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Investing in rural people

People's Republic of China

Yunnan Rural Revitalization Demonstration Project

Addendum

Note to Executive Board representatives

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For: **Information**

I. Comments from Bangladesh

1. **Bangladesh supports the proposed project and thanks IFAD to design it for the benefit of the rural marginalized people specially women, youth and ethnic minorities. The major portion of IFAD project amount will be utilized for climate finance.**
2. **We envisage that the main focus of the project is aligned with the core principle of IFAD to invest in sustainable rural economies in order to develop long term resilience. This will enhance sustainable agriculture and rural non-farm activities, improve access to markets, value chain and climate resilience.**
3. **Bangladesh welcomes the project s it is an opportunity for remodelling the change fupin model with more inclusive, efficient and equitable way of targeting the genuine farmers’ cooperatives than the dragon headed enterprises.**
4. **We strongly emphasize the implementing agency to learn the lesson from the past while targeting the farmers specially women, youth and migrant returnees. This will stimulate the rural economies with more diversified income generations on one side while encourage the rural people to stay at their community by reducing urban migration, on the other.**
5. **We commend the Government of the People’s Republic of China for their strong demonstration of national commitment and ownership from various stakeholders by providing considerable domestic financing for the project. The Co-financing ration (1:2.1) is 50 percent above the IFAD 11 target (1:1.4).**
6. **With this, Bangladesh recommends to approve financing of the project.**

Response

7. **We would like to thank Bangladesh for supporting the project. We confirm that the project will benefit poor rural people, with a specific focus on women and youth. A significant percentage of IFAD financing will be utilized for climate financing. The cofinancing ratio is indeed 50 per cent above the IFAD11 target.**

II. Comments from Egypt

8. **Egypt would like to thank IFAD management and the Asia and the Pacific Division for the design of the Yunnan Rural Revitalization Demonstration Project in China.**
9. **Egypt believes that this project is entirely aligned wit IFAD’s mandate of targeting the poorest of the poor. It is evident that Yunnan has consistently been a priority of the Chinese government’s poverty reduction programme, in view of the fact that it contains the largest share of poor people in the country.**
10. **In this regard, Egypt welcomes that the project is expected to directly benefit around 100 thousand rural Chinese, and also indirectly benefit about 414,540 people from 88,200 households inside the project area.**
11. **We also welcome very much that this project caters very well to IFAD’s crosscutting mainstreaming themes namely addressing climate change, gender and youth.**
12. **We value that this well-designed project is also aligned with the Beijing’s agricultural strategy namely its recently adopted rural revitalization strategy that aims at achieving a rebalance between urban and rural areas via accelerating the development of rural areas and making them more attractive.**

13. **Indeed, this project also offers a unique opportunity for IFAD to support the government in rethinking and improving the changye fupin model, in such a way as to make it fairer, and more inclusive, and less of a burden on public finances. We also believe that the successful cooperatives model in China – which serve as co-financiers in this project – could be emulated elsewhere.**
14. **We are hopeful and very much optimistic that this project will help the Government of the People’s Republic of China in achieving its strategic objective to eradicate extreme rural poverty by 2020.**
15. **Having said that, we support the recommendation of H.E. the President of IFAD to approve the financing of this project. Finally, we wish IFAD and the Government of China al the success in implementing this project and in future endeavours.**

Response

16. We would like to thank Egypt for their appreciation of the project design. We confirm that the project is fully aligned with and supports the Government’s recently adopted rural revitalization strategy, and the IFAD11 mainstreaming themes of climate change, gender and youth.

III. Comments from Mexico

17. **Mexico supports the approval of the Yunnan Rural Revitalization Demonstration Project in China.**
18. **The project will target pockets of poverty in the province that has the largest share of poor people in the Country, in support of the country-wide efforts to eradicate poverty.**
19. **The rationale for the project is sound, as the expertise of IFAD will benefit the development of traditional small farms and help them to have a reliable source of income. Its three component will help to close the gaps in inclusiveness, fairness and equality, and it will provide support in farming and non-farming activities, including the improving of managerial capabilities and decision-making for women. All this is in line with the main topics of IFAD11.**
20. **Financially, the project has an important amount of national co-financing, where the IFAD loan is just 32% of the total project cost. This is in line with the Transition Framework and the calls for increasing levels of co-financing.**
21. **We think that this project demonstrates the value of IFAD as partner for development in a country with pockets of poverty, as it is expected that the lessons learned will be replicated in the future, either in China or in other countries.**

Response

22. We would like to thank Mexico for the words of appreciation. We confirm that the project will target the remaining pockets of poverty in the province with the largest share of poor people, and that one dollar of IFAD financing will leverage more than two dollars of domestic cofinancing, almost three times the IFAD11 target for domestic cofinancing.

IV. Comments from Switzerland

23. **Based on the assessment below, we harbour a favourable opinion on this project, although there is a residual need for clarifications on certain crucial aspects.**

(i) **Agricultural industrialisation.**

24. **The project is to test existing models of poverty reduction through industrialisation that have been widely used in most rural areas in China over the past years. This is being undertaken, as there are doubts as to whether so-called “dragon-head” and profit-driven industry players have been effective in combatting poverty reduction, and subsequently lessons can be drawn from experience. It would therefore be relevant to first assess the contribution of agricultural industrialisation to poverty reduction over the past years. Furthermore, the project does not appear to sufficiently emphasise the relationship between ecology and poverty reduction. There is a real risk that people who escape poverty may fall back if the poverty alleviation measures are not ecologically sustainable in the long term. In this regard, it is a good sign that the project has identified shortcomings and will develop and test other approaches and models.**

Response

25. We would like to thank Switzerland for the favourable opinion on the proposed project.

26. We confirm that the design of this project was based on and benefited from the extensive experience gained and lessons learned from the implementation of several internationally supported projects associated with models of poverty reduction through industrialization – including several IFAD- and World Bank-funded projects – and from the Government’s own accumulated knowledge. Such knowledge and experience are reflected in the lessons learned section of the project design report. With respect to the contribution of agricultural industrialization to poverty reduction (i.e. *chanye fupin*), experience has demonstrated – as correctly pointed out in the comment – the shortcomings of pursuing poverty reduction through direct support to dragonhead enterprises. This approach is highly dependent on government subsidies (which are likely to decrease after 2020), not necessarily inclusive (as limited attention in the model was paid to targeting and the benefit-sharing mechanisms), and expensive (most of the resources were captured by the enterprises, making the investment/benefit ratio high). This is the rationale for adopting a different approach (i.e. improved *chanye fupin* models), which will use farmers’ cooperatives as the main entry point for support.

27. With regard to the relationship between ecology and poverty reduction, we confirm that this relationship has been carefully analysed, and that the results of the analysis are reflected in the related Social, Environmental and Climate Assessment Procedures note, annex V – which informed the design. Particularly, the note provides detailed information on current poverty profiles and the condition and management of natural resources in the project area. Potential social, ecological, environmental and climate change risks that could affect or prevent the project from achieving its development objectives (poverty reduction) or that could have an adverse impact on people and/or the environment were identified. Based on this analysis, mitigation measures have been identified. These are reflected in the environmental and social management plan and in the project implementation manual. Moreover, the design also includes measures to improve sustainability and climate resilience by supporting green production (including organic and best practices in soil and water management); product labelling and marketing; mainstreaming climate considerations into infrastructure development; and ensuring operation and maintenance (O&M) arrangements. Current and anticipated

effects of climate change will be taken into consideration in the planning and design of infrastructure. Cooperatives will be supported in using solar panels for water pumping, and adopting irrigation practices and digital monitoring for water use efficiency in areas prone to reduced water availability induced by climate change.

(ii) Farmers Cooperatives.

28. **The conventional role of Farmers' Cooperatives is one that merits review. Farmers' Cooperatives should not only limit themselves to facilitating farmers' access to the market as stated in the document; providing education and training to their members is potentially more important still. In addition, land-associated issues (land reform, land-use rights, land leasing, etc.) do not appear to be included in the project. This is crucial, as land ownership is linked to the long-term perspectives of land management attitudes. Dragon-head industries may not always take sufficient care of land (e.g. soil quality) if lease agreements last only a few years, as the incentives for short-term gain rise at the expense of long-term asset management. Another frequent phenomenon to take account of is that smallholder farmers are often contracted to work on their own land.**

Response

29. We confirm that the role of farmers' cooperatives is not limited to market access facilitation. It also has functions related to training and extension for their members provided by both public services and agribusinesses; improving standards and scale of production, including peer control among members; joint marketing and/or joint production, among other functions. We are aware of the fact that this is a progressive process and that not all cooperatives will be able to perform all the above functions. The purpose of the project is to empower cooperatives to become providers of a number of different services to their members, not only or not necessarily limited to market access facilitation.
30. We would also like to confirm that the land-associated issues referred to in the comment were taken into consideration during design and have been integrated in the project under the cooperative development activities. Currently, farmer cooperatives follow three different models: (a) land remains in the full control of individual members; (b) land is leased to the cooperative at a pre-agreed price; or (c) land is transferred to the cooperative as a share. Individual farmers tend to prefer one of the above models depending on their individual labour situation and risk perceptions. The project is designed to provide beneficiaries with the training and information to make informed choices.
31. Finally, we confirm that the project does not support land leasing by dragonhead enterprises.

(iii) Climate resilient infrastructure development.

32. **National investments in infrastructure emphasise sanitary improvement (clean drinking water supply, wastewater treatment etc.), E-business-oriented internet construction (to ease agribusiness and online sales of agri-products) and tourism. Against this backdrop, the document envisages invest in road transportation, water safety infrastructure and climate-resilient agricultural production to prevent soil erosion and to reduce the risks and impacts associated with changing climate. It would be useful to track how this is translated into implementation plans to follow what infrastructure and measures are in fact put in place.**

Response

33. The investments in rural roads, potable water supply systems, and land improvement to enhance agricultural productivity and reduce soil erosion can be tracked in the implementation plans as follows.

34. The planning process will be reflected in the annual workplans and budgets. In terms of sequencing, awareness-raising and mobilization of cooperatives and other key stakeholders will be implemented first to ensure a bottom-up approach in the selection of infrastructure to be financed by the project. To allow for synergies with component 1 investments, the first infrastructure investments are deferred to project year 2, assuming that the cooperative and investor business proposals will take some time to be developed. Before any infrastructure investments are made, water users' associations and other O&M associations should be formed and be involved in decisions on the design and the preparation of the O&M plan for each item of infrastructure.
35. Progress and results will be monitored through indicators in the project monitoring and evaluation system (e.g. households reporting improved physical access to markets, processing and storage facilities; hectares of land brought under climate-resilient practices; and hectares of farmland served by water-related infrastructure constructed/rehabilitated). Data monitoring will be complemented by physical verification in the field and by a survey during annual supervision missions of beneficiaries' perceptions of the impacts of the infrastructure on improving their economic activities and livelihoods.

(iv) Target Group Selection.

36. **The project has identified seven nationally designated poor counties following its targeting strategy, but the seven counties on the map do not correspond to those in the text. Also, Lijiang and Dali are mentioned in the text, but both cities are more advanced than many other places in Yunnan, which raises the question as to why they have been considered. Furthermore, they are geographically very close to each other and have similar economic profiles, which means that there is no obvious need to include them both in the piloting phase. There are many economically-disadvantaged areas in Yunnan without good road connections. Rather than recommending an industrially-led approach to poverty reduction through road connections, unlocking their unique landscapes for tourism and culture might be more promising. A diversity of tailored approaches to poverty for different places could lead to the best overall outcomes. Finally, consider including labels or standards of the Chinese Ministry of Agriculture and Rural Affairs in the selection criteria if not already taken into account.**

Response

37. The map of the project area correctly displays the seven counties in which the project will be implemented: Zhenxiong and Suijiang counties in Zhaotong municipality; Yunlong and Yongping counties in Dali prefecture; Huaping and Yongsheng counties in Lijiang municipality; and Lanping county in Nujiang prefecture. The misunderstanding may be due to the fact that because of the word limit for President's reports, only the name of the four municipalities/prefectures in which the project's seven counties are located (Zhaotong, Dali, Lijiang and Nujiang) appears.
38. We also confirm that the project will not be implemented in Lijiang and Dali cities, but in the Huaping and Yongsheng counties in the Lijiang municipality, and in the Yunlong and Yongping counties in the Dali prefecture. The proximity of the targeted villages and communities (selected on the criterion of having a higher concentration than the county average of registered poor or formerly registered poor) to these two cities offers market potential for the industries supported by the project – which is another criterion for the selection of the project sites.
39. We recognize that there are several economically disadvantaged areas in Yunnan that could have been selected. However, selection of the project area is a process that needs to take into consideration other issues in addition to the agreed criteria

(poverty incidence and presence of industries with market potential). These include provincial priorities, the existence of other ongoing or planned operations, counties' debt situation and space for additional foreign debt, commitment of the local government to the objectives and proposed project approach. Moreover, given the limited resources available for this project, it was advisable not to extend the target area beyond seven counties in order to have a meaningful impact in each county.

40. Finally, we would like to reassure members that the project allows sufficient flexibility for each county to prioritize the set of interventions that best reflects its specific needs and potential.

V. Comment from the United States of America

41. **The United States, in light of its policies for certain development projects in countries whose governments are not addressing trafficking in persons and do not meet other requirements, opposes the following project and therefore does not join a Board decision that would support the Yunnan Rural Revitalization Demonstration Project in China.**