and sub-component B.2 (Infrastructure Development) for participating villages, cooperatives and other beneficiaries;
- (g) Project operational, financial and procurement procedures, including participatory planning, implementation and monitoring procedures;
- (h) Separate operational manual for the operational modalities of the Credit Leverage or Guarantee Facility including selection and eligibility criteria for the Guarantee Agencies and Participating Banks;

- (i) Model subsidiary agreements to be entered into by BOF and Guarantee Agencies and Participating Banks for the implementation of the Guarantee Facility;
- (j) Model contract to be entered into by farmers and cooperatives and/or enterprises; and
- (k) 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 and Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the Grant 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 EUR)	Grant Amount Allocated (expressed in SDR)	Percentage of total expenditures
I Works	3 410 000		100% net of government contribution
II Goods, Services and Inputs	20 750 000		62% of total cost net of beneficiary contribution
III Equipment and Materials	260 000		40% of total cost
IV Credit, Guarantee Funds	3 590 000		100% net of taxes
V-a Consultancies	1 810 000		100% net of government, cooperatives and enterprises contributions
V-b Consultancies-Grant		420 000	100% net of taxes
VI-a Training	1 090 000	-	100% net of government, cooperatives and enterprises contributions
VI-b Training-Grant		80 000	100% net of taxes
Unallocated	3 440 000	50 000	
TOTAL	34 350 000	550 000	

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

"Works" under Category I, shall mean eligible expenditures incurred related to:

- (i) technical station establishment in sub-component B.3, 50% of which shall be financed by the Loan and 50% from the government;

- (ii) works under sub-component B.2 "Production Base Infrastructure to facilitate farm productivity improvement", 30% of which shall be financed by the Loan and 70% from the government.

"Goods, Services and Inputs" under Category II, shall mean eligible expenditures related to the input for the implementation of activities under the sub-component B.1. The Loan shall finance 62% and government shall finance (including taxes) 38% of the total cost net of the beneficiary contribution.

"Equipment and Materials" under Category III, shall mean eligible expenditures incurred related to equipment and material in Components B and C. The Loan shall finance 40% and government shall finance 60% (including taxes) of the total cost.

"Credit, Guarantee Funds" under Category IV, shall mean eligible expenditures incurred related to the Credit Leverage or Guarantee Facility under Component A to support leverage credit funds from banks.

"Consultancies" under Category V-a, shall mean eligible expenditures incurred related to services and consultancies for:

- (i) standardized SFC development under sub-component A.2, 50% of which shall be financed by the Loan and 50% will be from the government;
- (ii) establishment of Guarantee Facility and Credit Leverage from participating banks under Component A, which shall be financed 100% total cost net of taxes by the Loan;
- (iii) M&E at County PMO level under Component C which shall be financed 100% net of taxes by the Loan.

"Consultancies-Grant" under Category V-b, shall mean eligible expenditures incurred related to:

- (i) business development services under Component A;
- (ii) technical assistance to value chain financing studies, computerized accounting software, business development services and Credit Leverage or Guarantee Facility implementation support under Component C.

"Training" under Category VI-a, shall mean eligible expenditures incurred related to:

- (i) study visit under Component C for Project staff to other project areas in China co-financed by the Fund, which shall be financed 100% net of taxes by the Loan;
- (ii) training of the County PMO staff under county Project management in Component C which shall be financed 10% of the total cost by the Loan;
- (iii) all other trainings activities shall be financed 50% of the total cost by the Loan.

"Training-Grant" under Category VI-b, shall mean eligible expenditures incurred related to training for capacity support for management staff under sub-component A.3.

2. *Retroactive Financing.* Withdrawals not exceeding in the aggregate the equivalent of EUR 800 000 to pre-finance activities may be made from the Loan Account in respect of expenditures for: training and capacity building workshops for Project beneficiaries and staff of the various PMOs and IAs, consulting services related to the studies and field surveys, seasonally dependent crop demonstration activities by the cooperatives, exposure visits for knowledge management and experience sharing incurred as from 8 April 2014. Such expenditures may be considered Eligible Expenditures for all purposes of this Agreement.

Logical framework

Narrative Summary	Key Performance Indicators ¹	Means of Verification	Assumptions (A)/Risks ®
GOAL²			
Assist the People's Republic of China develop and implement pilot programmes that sustainably address the chronic poverty prevailing in pockets of remote and mountainous areas.	27,400 HHs have improved asset ownership index compared to RIMS baseline	-Government Statistics -RIMS	
OBJECTIVES			
Increasing farm production bases, improving farm production efficiencies, enhancing the capacity and capabilities of cooperatives and enterprises, and improving margins along the selected value chains, especially at farm level.	<ul style="list-style-type: none"> • Average incomes of rural poor households supported with annual and perennial crop production packages increased by 20% at project completion; and • 27,400 HHs are actively participating in commercial farming by project year 5 	-RIMS and benchmark surveys; -Impact assessment.	-Continued government support to poor rural areas; -Increased income improves assets; -Increased income of households leads to reducing child malnutrition.
OUTCOME BY COMPONENT (gender disaggregated)			
Outcome 1: Enhancement/establishment of Cooperatives 1.1 Cooperatives strengthened, increased profits and increased membership 1.2 Cooperatives able to access credit 1.4 Establishment of 50 inclusive, pro-poor farmer cooperatives 1.4 Establishment of sustainable and effective cooperative federations	<ul style="list-style-type: none"> • Profits of cooperatives increased by 25% by end of project • 1,000 poor households are members or suppliers of cooperatives • At least 25% of cooperatives are able to get loans from financial institutions • 50 well-functioning new farmer cooperatives established - average of 100 members • 10 Cooperative federations established and functioning 	<ul style="list-style-type: none"> • Project M&E reports • Financial statements and accounting records of cooperatives • Assessment of cooperatives using cooperative-specific performance assessment tools • Annual reports and financial statements of cooperative federations 	<ul style="list-style-type: none"> • Cooperatives rigorously use the computer-based accounting systems • Cooperatives can link into value chain with enterprises • Adequate buy-in by rural HH farmers • Adequate capability within cooperative management and cooperative federation management.
Outcome 2: Establishment of linkages between farms and agribusinesses 2.1 Improved value-addition and market access for smallholders.	<ul style="list-style-type: none"> • 20% increase in agribusiness turnover • 20% increase in long-term supply contracts between farmers and agribusiness • 25% increase in smallholder throughput on average 	<ul style="list-style-type: none"> • Project M&E reports • Survey of all agribusiness participants 	<ul style="list-style-type: none"> • (A) Number of agribusinesses (cooperative, enterprises to receive capacity training will depend on number of projects within JiMAAPP.

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

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

<p>Outcome 3: Leverage credit or guarantee facility supported to leverage credit provision</p> <p>3.1 Guarantee facility participating in the project.</p> <p>3.2 Utilization of the Guarantee Fund by the end of the project</p> <p>3.3 Improved value chains & increased profits to borrowers</p>	<ul style="list-style-type: none"> • 10 guarantee companies participating by project completion; • Less than 5% utilization of the Guarantee Fund by the end of the project; • At least 10 branches of the 3 main banks participate by project completion; • Reduced loan defaults of no more than 5% by project completion 	<ul style="list-style-type: none"> • Project M&E reports • Project design reports 	<ul style="list-style-type: none"> • Inadequate buy-in by poor SHF. • Few financially strong guarantee companies. • Large pool of creditworthy borrowers • Commitment by banks
<p>Outcome 4: Farm production enhancement</p> <p>4.1 Improved agricultural productivity for beneficiary households;</p> <p>4.2 Enhanced access to technical services of farmer households in the project area</p>	<ul style="list-style-type: none"> • Yield increase by crop will be in the range of 10-20%; • 90% of farmers have access to agricultural extension services 	<ul style="list-style-type: none"> • Project M&E reports • Farm surveys 	<ul style="list-style-type: none"> • (A) Projects parallel assumptions on land productivity.
<p>Outcome 5: Improved infrastructure</p> <p>5.1 Improved infrastructure systems for agricultural production and value chain development</p> <p>5.2 Rural roads, irrigation, farmers capacity in infrastructure O&M improved</p>	<ul style="list-style-type: none"> • 119,000 rural population benefited from infrastructure improvement, • 2,104 ha irrigation area rehabilitated and developed; • 83 km of rural roads improved; • 2,463 p/d training provided to infrastructure group members, 	<ul style="list-style-type: none"> • Project M&E reports; • Agricultural census data 	<ul style="list-style-type: none"> • Continued government investment in rural infrastructure
<p>Outcome 6: Involvement of women</p> <p>6.1 Increased involvement of women in cooperatives</p> <p>6.2 Increased number of women among beneficiaries of farm production</p> <p>6.3 Increased number of women among beneficiaries of community infrastructure;</p>	<ul style="list-style-type: none"> • 40% of women among new recruited members of cooperative • 40% of women beneficiaries of farm production; • 50% of women among technical trainees; • 48% of women among beneficiaries of community infrastructure; • 40% of women among PMO staff. 	<ul style="list-style-type: none"> • Project M&E reports 	<ul style="list-style-type: none"> • Gender focus of the authorities remain strong