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## **President's report**

### **Proposed loan**

#### **People's Republic of China**

#### **Hunan Rural Revitalization Demonstration Project**

Project ID: 2000002359

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

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Executive Board — 131<sup>st</sup> Session  
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**For: Approval**

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### Project delivery team

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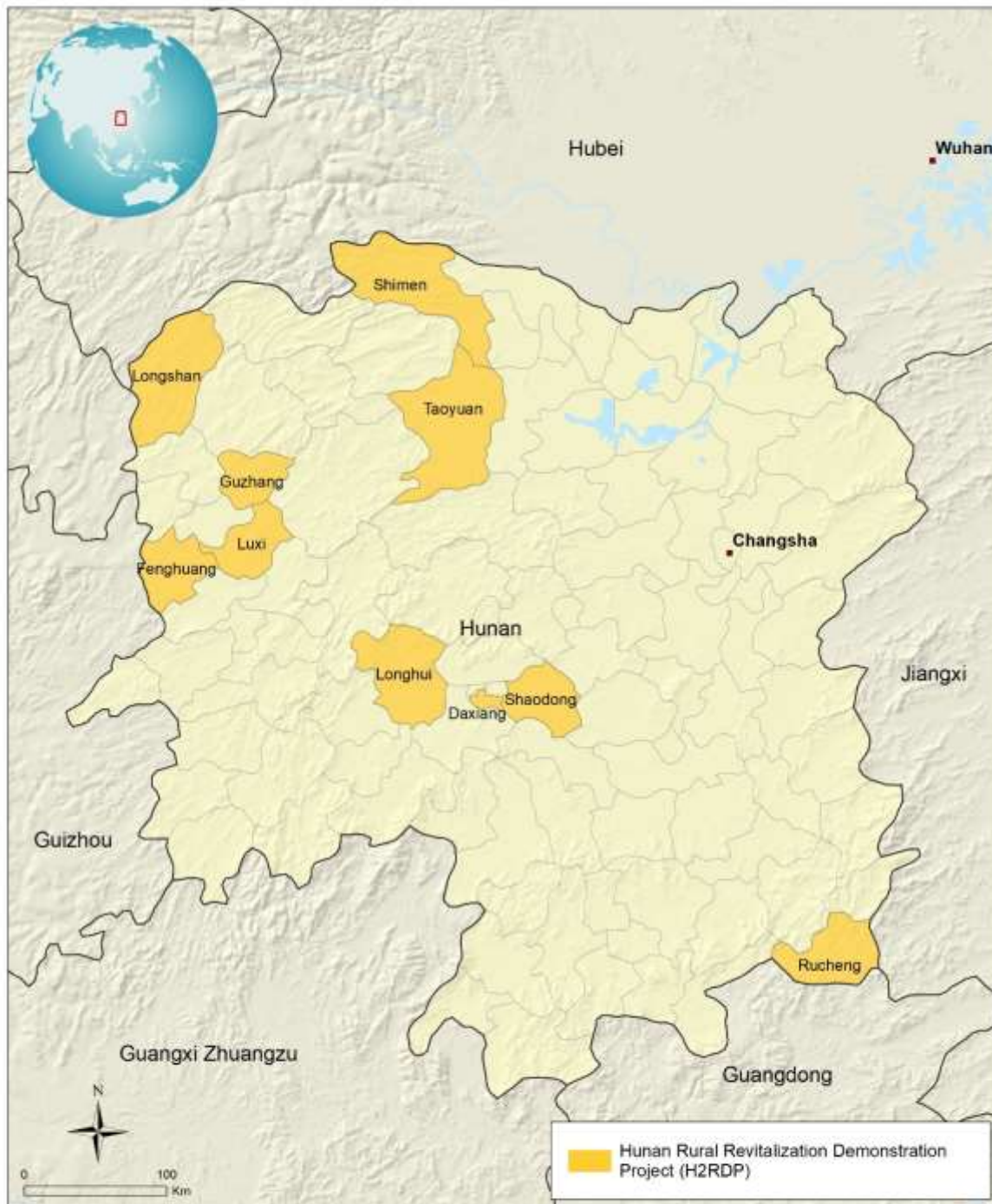
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## **Abbreviations and acronyms**

DOF	Department of Finance
KM	knowledge management
M&E	monitoring and evaluation
PMO	project management office
PPMO	provincial project management office
RBL	results-based lending

## Map of the project area



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.  
Map compiled by IFAD | 21-01-2020

## Financing summary

<b>Initiating institution:</b>	IFAD
<b>Borrower/recipient:</b>	People's Republic of China
<b>Executing agency:</b>	Department of Agriculture and Rural Affairs of Hunan Province
<b>Total project cost:</b>	US\$173 million
<b>Amount of IFAD loan:</b>	US\$60.2 million
<b>Terms of IFAD loan:</b>	Ordinary
<b>Cofinanciers:</b>	Enterprises and cooperatives United Nations Entity for Gender Equality and the Empowerment of Women
<b>Amount of cofinancing:</b>	Enterprises and cooperatives: US\$21.4 million United Nations Entity for Gender Equality and the Empowerment of Women: US\$0.3 million
<b>Terms of cofinancing:</b>	Cash and in kind
<b>Contribution of borrower/recipient:</b>	US\$90.9 million
<b>Contribution of beneficiaries:</b>	US\$0.5 million
<b>Amount of IFAD climate finance:</b>	US\$24.7 million
<b>Cooperating institution:</b>	Directly supervised by IFAD

## Recommendation for approval

The Executive Board is invited to approve the recommendation contained in paragraph 63.

### I. Context

#### A. National context and rationale for IFAD involvement

##### National context

1. **The poverty context:** The Government of the People's Republic of China is planning to eradicate extreme rural poverty, as measured against the prevailing national poverty standards, by 2020. However, sustaining this achievement, reducing inequalities and preventing people who were moved out of poverty from falling back into it will remain government priorities in the ensuing years.
2. **The rural development context.** China is undergoing a fundamental transformation in rural areas. Over the past few decades, it has witnessed mass migration of the active workforce from rural to urban areas due to the urban-rural wage gap and limited income-generating opportunities in rural areas. In response to this situation, the Government has recently adopted a rural revitalization strategy – a comprehensive long-term strategy aimed at rebalancing the existing divide between urban and rural areas by accelerating the development of rural areas and making them attractive places to live in.
3. **Provincial context.** Hunan has consistently been a priority target of the Chinese Government's poverty reduction programme, since it hosts a large share of the country's poor (7.6 per cent of the national poor in 2017). In 2017, 40 out of 122 counties were categorized as nationally-designated poor counties. The average income per capita of Hunan's rural poor is 30 per cent lower than the average income of the province. Although absolute poverty will likely be eradicated by 2020, the risk of transitional poverty and vulnerability will remain high due to limited income opportunities.

##### Special aspects relating to IFAD's corporate mainstreaming priorities

4. In line with the Eleventh Replenishment of IFAD's Resources (IFAD11) mainstreaming commitments, the project has been validated as:
  - Including climate finance;
  - Gender transformational;
  - Youth-sensitive.
5. **Gender and youth.** About 75 per cent of the workforce in the project area is engaged in migrant labour; about 60 per cent of youth are migrant labour. The project will contribute to empowering women in the rural economy and to retaining or attracting young people back to rural areas by (i) creating new employment opportunities in the project area, with women a priority; (ii) providing business services and stimulating women's entrepreneurship potential and capacities; (iii) enhancing women farmers' participation in providing on-farm/off-farm skills training in professional farmers' programmes; and (iv) strengthening the capacity of rural youth and providing them with on-farm and off-farm employment and entrepreneurship opportunities.
6. **Climate change:** The project will help to increase resilience and reduce the risks and impacts associated with changing weather and climate conditions – in particular, their increasing variability and unpredictability – by strengthening the capacity of the Government and beneficiaries to assess climate risks, planning and making decisions accordingly, and increasing the climate resilience of the infrastructure system.

7. **Nutrition.** In 2018, the percentage of stunting, prevalence of underweight, and wasting among children under 5 in Hunan were less than 1 per cent, around 0.9 per cent, and around 0.07 per cent, respectively; the prevalence of anaemia and overweight were reported at 2 per cent and 0.4 per cent, respectively. The data suggests that the overall situation in the project area is not alarming. The project will contribute to improved nutrition outcomes by improving access to safe drinking water in the project area.
8. **COVID-19.** In early 2020, China was hit severely by the outbreak of a novel coronavirus, SARS-CoV-2, the pathogen that causes COVID-19. More than 80,000 people were infected, and almost 5,000 died. The socio-economic impact on the rural population and vulnerable groups has been severe: poor rural households have had less capacity to cope economically with the consequences of the outbreak. The Government successfully implemented several economic and social measures to mitigate the impact of COVID-19. However, poor rural households remain vulnerable to the impact of a potential new shock: risking a fall (or falling back) into poverty. The project will contribute to strengthening the resilience of vulnerable people in the project area to shocks (including potential new outbreaks) by creating new income-generating opportunities. A specific activity will help to reduce the risks of zoonotic diseases (e.g. SARS-CoV-2) by providing advisory services in epidemic prevention and mitigation.

#### **Rationale for IFAD involvement**

9. **The development problem.** Although absolute poverty is expected to be eradicated in China by 2020, areas classified as poverty priority areas, including the proposed project area, will remain vulnerable, with limited income-generating opportunities. As a result, a significant portion of the population is abandoning agriculture. Preventing families who were brought out of poverty prior to 2020 from falling back into it and securing the economic development of these areas to make them attractive places to live in will remain a challenge in the years to come. While the Government's long-term strategy and vision for rural areas builds on supporting private sector development through a mix of private sector players called new economic entities, there is a risk that the most vulnerable people may be excluded and/or not benefit from participation in future economic development opportunities. The current situation offers an opportunity to rethink and adjust the current model and introduce and test new models and approaches, focusing on greater inclusiveness for vulnerable households, women and youth.
10. **Rationale for IFAD involvement.** IFAD's value added in China lies in its capacity to introduce and pilot innovative approaches that, if successful, could inform policy-making and be replicated and/or mainstreamed in government programmes or shared with other developing countries through South-South and Triangular Cooperation. The current situation offers a unique opportunity for IFAD to support the Government in rethinking and improving the current agricultural industrialization model, addressing some of its shortcomings and adjusting it to a post-2020 scenario, making it fairer, more inclusive, and less of a burden on public finances.

#### **B. Lessons learned**

11. The project design benefited from the lessons and experience of several IFAD- and World Bank-funded projects.

## **II. Project description**

### **A. Objectives, geographical area of intervention and target groups**

12. **Project goal and development objective.** The project goal is to advance poverty reduction and increase the production and economic resilience of vulnerable households. The project development objective is to improve income-

generating opportunities for vulnerable rural people, particularly youth and women, increase the inclusiveness of benefit-sharing mechanisms from agro-industry/private sector linkages and heighten the resilience of the rural population to climate change impacts.

13. **Project area:** The project will be implemented in ten counties in the four municipalities/prefectures of Chengde, Xiangxi, Shaoyang and Chenzhou. The criteria for selecting these counties included: previous classification as national or provincial poverty counties, presence of industries with market potential and commitment by the local government to the objectives and proposed approach of the project.
14. **Targeting strategy.** The project will adopt the following targeting strategy:
  - **Geographical targeting.** The project will target current or former nationally or provincially designated poor counties, giving priority to villages and communities with a higher-than-county average concentration of registered or formerly registered poor.
  - **Poverty targeting.** The focus in the project area will be on vulnerable households (i.e. households that have been registered at least once in the national poor registration system since 2014).
  - **Gender, youth and ethnic minority targeting.** Among the project beneficiaries, the specific focus will be on vulnerable groups (i) women; (ii) youth; and (iii) ethnic minorities.
15. **Beneficiaries.** In total, the project is expected to directly benefit an estimated 328,000 individuals, about 17 per cent of whom are formerly registered poor, 50 per cent women, 30 per cent youth, and 30 per cent ethnic minorities. The project is expected to indirectly benefit an additional 85,000 people.

## B. Components, outcomes and activities

16. The project will have the following components:
  - **Component A: Inclusive private sector investment models:** This component will create profitable livelihood and diversified income opportunities in the project area by (1) promoting inclusive private sector investment models that will generate new and more diversified income opportunities; (2) helping talented young people and women start their own business; and (3) providing incentives to the Government to increase the scale, quality and impact of the new professional farmer training programme. Subcomponent A.3 will be implemented piloting a programmatic results-based lending approach.
  - **Component B: Climate-proofed public infrastructure planning, development and improvement:** This component will address gaps in the current infrastructure that may limit or constrain the implementation of project activities. The infrastructure system will be upgraded through a combination of physical improvements, institutional strengthening and technical assistance, which will also reduce the risks and impacts associated with changing weather and climate conditions and stimulate more sustainable climate-resilient agricultural production.
  - **Component C: Project Management, knowledge management (KM), monitoring and evaluation (M&E), and policy engagement.**

## C. Theory of change

17. **Industrialization as a key strategy for poverty reduction.** Agricultural industrialization remains a central pillar of the new rural revitalization strategy. However, challenges persist in tackling poverty issues, sustaining poverty reduction outcomes and promoting economic development in deep poverty areas, such as



those targeted by the project. Relatively poor and vulnerable households in the project area still face a mixture of constraints: (i) limited income-generating opportunities; (ii) migration of the rural workforce to urban areas and limited household resources for investment in agriculture or other economic activities; (iii) growing feminization of the agricultural workforce; and (iv) the inability of smallholders to effectively operate collectively and enter value chains. While industrialization remains a key strategy for poverty reduction and the revitalization of rural areas, the current approach focused on reaching smallholder households through dragon head enterprises has several gaps in inclusiveness, fairness and equality, efficiency and sustainability.

18. **Turning challenges into opportunities:** The current situation offers an opportunity to introduce and test alternative approaches that could potentially prove valuable in informing the Government in its pursuit of rural revitalization and sustainable poverty reduction. The project would support economic growth, competitiveness and the creation of income-generating and livelihood opportunities in rural areas and favour the participation of vulnerable people, particularly women and youth, in the benefits generated by this process by (i) demonstrating inclusive rural business development models; (ii) stimulating local entrepreneurship and offering investment support to youth and women entrepreneurs; and (iii) upgrading the skills and the capacity of rural people, especially women and youth, to become business-oriented farmers or entrepreneurs through professional training. This will be achieved by: (i) increasing the capacity of new economic entities as the main entry point for linking poor farmers to markets; (ii) stimulating additional and more-diversified income opportunities in the project area by providing services and stimulating local entrepreneurship (especially among women and young farmers/migrant returnees) and attracting new investors in agricultural or non-agricultural activities; (iii) addressing some of the major gaps in the current infrastructure system in the project area (e.g. road access, water scarcity, etc.) which may limit or constrain implementation of the proposed project activities, while at the same time reducing the risks associated with climate change.

#### **D. Alignment, ownership and partnerships**

19. **Alignment with national priorities and strategies:** The project will (i) contribute to the Government's objective of sustaining poverty reduction achievements after 2020, in keeping with the principles of the rural revitalization strategy; (ii) promote new economic entities, create employment opportunities and develop the infrastructure system in rural areas; (iii) help make the project area economically more attractive, thus retaining migrant workers – particularly youth – and possibly bringing people back to rural areas; and (iv) promote environmental sustainability, in line with the Government concept of "ecologically balanced development."
20. **Alignment with Sustainable Development Goals (SDGs):** The objective and activities of the proposed project are aligned with and will contribute to the fulfilment of Agenda 2030, and, more specifically, SDGs 1, 2, 5, 10, 13 and 15.
21. **Alignment with country strategic opportunities programme (COSOP) 2016-2020:** The project is aligned with and supports the main strategic objectives (SOs) and thrusts of the COSOP 2016-2020, i.e. (i) enhancing income opportunities and increasing resilience by promoting and strengthening cooperatives and agribusiness entities, giving more emphasis to climate resilience and (ii) fostering innovation and KM to inform policy and scaling up. The project is conceived as a demonstration project that will introduce several innovations to test their applicability in the project context, draw lessons and promote replication of the models and approaches that prove successful.

22. **Alignment with the United Nations Sustainable Development Cooperation Framework (UNSDCF) 2021-2025.** The project is aligned with and expected to address the strategic priorities of UNSDCF 2021-2025, signed in August 2020.
23. **Alignment with IFAD Strategic Framework 2016-2025.** The project's objective and activities are aligned with the goal and SOs of the IFAD Strategic Framework 2016-2025, SO2 and SO3 in particular.
24. **Alignment with the IFAD Transition Framework.** The proposed project implements several of the principles and elements of the IFAD Transition Framework: it will (i) pilot one of the new products proposed under IFAD11 (i.e. results-based lending [RBL]); (ii) help to inform policy-making; and (iii) contribute significantly to an increase in cofinancing, particularly domestic cofinancing.
25. **Results-based lending.** The project will be implemented piloting a RBL approach – and, specifically, the “hybrid” model (i.e. an operation with both traditional investment project components and programmatic RBL components) – as the disbursement of one of the subcomponents (i.e. subcomponent A.3) will be triggered by the achievement of agreed and independently verifiable targets. Partnering with international financing institutions with previous experience in programmatic RBL for the design of this project was not possible because of the different timelines for delivery of the respective pipelines. However, the IFAD design team drew extensively from the examples and experience of the World Bank in carrying out the technical and fiduciary assessments that informed the design of the RBL component. The RBL pilot will contribute to corporate learning about this new instrument.

## E. Costs, benefits and financing

### Project costs

26. The total project cost is estimated at US\$173 million.

Table 1

#### Project costs by component and financier

(Thousands of United States dollars)

Component	IFAD loan		Private sector		UN Women		Beneficiaries		Borrower/recipient		Total Amount	Taxes
	Amount	%	Amount	%	In kind	%	In kind	%	Cash	%		
A. Inclusive private sector investment models	46 062	50.8	21 468	23.7	-	-	-	-	23 203	25.6	90 732	1 052
B. Climate-proofed public infrastructure planning, development and improvement	12 083	17.3	-	-	-	-	452	0.6	57 322	82.1	69 857	6 895
C. Project management, KM, M&E and policy engagement	2 054	16.6	-	-	300	2.4	-	-	10 330	83.4	12 685	717
<b>Total</b>	<b>60 199</b>	<b>34.7</b>	<b>21 468</b>	<b>12.4</b>	<b>300</b>	<b>0.2</b>	<b>452</b>	<b>0.3</b>	<b>90 855</b>	<b>52.5</b>	<b>173 274</b>	<b>8 664</b>

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

Expenditure category	IFAD loan		Private sector		UN Women		Beneficiaries		Borrower/recipient		Total Amount	Taxes
	Amount	%	Amount	%	In kind	%	In kind	%	Cash	%		
<b>Investment costs</b>												
1. Works			-	-	-	-	-	-	53 569	100	53 569	5 357
2. Smart civil works	12 083	78.5	-	-	-	-	-	-	3 302	21.5	15 385	1 539
3. Equipment and materials	340	100.0	-	-	-	-	-	-	-	-	340	34
4. Training and workshops	4 627	46.9	-	-	300	3.0	-	-	5 228	53.1	9 855	985
5. Goods, services and inputs	7 352	98.1	-	-	-	-	-	-	142	1.9	7 494	749
6. Grants and subsidies	34 509	44.0	21 468	27.3	-	-	-	-	22 519	28.7	78 495	
<b>Total investment costs</b>	<b>58 911</b>	<b>35.7</b>	<b>21 468</b>	<b>13.0</b>	<b>300</b>	<b>0.2</b>	<b>-</b>	<b>-</b>	<b>84 760</b>	<b>51.2</b>	<b>165 439</b>	
<b>Recurrent costs</b>												
1. Salaries and allowances	860	33.0	-	-	-	-	-	-	1 745	67.0	2 605	
2. Operating costs	427	8.2	-	-	-	-	452	8.7	4 315	83.1	5 194	
3. Operations and maintenance	-	-	-	-	-	-	-	-	36	100	36	
<b>Total Recurrent costs</b>	<b>1 288</b>	<b>16.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>452</b>	<b>5.8</b>	<b>6 095</b>	<b>77.8</b>	<b>7 835</b>	
<b>Total</b>	<b>60 199</b>	<b>34.7</b>	<b>21 468</b>	<b>12.4</b>	<b>300</b>	<b>0.2</b>	<b>452</b>	<b>0.3</b>	<b>90 855</b>	<b>52.5</b>	<b>173 274</b>	<b>8 664</b>

Table 3  
**Project costs by component and project year (PY)**  
 (Thousands of United States dollars)

Component	PY1		PY2		PY3		PY4		PY5		Total Amount
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
A. Inclusive private sector investment models	28 016	32.1	31 257	35.8	24 904	28.5	1 980	2.3	1 252	1.4	87 410
B. Climate-proofed public infrastructure planning, development and improvement	17 061	25.4	22 751	33.8	15 459	23.0	7 970	11.9	3 982	5.9	67 223
C. Project management, KM, M&E and policy engagement	2 873	22.6	2 449	19.2	2 499	19.7	2 456	19.4	2 407	19.0	12 685
Price contingencies	526	8.8	1 893	31.8	2 383	40.0	724	12.2	430	7.2	5 956
<b>Total</b>	<b>48 477</b>	<b>28.0</b>	<b>58 350</b>	<b>33.7</b>	<b>45 245</b>	<b>26.1</b>	<b>13 130</b>	<b>7.6</b>	<b>8 072</b>	<b>4.7</b>	<b>173 274</b>

### Financing and cofinancing strategy and plan

27. **Project financing and cofinancing.** IFAD will contribute to the project with a loan in the amount of US\$60.2 million. The Government will contribute US\$90.9 million, and participating enterprises and cooperatives are expected to contribute approximately US\$21.4 million. The beneficiaries' contribution is expected to be approximately US\$0.5 million. UN Women is expected to contribute an estimated US\$0.3 million in technical assistance.
28. **Cofinancing ratio:** The IFAD loan has a cofinancing ratio of approximately 1:1.9. This is about 35 per cent above the IFAD11 target of 1:1.4.
29. **Climate financing:** Project subcomponents A.1, A.2 and B.1 are counted as climate finance. As per the multilateral development banks' methodologies for tracking climate change adaptation and mitigation finance, the total IFAD climate

finance for this project is calculated at US\$24.7 million, representing 41 per cent of the total IFAD project amount.

### **Disbursement**

30. The project will adopt a traditional investment project approach, except for one subcomponent (i.e. subcomponent A.3), which will adopt a programmatic RBL approach. For the investment components and subcomponents, IFAD loan proceeds will be allocated to the respective expenditure category and disbursed in accordance with the agreed terms and conditions of the financing agreement, the loan disbursement handbook and the letter to the borrower/recipient. These will be verified by supporting documents and evidence, along with the withdrawal applications listing the eligible expenditures incurred. For the RBL subcomponent, disbursement will be triggered by the achievement of agreed and independently verifiable targets (i.e. disbursement-linked indicators), as confirmed by an independent third-party verification agency.

### **Summary of benefits and economic analysis**

31. The results of the financial analysis show an estimated financial internal rate of return equivalent to 55 per cent. The results of the economic analysis suggest that the project is economically viable, with an economic internal rate of return of 43 per cent.

### **Exit strategy and sustainability**

32. A number of elements are likely to ensure post-project sustainability of the activities supported and benefits generated by the project: (i) economic viability; (ii) alignment with national priorities; (iii) institutional sustainability and sustainable partnerships; (iv) beneficiary ownership and empowerment; (v) financial viability; (vi) a shift from subsidizing production to responding to market demand; and (vii) operation and maintenance arrangements.

## **III. Risks**

### **A. Risks and mitigation measures**

33. **Project risks.** Most of the identified risks have low probability and low impact.

Table 4

#### **Risks and mitigation measures**

##### **Overall risk summary**

<i>Risk areas</i>	<i>Inherent risk rating</i>	<i>Residual risk rating</i>
Country context	Low	Low
Sector strategies and policies	Low	Low
Environment and climate context	Moderate	Moderate
Project scope	Low	Low
Institutional capacity for implementation and sustainability	Moderate	Low
Financial management	Substantial	Moderate
Project procurement	Moderate	Low
Environment, social and climate impact	Low	Low
Stakeholders	Low	Low
<b>Overall</b>	Moderate	Low

### **B. Environment and social category**

34. The project is classified as category B. The potential adverse environmental and social risks are minor, site-specific, reversible and can be managed by known mitigation measures, as highlighted in the Social, Environmental and Climate Assessment Procedures review note. The project will not involve any large infrastructure works, land acquisitions, resettlements or conversion of forest or other natural or modified habitat. It will not involve any involuntary taking of or restriction on the use of land that may result in physical or economic displacement.

### C. Climate risk classification

35. The potential climate risk of this project is classified as “moderate”. The project will finance a series of hard and soft investments aimed at reducing the risks and negative impacts associated with changes in weather and climate conditions and promote climate-resilient production.

### D. Debt sustainability

36. China reported a government debt equivalent to 47.60 per cent of the country's GDP in 2017. According to the data released in March 2019 by China's State Administration of Foreign Exchange, as of the end of 2018, the foreign debt balance was just under US\$2 trillion, with the foreign debt balance-to-GDP ratio standing at 14.4 per cent. However, China remains at low risk of external debt distress.

## IV. Implementation

### A. Organizational framework

#### Project management and coordination

37. **Lead implementing Agency.** The Provincial Department of Agriculture and Rural Affairs (DARA) will be the lead implementing agency. The Provincial Project Management Office (PPMO) will be established within the Hunan Foreign Economic Cooperation Center of DARA.
38. **Prefecture and County Project Management Offices.** The major project implementation responsibilities lie with the counties. County project management offices will be established at the county bureau of Agriculture and Rural Affairs. A Prefecture Project Management Office in Xiangxi will be established to provide oversight for project implementation in its county.
39. **Partnership with Women's Federation and Youth Leagues.** The Women's Federation and Youth League in the counties will be also be assigned responsibilities in women- and youth-related activities designed for the project.
40. **Partnerships with UN Women.** A partnership with UN Women is established to support project design and implementation to strengthen women's capacity and economic empowerment in the project area.
41. **Role of the Agricultural Information Institute of the Chinese Academy of Agricultural Science.** The project is expected to enter into an agreement with the Agricultural Information Institute of the Chinese Academy of Agricultural Science to exercise major M&E, KM and policy dialogue functions.
42. **Independent third-party verification agency.** The project will contract an independent third-party verification agency to verify that the disbursement-linked indicator meets the targets set for the activity that would pilot the programme's RBL approach.

#### Financial management, procurement and governance

43. **Role of the Ministry of Finance.** The Ministry of Finance will be the agency responsible for repayment of the loan. The loan proceeds will be onlent to the Hunan Province Department of Finance (DOF), where the loan proceeds will be further onlent to county bureaus of finance (BOFs) under the same terms and conditions. DOF and BOFs will have primary responsibility for the administration and supervision of project resources. At the county level, the funds will be transferred from the BOFs to PMOs.
44. **Adoption of an RBL approach.** The project will adopt a traditional investment project approach, except for subcomponent A.3, for which a programmatic RBL approach will be adopted. Implementation of the RBL subcomponent will rely on the use of country systems. The Fiduciary Systems Assessment and the

Environment and Social Systems Assessment provided reasonable assurances of the existence of an adequate policy, regulatory and institutional framework to rely on country systems for implementation of the RBL subcomponent. Adopting an RBL approach for implementation of the subcomponent required a few alternative arrangements, which apply to subcomponent A.3 only (reference para. 53).

45. **Designated account.** A designated account (DA) denominated in the currency of the loan shall be opened for the IFAD loan, through which IFAD funding shall be channelled. The DA is to be set up at and managed by the DOF. The DOF will be directly responsible for the management, maintenance and reconciliation of DA activities.
46. **Retroactive financing.** Provision is made for retroactive financing of up to US\$6 million from the IFAD financing for eligible expenditures incurred from 19 June 2020 to the date of the financing agreement's entry into force. Eligible expenditures for retroactive financing are considered those incurred to finance the start-up and preparation for project activities (except for subcomponent A.3).
47. **Financing of taxes.** To boost the efficiency of fund flows and better support project implementation, IFAD's financing will be used to finance an estimated US\$2.44 million of the total taxes for the project (US\$8.66 million). The Government's financial contribution to the project is US\$90.9 million, or about 37 times the amount of taxes (US\$2.44 million) financed by IFAD.
48. **Procurement of goods, works and services** shall follow the Government of China National Procurement Guidelines, supplemented by the implementation manuals and any subsequent amendments, insofar as they are consistent with IFAD Procurement Guidelines, the IFAD Procurement Handbook and its subsequent versions.
49. **Governance and financial risk assessment.** Based on the results of the financial management assessment performed for this project, the current organizational structure of the implementing agencies is considered appropriate. The flow-of-funds arrangements are considered conducive to proper implementation of the project. The necessary accounting standards, policies, procedures, asset management, budgeting, audit, reporting and accounting systems are in place. The project's overall inherent financial risk rating is "substantial" but "moderate" after mitigation measures.
50. **Audit.** The Provincial Audit Office, an independent body under the National Audit Office, will audit the project, in keeping with international audit standards. The audit will provide one Management letter with two sections: one for the investment project and another for the RBL subcomponent.
51. **Fraud and corruption.** The National Supervisory Commission will be the competent independent authority responsible for receiving, reviewing and investigating allegations of fraud and corruption.
52. **Project Target Group Engagement and Feedback.** In order to bring transparency and strengthen the social accountability, the project will promote meaningful and regular target group engagement and feedback throughout the project lifecycle. The target group priorities and needs have already been captured during design through focus group discussions, detailed consultations with grass-roots rural and farmers' organizations and targeted households.
53. **Grievance redress mechanism.** The Hunan provincial government has set up an integrated petition system to ensure that citizens have unimpeded channels for expressing their concerns and grievances. The system allows citizens, legal representatives or other organizations to use communication channels such as letters, e-mails, faxes, telephone calls, and visits to make recommendations or

lodge complaints with government entities at all levels and subsequently at all levels.

54. **Specific provisions applicable to the RBL subcomponent.** With regard to the IFAD General Conditions for Agricultural Development Financing and the IFAD Handbook for Financial Reporting and Auditing of IFAD-financed Projects, the following alternative arrangements have been identified for the implementation of the RBL subcomponent (i.e. subcomponent A.3): (i) disbursement will be triggered by the achievement of agreed and independently verifiable targets instead of expenditures; (ii) the Fund will not require the borrower to provide evidence showing that previous withdrawals have been properly spent on eligible expenditures, but rather, evidence that agreed targets have been met; (iii) expenditures will be considered eligible when agreed targets are met; (iv) audits will not trace IFAD funds to the end recipients; (v) the minimum prescribed content of annual project financial statements to be submitted to IFAD is not applicable; and (vi) the requirement of an audit to confirm whether the financial statements provide an accurate and fair view in all material respects of the financial activities is not applicable. Instead, auditors will verify compliance with disbursement conditions – i.e. achievement of agreed targets and compliance with the agreed verification protocol.

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

55. **Learning, knowledge management and South-South and Triangular Cooperation.** The project knowledge management strategy will be built on the following key elements: (i) establishment of an effective M&E framework to monitor implementation progress and provide the evidence for learning; (ii) regular workshops at different levels to share knowledge, experiences, innovations and best practices and promote South-South and Triangular Cooperation; (iii) an agreement with the Agricultural Information Institute, Center of International Agricultural Research of the Chinese Academy of Agricultural Sciences for the provision of support in M&E and KM.

### **Innovation and scaling up**

56. **Innovations:** Anticipated innovations include: (i) inclusive rural business development models; (ii) business incubation centres; (iii) climate-proofed design of infrastructure; and (iv) disbursement against results (i.e. RBL).
57. **Policy engagement and scaling up:** The policy engagement and scaling-up framework relies on the following elements: (i) champions: the project will closely engage national and provincial stakeholders as champions to learn and replicate ideas and experiences derived from the project; (ii) drivers: a genuine policy interest on the part of the Government, particularly the Ministry of Agriculture and Rural Affairs, in observing how some of its policies and strategies can best be operationalized or adjusted; and (iii) pathway: a well-articulated learning and KM strategy.

## **C. Implementation plans**

### **Implementation readiness**

58. Hunan has extensive experience in implementing foreign-funded projects, including IFAD-funded projects (the last one, the Hunan Agricultural and Rural Infrastructure Improvement Project, was completed in 2017). To further mitigate the risks of start-up delays, provision is made for retroactive financing to the project to finance start-up activities and facilitate prompt project execution.

### **Supervision, midterm review and completion plans**

59. IFAD and the Government will undertake project supervision activities that include at least one annual supervision, a midterm review and a completion review.

## **V. Legal instruments and authority**

60. A financing agreement between the People's Republic of China and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as appendix I.
61. The People's Republic of China is empowered under its laws to receive financing from IFAD.
62. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

## **VI. Recommendation**

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

RESOLVED: that the Fund shall provide a loan on ordinary terms to the People's Republic of China in an amount of sixty million two hundred thousand United States dollars (US\$60,200,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo  
President



## **Negotiated financing agreement**

### **Negotiated financing agreement: "Hunan Rural Revitalization Demonstration Project"**

(Negotiations concluded on 2 December 2020)

Loan Number:

Project Title: (Hunan Rural Revitalization Demonstration *Project*) (the "Project")

The 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), the Allocation Table (Schedule 2), and Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of December 2018, and as may be amended hereafter from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement, except as provided for in paragraph 4 below and in paragraph 4 of Schedule 2 (retroactive financing). For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan to the Borrower (the "Financing"), which the Borrower, through Hunan Province, shall use to implement the Project in accordance with the terms and conditions of this Agreement, concretely:
  - (a) the "Project components" as described in Part 1 of Schedule 1 to this Agreement; and
  - (b) the "RBL sub-component" as described in Part 2 of Schedule 1 to this Agreement, which will build on the use of government systems.

(the Project components and the RBL component hereinafter jointly referred to as the "Project").

4. For the purposes of this Agreement:

"Disbursement Linked Indicator" or "DLI" means in respect of a given Category, the indicator related to said Category that will be used to trigger the disbursement of funds, and as set forth in the table in paragraph 2 of Schedule 2 to this Agreement and as further specified in the Project Implementation Manual (PIM).

"Disbursement Linked Result" or "DLR" means in respect of a given Category, the result under said Category as set forth in the table in paragraph 2 of Schedule 2 to this Agreement, and as further specified in the Project Implementation Manual (PIM), on the basis of the achievement of which, the amount of the Financing allocated to said result could be withdrawn.

5.1 The following exceptions to Section 4.02 a), and Section 4.03 d) of the General Conditions are applicable to RBL sub-component:

- (i) disbursement will be triggered by verifiable DLIs instead of eligible expenditures;
- (ii) the Fund will not require the Borrower to provide evidence showing that previous withdrawals have been properly spent on eligible expenditures, but rather, evidence that agreed DLRs have been met;
- (iii) expenditures will be considered eligible when agreed DLRs are met;
- (iv) the Borrower may withdraw the proceeds of the Financing to finance, with respect to the RBL sub-component, expenditures on the basis of the results ("Disbursement Linked Results" or "DLRs") achieved by the Borrower, as measured against specific indicators ("Disbursement Linked Indicators" or "DLIs") in the amount allocated against the Category of the table in paragraph 2 of Schedule 2.

5.2 The following exceptions to the Conceptual Framework for Financial Reporting and Auditing of IFAD-financed Projects and Related Handbook referred to in Section 9.03 of the General Conditions, are applicable to RBL sub-component, in line with the Borrower's applicable laws and regulations:

- (i) Audits are not required to trace IFAD funds to the final recipients;
- (ii) The minimum prescribed content, as provided for in table 3 of the Handbook, of annual project financial statements is not required to be submitted to IFAD; and
- (iii) The requirement of an audit to confirm whether the financial statements provide a true and fair view in all material respects of the financial activities, as provided for in paragraph 33 of the Handbook, is not required to be submitted to IFAD.

6. With respect to the Project components, the Borrower may withdraw the proceeds of the Financing to finance eligible expenditures as provided for in the General Conditions.

## **Section B**

7. The amount of the Loan is sixty million two hundred thousand United State dollars (USD 60 200 000).

8. The Loan is granted on ordinary terms and shall be subject to interest on the principal amount outstanding at a rate equal to the IFAD Reference Interest Rate with fixed spread, payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of twenty four (24) years, including a grace period of five (5) years starting from the date that the Fund has determined that all General Conditions precedent to withdrawal have been fulfilled in accordance with Section 4.02(b).

9. The Loan Service Payment Currency shall be the United States dollars (USD).
10. The first day of the applicable Fiscal Year shall be 1 January.
11. Payments of principal and interest shall be payable on each 1<sup>st</sup> May and 1<sup>st</sup> November.
12. There shall be one Designated Account denominated in USD opened and maintained by Hunan Provincial Department of Finance (DOF) in a commercial bank for the exclusive of use of the Project to receive the Loan proceeds (the "Designated Account").
13. The Borrower through Hunan Province shall provide counterpart financing for the Project in a total amount equivalent to indicatively USD 90.9 million in cash and in kind. Project beneficiaries, participating enterprises, cooperatives and others are expected to provide contribution in cash or in kind of indicatively USD 22.2 million, based on estimates made during Project design. The Project costs in cash or in kind shall be recorded in the Project accounting software.

### **Section C**

14. The Lead Implementing Agency shall be the Provincial Department of Agriculture and Rural Affairs (DARA).
15. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

### **Section D**

16. The Financing will be administered and the Project supervised by the Fund. In addition to supervision missions which shall normally be carried out every six months, the Fund shall conduct in accordance with Section 8.03 (b) and (c) of the General Conditions a mid-term review to be carried out towards the third year of Project implementation.

### **Section E**

17. The following are designated as additional conditions precedent to withdrawal under the Loan:
  - (a) The Provincial Project Management Office (PPMO) and at least one County Project Management Office (CPMO), shall have been established and the respective key Project staff shall have been selected;
  - (b) The Borrower, through the Lead Implementing Agency, shall have submitted, and the Fund shall have received, an official document confirming the availability of counterpart funds for the first Project Year;
  - (c) The Designated Account shall have been duly opened and the names of authorized signatories shall have been duly submitted to the Fund;
  - (d) The PIM shall have been approved by IFAD; and
  - (e) A Management Information System (MIS) including a computerized accounting system in compliance with national standards and acceptable to the Fund, shall have been identified and selected by the PPMO.
18. No disbursements shall be made under Category IV of the table in paragraph 2 of Schedule 2, for the purposes of the RBL subcomponent, until and unless the Borrower,

through the Lead Implementing Agency, has furnished evidence satisfactory to IFAD (verification report) that the DLRs have been achieved, and confirmed by an independent third-party verification agency according to the verification protocol, as provided for in the PIM.

19. The following is designated as an additional ground for suspension of the right of the Borrower to request disbursements under the Loan: The PIM, or any provision thereof, has been waived, suspended, terminated, or modified without the prior consent of the Fund, and after consultation with the Borrower through the Lead Implementing Agency, 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.

20. Without prejudice to the provisions of the General Conditions, the deadline for making the first disbursement under the Loan is the date no later than 18 months from the entry into force date of this Agreement.

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

For the Borrower:

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

For the Fund:

The President  
International Fund for Agricultural Development  
Via Paolo di Dono 44  
00142 Rome, Italy

This agreement, dated \_\_\_\_\_, has been prepared in the English language and is agreed in two (2) original copies one (1) for the Fund and one (1) for the Borrower.

PEOPLE'S REPUBLIC OF CHINA

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INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

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Gilbert F. Huongbo  
President

## Schedule 1

### *Project Description and Implementation Arrangements*

#### I. Project Description

1. *Project area.* The project will be implemented in 10 counties within the four municipalities/prefectures of Chengde, Xiangxi, Shaoyang and Chenzhou in the North-East and Western part of Hunan Province (i.e. Shimen and Taoyunan counties in Chengde prefecture; Guzhang, Fenghuang, Luxi and Longshan counties in Xiangxi Tujia and Miao Autonomous prefecture; Shaodong, Daxiang and Longhui counties in Shaoyang prefecture; and Rucheng county in Chenzhou prefecture). Possible changes of county also need to reflect the criteria of being former nationally- or provincially-designated poor counties in the same municipalities/prefectures, with prior no objection of IFAD.

2. *Target Population.* Within these counties, the project will primarily target the villages and communities with per capita income lower than county average level. Among the project beneficiaries, specific focus will be given to vulnerable groups (i) women; (ii) youth; and (iii) ethnic minorities.

3. *Goal and development objective of the Project.* The project goal is to advance poverty alleviation and increase the production and economic resilience of vulnerable households. The project development objective is to improve income-generating opportunities for vulnerable rural people, particularly youth and women, increase the inclusiveness of the benefit-sharing mechanisms from agro-industries/private sector linkages, and increase the resilience of the rural population to climate change impacts

4. *Components.* The Project consists of the Project components and RBL sub-component as follows:

##### 4.1 Part 1 - Project components:

**Component 1:** Inclusive Private Sector Investment Models: This component will create profitable livelihood and diversified income opportunities in the project area by (i) promoting inclusive private sector investment models that will generate new and more diversified income opportunities; (ii) supporting talented young people and women to start their own business.

**Component 2:** Climate-proofed public infrastructure planning, development and improvement: This component will address gaps in the current infrastructure which may limit or constrain the implementation of the project activities. Improvement of the infrastructure system will be achieved through a combination of physical improvements, institutional strengthening and technical assistance, which will also result in a reduction of the risks and the impacts associated to changing weather and climate conditions, and a more sustainable and climate resilient agricultural production.

**Component 3: Project Management, Knowledge Management, M&E, and Policy Engagement:** This component will support the planning, coordinating, monitoring, reporting, knowledge management and policy engagement functions, and overall management functions of the Project Management Offices (PMOs) at provincial and county level.

##### 4.2 Part 2 - RBL sub-component:

**Sub-component1.(iii): Promoting Gender Sensitive Professional Farmer Training (PFT):** This sub-component will provide incentives to the county governments to (i) increase the number of farmers participating and getting accredited under the PFT; (ii) attract and increase the proportion of women participating in PFT ; and (iii) attract and increase the proportion of younger people participating to PFT. The RBL sub-component will build on the use of government systems.

## **II. Implementation Arrangements**

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

**1. Lead implementing agency:** The Provincial Department of Agriculture and Rural Affairs (DARA) has been appointed as lead implementing agency. Specifically, the Hunan Agricultural Foreign Economic Cooperation Center within DARA will take lead responsibility for project management, supervision and evaluation, and will act as the Provincial Project Management Office (PPMO).

**2. Prefecture and County Project Management Offices:** The major implementation responsibilities of the project lie with the Prefecture/ Counties. County Project Management Offices (CPMO) will be established at the County Bureau of Agriculture and Rural Affairs. A prefectural PMO will be established in Xiangxi. Relevant technical bureaus in the counties will be mobilized to support implementation of the related project activities. The CPMOs are responsible for preparing the annual work plan and budget and submitting to Provincial PMO for consolidation

**3. Implementing Support Units:** Implementing Support Units will be established in the project townships to facilitate project implementation, targeting and related monitoring activities.

**4. Village Implementation Groups (VIGs):** VIGs will be established in the project supported villages to mobilize participation of farmers in the project such as in the consultative process of developing business partnership with agro-entities; oversee public rural infrastructure construction and maintenance; promote project prioritization to women and youth, etc.

**5. Project Leading Group:** At county level, a Project Leading Group will be established to be chaired by the county government leader, comprising at least the County Bureaux of Finance (BOF), County Agriculture and Rural Affairs (CARA), and Poverty Alleviation Office, Women Federation etc. The Project Leading Group will provide overall guidance and coordination of the project implementation

**6. Provincial Project Coordination Leading Group:** A coordinating Leading Group comprising at least the Hunan Provincial Department of Finance (DOF), the Provincial Department of Agriculture and Rural Affairs (DARA), the Provincial Development and Reform Commission (PDRC), and the Provincial Office of Poverty Alleviation is foreseen to provide overall guidance and coordination of the project implementation.

**7. Department/Bureaus of Finance:** The Department/Bureau of Finance at Provincial/County level and at Xiangxi Prefecture and Shaoyang City will be responsible for supervising project resources, including the allocation, disbursement and monitoring of IFAD loan and counterpart funds.

**8. Women Federation:** The Women Federation (WF) in the counties will be also be assigned responsibilities in undertaking women related activities designed for the project. The Chairperson of county Women Federation will be assigned the role of deputy project

director at the county CPMO, with a specific role in overseeing the gender related aspects and activities of the project, and facilitating gender transformation in the project context.

**9. Youth Leagues:** The Youth League (YL) in the counties will be also be assigned responsibilities in undertaking youth related activities designed for the project. These include mobilisation of youth participation, facilitation of youth employment and business development activities and services, participation in project M&E and sharing related experience of youth development from and for the project.

**10. Service Providers and Technical Specialists** will be engaged by the PMOs to support the implementation especially in areas where existing capacity may be inadequate, for this purpose appropriate budget has been envisaged in the Project costing.

**11. Organisation and staffing.** The Project Management Office (PMO) organization structure is composed of the Director who has overall responsibility for Project management and a finance officer who has responsibility for overall financial management. In addition, PMOs will be staffed with officers who have experience in and would be responsible for accounting, cashing, project planning and implementation, financial management, procurement, monitoring and evaluation, gender and youth mainstreaming. They will also be assisted by officers from the technical line bureaus of Water Resources, Agriculture, Forestry, Women Federation and Finance at the corresponding level.

## **B. Result-based lending**

**1. Independent third-party verification agency:** An independent third-party verification agency will be contracted by the Project after the no objection of IFAD to the selected agency, in accordance with terms of reference satisfactory to IFAD, to verify the data and other evidence supporting the achievement of one or more DLRs as set forth in the table in Schedule 2.

**2. Verification protocol:** The Project will ensure that the verification agency carries out verification and process (es) in accordance with a detailed DLR verification protocol jointly endorsed by the Project and IFAD; and submit to IFAD the corresponding verification reports in a timely manner and in form and substance satisfactory to IFAD. Confirmation that the DLR has been achieved will be through a letter of confirmation or verification report to IFAD.

## **B. Implementation**

**1. Planning.** The annual work plan and budgets (AWPBs), reflecting planned activities and budget requirements for each year of Project implementation, will be the main management tool for Project planning and implementation.

**2. Monitoring and evaluation (M&E).** The Project shall establish an M&E system, which will integrate IFAD Core Indicators (CIs) from provincial to village level. The M&E system of the Project shall: (i) underpin the knowledge management functions of the Project; (ii) give emphasis to assessing the impact on advancing poverty alleviation of the Project, relying on the applicable national poor registration system, and the performance of supported cooperatives, through annual cooperative performance assessments; (iii) make M&E data accessible and available in line with relevant laws and regulations in China, through a user-friendly management information system (MIS) that integrates information and allow regular reporting. Progress against the achievement of results will be measured through comprehensive baseline, mid-term and end-line surveys, and through annual outcome surveys in intervening years.

**3. Project Implementation Manual (PIM).** The PPMO shall prepare, a draft PIM and submit it to the Fund for approval. The draft PIM shall include, among other things: (i) terms of reference and implementation responsibilities of the Project staff, consultants and service providers; (ii) eligibility and selection criteria for the implementation of project activities, including training and development of business plans; (iii) targeting, eligibility



and selection criteria for participating villages, cooperatives/enterprises and other beneficiaries; (iv) Project operational, financial and procurement procedures, including implementation and monitoring procedures also for DLIs/DLRs; (v) M&E system and procedures; (vi) DLIs/DLRs; (vii) The Financial Management Manual; (viii) Verification protocol.

The PIM may be amended if and when necessary, and the Project shall adopt the amended PIM substantially in the form approved by the Fund.

## Schedule 2

### Allocation Table

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

Category -IFAD	Loan Amount Allocated (expressed in USD)	% of Eligible Expenditures net of all other contribution
I Works	10 880 000	100%
II Goods, services and inputs	6 930 000	100%
III Training	1 800 000	100%
IV Training -RBL	2 370 000	100%
V Grants and Subsidies	31 060 000	100%
VI Operating Costs	1 160 000	100%
Unallocated	6 000 000	
<b>Total</b>	<b>60 200 000</b>	

2. The Borrower may withdraw the proceeds of the Loan to finance the following category on the basis of Results (DLR or Disbursement linked results) achieved against specific indicators (DLI).

Category (including DLI)	Disbursement Linked Result (DLR)	Amount of the loan allocated in USD
IV Training -RBL	1. DLR-1 - Incremental number of farmers completing the New Professional Farmer Development training program 2. DLR-2 - Incremental number of women completing the New Professional Farmer Development training program 3. DLR-3 - Reduced average age of the trainees completing the New Professional Farmer Development training program	2 370 000
<b>TOTAL</b>		<b>2,370,000</b>

4. The terms used in the Tables above are defined as follows:

“Category I Works” shall mean eligible expenditures for Climate resilient infrastructure under Component 2 as described in Schedule 1.

“Category II Goods, Services and Inputs” shall mean eligible expenditures for goods, service, inputs, equipment , materials, technical assistance and consultancies.

"Category III Training" shall mean eligible expenditures for trainings and workshops under all components except for Sub-component 1(iii).

"Category IV Training-RBL", for Promoting Gender Sensitive Professional Farmer Training under sub component 1 (iii), shall mean eligible expenditures on the basis of the results ("DLRs") achieved by the Borrower, as measured against specific indicators ("DLIs") in the amount allocated against this Category.

"Category V Grants and Subsidies" shall mean eligible expenditures for Business Plan under Inclusive Private Sector Investment Models of the Sub -component 1 (i)

"Category VI Operating Costs" shall mean eligible expenditures of salaries and allowances, operating costs under the Sub-Component 1(ii) and Component 3.

4. *Retroactive Financing.* As an exception to section 4.08(a)(ii) of the General conditions, eligible expenditures such as the start-up and preparation project activities (except for subcomponent A.3-Category IV) not exceeding USD 6 million incurred from 19 June 2020 to the date of the entry in force of this Agreement, may be pre-financed by the Government and reimbursed from the Financing after this Agreement has entered into force and the conditions precedent to withdrawal have been met.

Eligible expenditures are start-up and preparation project activities such as: (i) purchase of essential items (including equipment and procurement of necessary software) for the PMOs; (ii) recruitment of project staff and/or consultants and procurement of technical assistance; (iii) costs related to tendering, selection, and recruitment of service providers; (iv) costs related to the finalization of the program implementation manual, customization of accounting software to fit IFAD requirement and license fees, start-up trainings and workshops; (v) establishment of the M&E system, including carrying-out of the baseline survey and development of MIS; (vi) exposure visits for knowledge and experiences sharing; (vii) surveys and feasibility studies; (viii) recruitment of service providers.

### **Schedule 3**

#### *Special Covenants*

1. *Compliance with the Social Environmental and Climate Assessment Procedures (SECAP).* The Borrower shall ensure that the Project will be implemented in compliance with national laws and regulations regarding social, environmental and climate-related safeguards as well as the Fund's Social, Environmental and Climate Assessment Procedures. The Borrower shall ensure that project and in particular the RBL component, excludes any activities which are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people.
2. *Anticorruption Measures.* Without prejudice to the provisions of the General Conditions, the Borrower shall cause Hunan Province to comply with IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations, taking appropriate action to prevent, mitigate and combat Prohibited Practices in implementing the Project.
3. *Grievance redress mechanism.* Lead implementing agency shall maintain and operate, throughout the period of implementation of the Project, a grievance redress mechanism for the handling of any stakeholder complaints arising out of the implementation of the Project.
4. *RBL sub-component implementation.* The Borrower shall carry out the RBL sub-component, or cause the Program to be carried out, in accordance with this Agreement and with the financial management, procurement, and environmental and social management systems acceptable to IFAD, which are designed to ensure that: (i) the Loan proceeds are used for their intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability; and (ii) the actual and potential adverse environmental and social impacts of the Project are identified, avoided, minimized, or mitigated, as the case may be.

## Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
<b>Outreach</b>	<b>1 Persons receiving services promoted or supported by the project</b>				Project M&E Report	Annually	PMOs	Continuity of government socio-economic policies and poverty reduction strategies and political commitment. (A)  Farmers slow/reluctant tendency towards cooperative led organizations. (R)  Cooperatives thrive as per government new laws and regulations. (A)
	Females - Number		52480	164000				
	Males - Number		78720	164000				
	Young - Number		39360	98400				
	Indigenous people - Number		20992	98400				
	Total number of persons receiving services - Number of people		131200	328000				
	Young - Percentage (%)		12%	30%				
	<b>1.a Corresponding number of households reached</b>				Project M&E Report	Annually	PMOs	
	Women-headed households - Number		4579	11447				
	Non-women-headed households - Number		30641	76604				
	Households - Number		35220	88050				
	<b>1.b Estimated corresponding total number of households members</b>				Project M&E Report	Annually	PMOs	
	Household members - Number of people		165534	413835				
<b>Project Goal</b>	<b>Number/percentage of beneficiaries reporting improved livelihood assets</b>				Household Surveys, Govt Statistics	Baseline, Mid-term, Completion	PMOs	
Maintaining poor and vulnerable households out of extreme poverty and increasing their production and economic resilience.	female-headed households - Percentage (%)		30%	30%				
	ethnic households - Percentage (%)		30%	80%				
	total households - Percentage (%)		30	80%				
<b>Development Objective</b>	<b>At the end of the project, targeted households achieve at least a 30% increase in annual income from project-supported activities</b>				Household Surveys, Government Statistics	Baseline, Mid-term and Completion	PMOs	
Improving income-generating opportunities for vulnerable rural people, particularly youth and women, increasing the inclusiveness of the benefit-sharing mechanisms from private sector linkages, and increasing the resilience of the rural population to climate change impacts.	total households - Number		35%	90%				
	female headed hhs - Percentage (%)		35%	90%				
	Ethnic hhs - Percentage (%)		35%	90%				
	<b>2.2.1 New jobs created</b>				Project M&E	Annually	PMOs	
	Job owner - men - Number		800	2000				
	New jobs - Number		1600	4000				
	Job owner - women - Number		800	2000				
	Job owner - young - Number		480	1200				
	<b>IE.2.1 Individuals demonstrating an improvement in empowerment</b>				Household survey, Pro-WEAI survey	Baseline, Mid-term and completion	PMOs	
	Persons-Percentage (%)		40%	60%				
Females - Percentage (%)		38%	60%					
	Males - Percentage (%)		42%	60%				
<b>SF.2.1 Households satisfied with project-supported services</b>				Household survey	Baseline, Mid-term and completion	PMOs		
	Households (%) - Percentage (%)		30%				75%	
<b>SF.2.2 Households reporting they can influence decision-making of local authorities and project-supported service providers</b>				Household survey	Baseline, Mid-term and completion	PMOs		
	Households (%) - Percentage (%)		30%				75%	
<b>Outcome</b>	<b>2.2.2 percentage of rural enterprises reporting increased profit</b>				Project M&E Reports	Annually	PMOs	
1. Strengthen inclusiveness and development of New Economic Entities	Number of POs - Number		52	130				
	<b>2.2.4 Supported rural producers' organizations members reporting new or improved services provided by their organization</b>				Household survey	Baseline, Mid-term and completion	PPMO, M&E	
	Farmer cooperative members - Percentage		35%	80%				
	<b>Percentage of households reporting increased profit from their production</b>				Household survey			
	Percentage of households		35%	80%				
	<b>Percentage of youth/women-initiated enterprises operational after 2 years</b>				Project M&E Reports	Annually	PMOs	
Percentage of business			80%					

<b>Output</b> 1.1 Mobilize private investment for rural business development in project areas	<b>Number of co-investment plans supported under the project</b> plans - Number		94	236	Project M&E Reports	Annually	PMOs	Private agro-investors are interested to join/share farmers cooperatives income sharing mechanism and willing to pay related subscription and for the services. (A) Influential members might hold bigger share. (R)
<b>Output</b> 1.2 Support start-up business for rural youth and women	<b>Start-up businesses of young people /women entrepreneurs supported</b> total start-ups - Number start ups of young people - Number start ups of women - Number		120 100 60	300 250 150	Project M&E Reports	Annually	PMOs	Continued policy support to farmer cooperatives and private enterprises. (A)
<b>Outcome</b> 2. Improved services for rural business development and rural community livelihood	<b>3.2.2 (Number) Percentage of persons/households reporting adoption of environmentally sustainable and climate-resilient technologies</b> Households - Percentage (%) Number-Household Household members - HH		6% 2900 13650	15% 7260 34125	Household survey	Baseline,Mid-term and completion	PMOs	Farmers will participate in climate information services workshop/centers (A) Climate sensitivity is new phenomon and might not be welcomed overwhelmingly. ( R)
	<b>Persons reporting improved business and livelihood services offered/facilitated by IC/BS &amp; public institutions</b> Percentage of people		30%	80%	Household survey	Baseline,Mid-term and completion	PMOs	
	<b>Percentage of women among those trained under professional farmer training</b> Women trainee - Percentage (%)		35%	45%	Project M&E Reports	Annually	PMOs	
<b>Output</b> 2.1 Business development/support provided by service centers	<b>2.1.2 Persons trained in income-generating activities or business</b> Females - Number Males - Number Young - Number Persons trained in IGAs or BM (total) - Number		4600 4600 2760 9200	11500 11500 6900 23000	Project M&E Reports	Annually	PMOs	Small holder farmers are interested to join upsacle value chain and willing to pay related subscription and for the services. (A) Failure of farmer cooperatives and private enterprises to cooperative standards and farmers needs and excluding poor farmers from joining value chain development (R)
<b>Output</b> 2.2 Improving climate information and adaptation advice	<b>3.1.2 Persons provided with climate information services</b> Females-Number Males-Number Persons provided with climate information services - Number		5080 3050 10160	12700 7620 25400	Project M&E Reports	Annually	PMOs	
<b>Output</b> 2.3 Improved community livelihood services	<b>Persons in rural areas received new or improved livelihood services</b> Total members Females - Number Males - Number Young - Number Ethnic - Number		10160 5080 5080 3050 3050	25400 12700 12700 7620 5080	Project M&E Reports	Annually	PMOs	FIs willing to participate in government rural revitalization strategy programme (A) Communities are willing to access credit. (A) Poor Farmers' (lack of) capacity to access and to pay back. ( R)
<b>Outcome</b> 3. Improved Climate resilient infrastructure and Rural Environment	<b>2.2.6 Households reporting improved physical access to markets, processing and storage facilities</b> Households reporting improved physical access to markets Households reporting improved physical access to processing facilities Households reporting improved physical access to storage facilities		7% 8% 8%	15% 20% 20%	Household survey	Baseline,Mid-term and Completion	PMOs	Adequate participation in climate related information training ( A)
<b>Output</b> 3.1 Improved infrastructure and systems for climate resilient water and soil management	<b>3.1.4 Land brought under climate-resilient practices</b> Hectares of land - Area (ha)		720	1800	Project M&E Reports	Annually	PMOs	Local leaders and farmers are sensitive of the issue and assessment studies will find adequate sites for rainwater harvest (A)
<b>Output</b> 3.2 Improved Rural Infrastructure	<b>1.1.2 Farmland under water-related infrastructure constructed/rehabilitated</b> Hectares of land - Area (ha)		2880	7200	Project M&E Reports	Annually	PMOs	Communities assume responsibility for use, maintenance and management of facilities invested in by the project ( A)
<b>Output</b> stand alone output: Policy	<b>Policy 1 Policy-relevant knowledge products completed</b> Number - Number		1	3	Project M&E Reports	Annually	PMOs	Commitment of Provincial stakeholders to the policy value of the project

## Integrated Project Risk Matrix

Risk Categories and Subcategories	Inherent	Residual
<b>Country Context</b>	Low	Low
<b>Political Commitment</b>		No risk envisaged
The political commitment of both central and local governments to the project goals/objectives have been and will remain persistently strong during the project life. Eradicating absolute poverty by 2020 and realizing inclusive rural transformation to vitalize the rural sectors and rural areas are on top of the government agenda. Necessary policies, various resources, and institutional performances are geared at the provincial and county levels towards aligning with these strategic goals and directions. Meanwhile, there is strong stability and continuity of political party and government leadership and strategies. No major risks are foreseen in terms of political commitment by governments.		
<b>Governance</b>		No risk envisaged
Overall governance at the relevant levels (primary province and county) is strong. There are relevant and adequate rules and procedures guiding the planning and budgeting, management of finance, procurement, staff and institutional performance and accountability, fraud and corruption prevention and conviction. Particularly for poverty reduction related projects, government attaches higher emphasis in accountability and performances. The new rural revitalization strategy envisages continued improvement of rural governance. For this project, the institutional set up and vertical/lateral coordination has been conducive for project management. No major risks are foreseen so far in terms of governance.		
<b>Macroeconomic</b>		No risk envisaged
The macroeconomic situation and prospect of the country has been favorable and optimistic. Despite slowed pace of GDP growth during the last years and some trade frictions ongoing, the quality of development has been increasing as result of economic restructuring and boosting of domestic markets and consumption. Rural development continues to be given increased attention and support through various favorable policies and additional resource allocations. The macro economy shall maintain a stable and steady progress and is generally resilient to external shocks. The economy quickly bounced back from slow-down of the first two quarters due to 2020 COVID-19 pandemic. Consumption and market demand will remain steady growth and continue to anticipate increasing demand on quantity and quality agro-products from rural areas, as result of Government's strategy in boosting both domestic and export markets. Transportation and logistics condition continue to improve providing conducive marketing environment for rural products. No major risks are foreseen so far in terms of macroeconomic dimension.		
<b>Fragility and Security</b>	Low	Low
Risk: i) Animal diseases such as the prevailing swine fever will have some impact to the pig production in the project area; (ii) Human epidemic such as the Novel Coronavirus may occur but will mostly be managed in short duration, so should not have major impact to the project.	Low	Low
Mitigations: i) Project counties and business entities involved in pig production will continue to undertake necessarily measures to prevent the occurrence of		

swine fever in their localities; (ii) County governments continue to take due considerations of disaster preparedness in their budgetary and management planning, taking lessons from the recent COVID-19 epidemic. Project has included such activities to enhance preparedness and responsive measures		
<b>Sector Strategies and Policies</b>	<b>Low</b>	<b>Low</b>
<b>Policy alignment</b>		<b>No risk envisaged</b>
The project is well aligned with the government strategy and policies relating to rural development and poverty reduction. The core focus of the project “poverty reduction through inclusive farmer cooperatives and pro-poor value chain development” is a top priority of government’s most recent rural revitalization strategy. Governments expect IFAD project to add value by demonstrating innovative ideas and practices that can contribute to the poverty reduction and inclusive rural transformation efforts of the government. The focuses of the project on sustainable benefit generation for and sharing with relatively poor population, role of women and youth as well as thriving private sector and farmer organizations etc.. are also at the core of the government policies for rural transformation. No major risks are identified in terms of policy alignment of the project.		
<b>Policy Development and Implementation</b>	<b>Low</b>	<b>Low</b>
Risk: The risks pertain to: (i) the limited responsiveness and thorough implementation of central policies to their full effect, e.g. the Farmer Cooperative Law, mostly due to limited local governance capacity and sectoral/locality particular agendas; (ii) China’s agricultural and rural development has traditionally focused on production/productivity enhancement, with strong emphasis on infrastructure and inadequate attention to post-production/marketing and other rural based non-farm opportunities; (iii) Inadequate incentives/services are putting into place for talents to thrive in rural areas contributing to rural development; (iv) emerging emphasis on new themes that may diminish the focus of the project, such as ICT4D. This may result in cases of local over-production and limited income generation opportunities, which will lead to limited value add and farmers’ income.	Low	Low
Mitigations: (i) The project will pilot models relating to inclusive agribusiness, farmer cooperative standardization and agribusiness/value chain development, which is essential for the implementation and eventual contribution of the program to the relevant government policy agenda; (ii) Professional & technical guidance and support from the provincial and county PMOs and expertise to the pilot is critical and will be mobilised; (iii) Alignment with national agencies will be explored to enhance full implementation of related policies especially those relating to farmer cooperatives. (iv) Special support and improved rural services for rural talents to thrive in their rural based business will be conducive to the realization of rural revitalization agenda. (v) project design adopted framework approach allowing flexibility to adjustment to responding to emerging policy priorities. ICT for ag and rural development has been given adequate space in project design.		
<b>Environment and Climate Context</b>	<b>Moderate</b>	<b>Moderate</b>
<b>Project vulnerability to environmental conditions</b>	<b>Moderate</b>	<b>Moderate</b>
Risk: Most of the project counties are in mountain areas, notwithstanding their differences, each may post different type and degree of following	Moderate	Moderate



environment risks: (i) High risk of geophysical hazards notably earthquakes, floods and landslides are anticipated in the project though their occurrence probability is low; (ii) Soil and water erosion is common in the project area, due to outdated and limited investment and summer torrential rain, and will have impact on productive activities of project; (iii) Inadequate O&M arrangements in place to offset environmental hazards		
Mitigations: (i) Infrastructure improvement of road, land and soil and water conservation will be given high priority in the project investment to ease the situation; (ii) project adopts climate risks analysis and early warning allowing early intervention to minimize risk; (iii) Community O&M groups and extensions services will include awareness and mitigation practices in related risks including training and agronomic best practices;		
<b>Project vulnerability to climate change impacts</b>	<b>Moderate</b>	<b>Moderate</b>
Risk: (i) Increases in temperatures both in summer and winter may increase the magnitude of dry spells and droughts. Seasonal and sporadic droughts, floods and are anticipated in the project areas. Meanwhile it may also reduce the risk of extreme winter. It is identified that the number of frozen days in the ten counties will generally decrease. There was also reported hail incidents in some areas. (ii) More variations in rainfalls quantity and intensity, which may affect the viability of rain-fed agriculture in the absence of irrigation or water harvesting technologies, and may increase the likelihood of floods and landslides with shorter but more intense rainy seasons; (iii) Changes in rainfall patterns: longer days in dry season may increase the risks of droughts and have detrimental consequences for the agricultural production. In contrary, it is also identified that some areas will experience a longer wet season (number of consecutive rainy days).	Moderate	Moderate
Mitigations: (i) The project will finance a set of activities to improve water and irrigation related facilities; (ii) Project will improve farmers' access to weather and climate forecast information and advice on options to make their farming practices more resilient to climate change; (iii) Technical extension services will include agronomic measures responding to climate induced risks		
<b>Project Scope</b>	<b>Low</b>	<b>Low</b>
<b>Project Relevance</b>	<b>Low</b>	<b>Low</b>
Risk: The mains risks pertain to the fact that the benefit generated by the project may not adequately support those economically less active poor households for their increased income, because: (i) income from agricultural production constitute a relative small proportion of the rural people, the project's contribution to their household income increase could be limited; (ii) many remaining poor either have their land transferred or are lack of labour. Similarly, the project ambition to foster development of genuine pro-poor farmer cooperatives might be under achieved due to limitation in resources and technical support, and lack of motivation of small holder participation.	Low	Low

The functioning of the incubation center and continued private sector investment could be short-lived should the project not be able to demonstrate the value of its provisions and models.		
Mitigations: (i) Encouraging contract farming, labor employment, land rent and dividend generated from project invest assets in order to benefit different kind of poor households. (ii) Encourage business plans that take advantage of rural resources based income-generating opportunities for the poor households are also considered eligible for project support. (iii) Involve technical specialists by PMOs and align the project with Government's programme in promoting specialized farmer cooperative. (iv) The businesses of the incubation center and private sector investment will be geared towards the industry/sector with the best market potential and beneficiary/partner participation.		
<b>Technical Soundness</b>	<b>Low</b>	<b>Low</b>
Risk: The risks relating to technical soundness of the project pertain to: (i) technical details of the project models and introduced rural services may not be adequately specific enough for local implementation; (ii) Insufficient understanding of the RBL approach by the relevant implementers on the ground, and misunderstandings about the need for sufficient upfront budget allocation - which may cause delays. (iii) due to parallel financing nature, synergy of government investment with IFAD financing could risk being diminished if not properly planned and budgetary managed.	Low	Low
Mitigations: (i) Project/IFAD will raise awareness and create enough understanding about the principles of the RBL approach, and undertake necessary assessment and safeguard beforehand if and as required; (ii) More frequent and flexible and joint SIS from IFAD/Project to monitor and follow up with the implementation to address the emerging issues and ambiguities on implementation details; (iii) AWPB will be made/coordinated at county level with full engagement of concerned line agencies and budgetary assurance.		
<b>Institutional Capacity for Implementation and Sustainability</b>	<b>Moderate</b>	<b>Low</b>
<b>Implementation Arrangements</b>	<b>Moderate</b>	<b>Low</b>
Risk: The PMOs at province and four out of ten counties are familiar with and have demonstrated good capacity in managing IFAD projects. Nevertheless given the new scope and new features in the project, there is a moderate likelihood that institutional capacity/efforts for implementing and sustaining the operational management may adversely impact the project objective, especially during the initial start-up phase: (i) Project design is innovative in nature and include thematic areas not traditionally areas of competence by government agencies; (ii) the engagement of other line agencies may diminish when due priorities of certain counties are not given to some of the designed focuses, such as youth and gender transformation, climate services, agribusiness and value chain development; (iii) inter-agency coordination may not be effective and may hamper progress of certain activities (infrastructure, rural services, women and youth related activities)	Moderate	Low
Mitigations: (i) Start-up mobilization/training, practical and detailed enough PIM and technical team of PMOs will help quicken on-board of implementation; (ii) Project coordinating functioning at both province and county levels will be monitored and enhanced during implementation;		
<b>Monitoring and Evaluation Arrangements</b>	<b>Moderate</b>	<b>Low</b>

<p>Risk: The province is familiar to IFAD M&amp;E requirement and has the capacity and resources to guarantee robust M&amp;E work for the project. Technical service provider has also been identified to support the project M&amp;E. ICT tools will be explored for project M&amp;E. Overall the M&amp;E risk is low in this project. Nevertheless, the following could be the potential weaknesses: (i) given the multi-layer structure of the project, there could be limitation in cohesion of M&amp;E work and availability/capacity of M&amp;E focal point at all levels; (ii) the PMOs may not demonstrate strong ownership and effective use of M&amp;E services/tool/support/information; (iii) Project offices may have some tendency of complying M&amp;E requirement instead of proactively managing project using M&amp;E as a tool; (iv) inadequate accuracy of data and information if not properly quality assured.</p>	Moderate	Low
<p>Mitigations: i) Project will fully engage a technical team from the province to support the M&amp;E work; (ii) Project Offices should designate staff for ME and undertake regular follow up and analysis to make use of the information collected; (iii) A plan for M&amp;E linked with knowledge management should be developed to give orientation to the overall work, including clarity on roles and how/who to use the M&amp;E information; (iv) Continued follow up and reminder from IFAD to enhance the M&amp;E based learning and policy agenda of the project; (v) IFAD SIS missions will closely monitor and support the performance of project M&amp;E to ensure quality; (vi) project will develop web-based MIS to support M&amp;E work</p>		
<b>Financial Management</b>	<b>Substantial</b>	<b>Moderate</b>
<b>Organization and Staffing</b>	<b>Moderate</b>	<b>Moderate</b>
<p>Risk: Training for government finance staff is a major constraint that is affecting the accounting reforms and its implementation. Staff from line ministries is also lacking experience with the new procedures.</p>	Moderate	Moderate
<p>Mitigations: The PPMO organization structure will be composed of a Project Director who has the overall responsibility for the project, and a Finance Manager who has financial responsibility. An Accountant and a Cashier will also staff the finance team of the PPMO. The technical officers in the PPMO will have review and pre-approval functions, similarly at the county PMOs. The finance team of each CPMO will be composed of one Accountant with overall financial responsibility at the county level.</p>		
<b>Budgeting</b>	<b>Low</b>	<b>Low</b>
<p>Risk: Budgets lack details. Much of the expenditure is off the budget. There are gaps between the approved budget and the final execution. Such Discrepancies are for both revenue and spending.</p>	Low	Low
<p>Mitigations: The Hunan PPMO, after consultations with project stakeholders, shall prepare its annual budget, linking all the planned activities to the disbursement categories of the Schedule II of the Financing Agreement. This exercise will take place in advance of the preparation of the national budget to ensure that the required Government funds are timely allocated. All financing sources of the project should be clearly stated in a consolidated budget. Counterpart funding will be allocated for the project by province, counties and districts. The government will ensure that counterpart funds are contained in the domestic fiscal allocations for each county and that they are released for the project on time. The counterpart funding will be</p>		

maintained in the Treasury Accounts of the counties and will be used to pre-finance eligible expenditures of the project as well.		
<b>Funds Flow/Disbursement Arrangements</b>	<b>Low</b>	<b>Low</b>
Risk: The 1994 Budget Law has strengthened the redistributive role played by the Central Government. There are gaps in the control and financial risks at the local level, Analysis of cash and asset position made to government contains significant omissions.	Low	Low
Mitigations: No action proposed.		
<b>Internal Controls</b>	<b>Moderate</b>	<b>Moderate</b>
Risk: Reconciliation with bank account statements only takes place with the final accounts, after the budget year has closed. New procedures have been introduced (for instance, Procurement and Accounting). The administration, accounting and reporting of the project will be set up in accordance with Circular No. CAIJI (2011)-10: "Provisional Measures for Financial Management of Projects Financed by Loans and Grants from International Financial Organizations" issued in 2011 by the Ministry of Finance.	Moderate	Moderate
Mitigations: The internal control arrangements for H2RDP should consider: (a) competent personnel with clear responsibilities and adequate segregation of duties; (b) adequate financial records management system with complete and accurate audit trail; (c) physical safeguard including regular verifications and controls for assets and financial documents of the project; (d) random independent reviews; (e) clear procedures for timely monitoring and financial reporting from the Implementing Agencies of the project. The Provincial PMO shall define the appropriate internal controls in the Financial Management Manual, as part of the PIM.		
<b>Accounting and financial reporting</b>	<b>Moderate</b>	<b>Moderate</b>
Risk: Government accounting is still under reform to comply with international standards and the accrual basis of accounting. Financial systems only capture and report on the most basic financial data. It is difficult for the central authority to monitor outlays and track the use of intergovernmental fiscal transfers.	Moderate	Moderate
Mitigations: The project will procure a web-based integrated software to support the core management functions at the central and county levels, such as business plan development, financial management and project monitoring and evaluation. The financial management module of the integrated software will comply with the IPSAS accrual basis of accounting and will have the functionality to report by disbursement category, project component and financing sources at each level of implementation.		
<b>External Audit</b>	<b>Moderate</b>	<b>Moderate</b>
Risk: The National Audit office (NAO) has strengthened relevant rules, issued standards and provided trainings to improve the professional skills of auditors. Auditing bodies at the local level are not fully effective. The audits are focused more in compliance.	Moderate	Moderate
Mitigations:		

H2RDP's annual accounts will be audited by the Hunan Provincial Audit Office (HPAO) on an annual basis in accordance with International Standards on Auditing (ISA) and following the IFAD Handbook for Financial Reporting and Auditing. The audited project financial statements together with the auditor's opinion (following ISA 705) will be submitted to IFAD in English within six months from the end of the fiscal year. The HPAO is constituted as an independent body under the National Audit Office (NAO). The NAO delegates to the Provincial Audit Offices (PAOs) the external audits of provincial donor-funded projects in China. IFAD has previous experience with other PAOs, and these audit arrangements are deemed acceptable to IFAD.		
<b>Project Procurement</b>	<b>Moderate</b>	<b>Low</b>
<b>Legal and Regulatory Framework</b>	<b>Moderate</b>	<b>Low</b>
Risk: The risk that the Borrower's regulatory and institutional capacity and practices (including compliance with the laws) are inadequate to conduct the procurement in a manner that optimizes value for money with integrity.	Moderate	Low
Mitigations: 1). Review periodically the application procurement in accordance with the national procurement law, regulation and implementation policies. 2). Review and clear project procurement plan (consolidated) encouraging the use of competitive procurement methods 3). Provide consolidated procurement information on project website (opportunities and awards) 4). Ensure waiver for RBL component clearly articulates provision waiver or specific provision in the general conditions in reference to procurement.		
<b>Accountability and Transparency</b>	<b>Moderate</b>	<b>Low</b>
Risk: The risk that accountability, transparency and oversight arrangements (including the handling of complaints regarding, for example, SH/SEA and fraud and corruption) are inadequate to safeguard the integrity of project procurement and contract execution, leading to the unintended use of funds, misprocurement, SH/SEA, and/or execution of project procurements outside of the required time, cost and quality requirements.	Moderate	Low
Mitigations: 1). Provide confidential report of complains received, under investigation and resolved. 2). Establish appropriate level of procurement reviews post and prior based on risk 3). Identify and report on risk flags during procurement supervision 4). Use IFAD standard bidding documents, which include provisions for prohibitive practises and safeguards 5). Ensure waiver for RBL component clearly articulates provision waiver or specific provision in the general conditions in reference to procurement conditional upon strengthening reporting of prohibitive practises, misprocurement and eligible expenditures associated with this.		
<b>Capability in Public Procurement</b>	<b>Moderate</b>	<b>Low</b>
Risk: The risk that the implementing agency does not have sound processes, procedures, systems and personnel in place for the administration, supervision and management of contracts resulting in adverse impacts to the development outcomes of the project.	Moderate	Low
Mitigations: 1). Retain procurement professional to support intermittently		

2). Periodic training and support to be provided to various implementing agencies teams.		
3). Ad-hoc offsite coaching by IFAD accredited procurement consultant.		
<b>Public Procurement Processes</b>	<b>Moderate</b>	<b>Low</b>
Risk: The risk that procurement processes and market structures (methods, planning, bidding, contract award and contract management) are inefficient and/or anti-competitive, resulting in the misuse of project funds or sub-optimal implementation of the project and achievement of its objectives.	Moderate	Low
Mitigations: 1). To be assessed in 2021 through the supervision mission (1st year of operations) 2). RBL component shall guided evidence and targeting outlined in the 3rd party independent validation report and the project audit report		
<b>Environment, Social and Climate Impact</b>	<b>Low</b>	<b>Low</b>
<b>Biodiversity Conservation</b>		<b>No risk envisaged</b>
The project will not undertake activities that may cause significant threats to or the loss of biodiversity and ecosystem and its services. In fact the project activities will help to conserve soil and water resources, promote the production of quality and diversified locally specialize products/food. By adopting good agricultural practices, the project will also be conducive to the sustainable use of natural resources.		
<b>Resource Efficiency and Pollution Prevention</b>	<b>Low</b>	<b>Low</b>
Risk: Project triggered risks pertain to: (i) Soil and water pollution was reported in the project areas from agricultural intensification and livestock development, in the nature of heavy metal and chemicals residues; (ii) Project activities include reclaiming barren hills (e.g. tea plantation in Guzhang), construction of rural roads, small-scale irrigation works and agro-processing facilities may cause soil and water erosion is not properly managed; ay cause soil erosion;	Low	Low
Mitigations: (i) Relevant rules and by-laws of government in water resources management/utilization, pollution control and food safety will be followed during project implementation; (ii) Business plans will adopt, as much as possible, food quality and safety as part of their marketing and value chain development objectives; (iii) Government will also conduct its own Environment Impact Assessment for project and explore measures to mitigate perceived risks		
<b>Cultural Heritage</b>		<b>No risk envisaged</b>
The project activities do not foresee impact to degradation or loss of resources of historical, religious or cultural significance.		
<b>Indigenous People</b>		<b>No risk envisaged</b>
About 30% of the population in the project area belong to ethnic minority group. Ethnic minorities in the project area are in general well integrated in the existing socio-economic context, have livelihood strategies similar to those of the other rural populations, are not excluded from existing economic opportunities, are not discriminated, and have not distinct needs from the rest of the population. They are vulnerable not because belonging to an ethnic minority group, but because they live in poor and not well developed areas. Government policies targeting rural poor and		

vulnerable households do not differentiate based on ethnicity, but target based on poverty indicators. Program will thus give special emphasis to ethnic minorities to enhance their participation in the program, subsequently their awareness, economic capacity, and social status.		
<b>Labour and Working Conditions</b>		<b>No risk envisaged</b>
The project will be implemented following the national laws and regulations which shall offer protection to the target group of their labor rights and work safety. Any employment will be on voluntary basis and third party services will be procured on competitive basis and following relevant rules and regulations. The project will provide particular emphasis for empowering women in their social and economic participation, benefit and status, thus contributing to their social and household status to minimize gender based violence towards them.		
<b>Community Health and Safety</b>		<b>No risk envisaged</b>
The project will be implemented following the national regulations and standards in terms of hazard prevention to the communities. Contract terms for infrastructures usually include provisions for consideration of safety and health. Agriculture activities will not impact drinking water safety. Food safety and nutrition will be one of the pursuits of project supported production interventions.		
<b>Physical and Economic Resettlement</b>	<b>Low</b>	<b>Low</b>
Risk: There is some risk of economic displacement by conversion of farmland to infrastructure sites such as water pond and pools.	Low	Low
Mitigations: Project related infrastructure will be limited to small areas and no farmer affected will lose more than 10% of his/her farmland. Transparent, informed and documented discussions with all farmers benefiting from planned infrastructure will be made to reach informed consent. Compensations will be made either by transferring land user rights from others or long term cash subsidy to affected farmers. Government regulations prescribes such prior informed processes and consent decisions.		
<b>Greenhouse Gas Emissions</b>		<b>No risk envisaged</b>
The project will generally contribute to the reduction of GHG as result of promoting carbon sequestration crops. The project activities will not involve excessive CO2 emissions.		
<b>Vulnerability of target populations and ecosystems to climate variability and hazards</b>	<b>Low</b>	<b>Low</b>
Risk: The project will not cause but minimize vulnerability of target groups and ecosystems to climate variability and hazards, this will be achieved through improvement of water and soil conservation infrastructure, adoption of climate adaptive varieties, technologies and production practices, extension of related knowledge to farmers.	Low	Low
Mitigations: Program implementation will follow the technical requirements spelled out in the relevant rules and by-laws of the governments, and technical advices of professionals to minimize negative impact that may exacerbate the vulnerability of the target populations.		
<b>Stakeholders</b>	<b>Low</b>	<b>Low</b>
<b>Stakeholder Engagement/Coordination</b>	<b>Low</b>	<b>Low</b>

<p><b>Risk:</b> The risk on stakeholder engagement pertain to: (i) ad-hoc consultation at design and inadequate involvement during implementation of line agencies leading to delayed implementation or sub-standard results for the RBL approach; (ii) Lack of participation or technical support from provincial level of offices responsible for agro-industry development to guide implementation and learn from project experience so to maximize the project benefit; (iii) limited incentives to and mobilization of other line/technical agencies and partners for aligning with project to build synergy, such as rural finance and climate service, women and youth organizations; (iv) limitation in full engagement of private sector and farmer cooperatives due to lack of publicity or transparency and their business coverage, or particular preference of county government on sub-sectors for project support.</p>	Low	Low
<p><b>Mitigations:</b> (i) Adequate consultation and assessment will be made at or after design to bring the relevant partners on board and to the same understanding; (ii) Transparency on project support and financing rules will be maintained through proper dissemination of information during project implementation; (iii) Business plans will be diversified to avoid narrowly focusing on a few products; (iv) Project workshops and meetings shall include all stakeholders as and when possible. (v) Project management offices will reach out to all relevant partners to call for application of business plans.</p>		
<p><b>Stakeholder Grievances</b></p>	Low	Low
<p><b>Risk:</b> Systems and opportunities are in place for stakeholders to express their opinions and complaints emerged during their interaction and participation of the project. Major project procurements are disclosed for publicity before deals are confirmed. Project Apps accepts feedback from users. Government agencies have open channels to receive complaints and reports of misconduct during project implementation. Regular project workshop involves relevant stakeholders. The risk of suppressed or unattended stakeholder complaints is minimal.</p>	Low	Low
<p><b>Mitigations:</b> VIGs will conduct regular notifications to the villagers on the planned activities and means/criteria of participation</p>		