
President's report
Proposed loan
People's Republic of China
Hunan Specialized Forestry Industry Development Project

Project ID: 2000003847

Document: EB 2024/142/R.3/Rev.2

Agenda: 3(a)(i)(a)(ii)

Date: 18 September 2024

Distribution: Public

Original: English

FOR: APPROVAL

Action: The Executive Board is invited to approve the recommendation contained in paragraph 69.

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Financing summary

Initiating institution:	IFAD
Borrower/recipient:	People's Republic of China
Executing agency:	Department of Forestry of Hunan Province
Total project cost:	EUR 213.5 million
Amount of IFAD loan:	EUR 72.6 million (Borrowed Resource Access Mechanism [BRAM])
Terms of IFAD loan:	Ordinary: 18 years, including a grace period of 3 years, subject to interest at a rate equal to the IFAD reference interest rate including a variable spread
Contribution of borrower/recipient:	EUR 23.6 million (in-kind and input incentives and support)
Contribution of beneficiaries:	EUR 14.9 million
Contribution of private sector:	EUR 102.4 million
Amount of IFAD climate finance:	EUR 55.9 million

I. Context

A. National context and rationale for IFAD involvement

1. **Economic growth.** The People's Republic of China has the second largest population in the world, totaling 1.412 billion people. Political stability has enabled long-term development planning, which has resulted in economic development leading to the eradication of extreme poverty. China is an upper-middle-income country and the second largest economy in the world in nominal terms. However, the economy is facing significant challenges recovering from the impact of the COVID-19 pandemic.
2. **Rural context.** Nearly 600 million Chinese live in rural communities and constitute 60 per cent of the labour force. Massive urban migration of the active workforce is due to low rural salaries and limited income-generating opportunities.
3. **Provincial context.** Hunan is in the middle south of China, occupying about 2.21 per cent of the national territory and about 3 per cent of the cultivated land. Agriculture contributed to 16.8 per cent of provincial GDP in 2022, and the per capita net income of farmers was about CNY 19,546.¹ Out of a total population of 66 million (2022) in the province, 6.69 million belong to the 55 ethnic minorities as of 2020,² concentrated in its western and southern parts.
4. **Eradication of extreme poverty.** Economic growth led to a significant reduction in poverty from 88 per cent in 1981 to 3.8 per cent in 2017. The Government announced the eradication of extreme poverty in 2021, making it the first developing country to achieve Sustainable Development Goal (SDG) 1 ahead of the global timeline. The challenges of avoiding rural residents relapsing into poverty, and reducing existing inequality and regional disparities, persist.
5. **Rural revitalization strategy.** The rural revitalization strategy (2017) is a long-term strategy in response to the urban migration trend. It aims at rebalancing the divide between urban and rural areas by accelerating the development of rural areas and making them attractive. Key strategies include agricultural industrialization (using lead rural industries, the private sector and lead agroenterprises), employment creation and comprehensive infrastructure development.
6. **Carbon commitment.** Agricultural production and processing activities make China a large emitter that therefore has a crucial role in the reduction of global carbon emissions through its own commitment and its collective international engagement. In September 2020, President Xi Jinping announced China's dual goals to peak carbon emissions by 2030 and achieve carbon neutrality by 2060.
7. The **private sector's** engagement in the food and agriculture sector in China has seen an uptick over time, as has IFAD's engagement with the private sector towards achieving the 2030 Agenda for Sustainable Development. This offers opportunities for IFAD to partner with the private sector fostering socioeconomic and rural development.

Special aspects relating to IFAD's corporate mainstreaming priorities

8. In line with IFAD's mainstreaming commitments, the project has been validated as:
 - Including climate finance
 - Gender-transformational
 - Youth-sensitive
9. **Gender and social inclusion.** Urbanization has changed the structure of the agricultural labour force in the central and western provinces of China. The increased opportunities and wages for men in urban areas have made women the majority workforce in the rural agricultural sector. The fourth survey on the social status of

¹ Statistical Bulletin on National Economic and Social Development of Hunan Province for 2022.

² Seventh national population census of China (2020).

women in China (2020) showed that rural women now played a more important role in economic and social development than they did 10 years ago. Despite these trends, a fundamental gender bias exists for cultural and historical reasons.

10. **Rural youth.** Rural young people migrate to urban centres in pursuit of higher socioeconomic status. Local government departments have introduced policies and initiatives to attract young people back to rural areas. An example is the Government's Medium and Long-Term Youth Development Plan (2016–2025) aimed at youth engagement and empowerment.
11. **Climate change.** Hunan has experienced increasing temperatures and changes in rainfall patterns affecting production. As a large agricultural producer and processor, China is also a large producer of agricultural waste and emitter of agriculture-related greenhouse gas. The Government has issued the National Climate Change Adaptation Strategy 2035 in line with its ambitious dual carbon goals commitment.

Rationale for IFAD involvement

12. IFAD's comparative advantage lies in its experience of connecting smallholder producers to markets through value chains, helping them adapt to climate risks and adopt climate smart sustainable agriculture practices, empowering women and youth in value chains, and demonstrating innovative strategies for rural revitalization.

B. Lessons learned

13. IFAD has four ongoing projects in China and has implemented three projects in the Hunan Province, of which the Hunan Rural Revitalization Demonstration Project (H2RDP) is ongoing. These projects demonstrate effective measures and approaches for enabling smallholders to be integrated into value chains, and enhancing resilience to economic and climatic shocks. Building on the experience of these projects and drawing from IFAD's Research and Impact Assessment Division reports, appropriate lessons are incorporated into the Hunan Specialized Forestry Industry Development Project (HuSFID) design.
14. Key lessons include the usefulness of business planning financing in value chains, the need to support green value chains, the transformational nature of women's and youth participation, the positive outcomes of aligning with government infrastructure projects, and the positive impact of early appointments of project staff on effective implementation.

II. Project description

A. Objectives, geographical area of intervention and target groups

15. **Project goal and objectives.** The goal of the HuSFID is to promote rural revitalization and enable smallholders to benefit from rural transformation through an enterprise-led inclusive green growth model.
16. The development objective of the project is to increase the capacity of 128,000 smallholder beneficiaries for enhanced production and access to markets, while optimizing environmental sustainability, climate resilience and contributing to China's carbon neutrality goal, focusing on three value chains – bamboo, tea seed oil (*Camellia oleifera*) and medicinal herbs. The project is expected to rehabilitate or develop 199,000 mu (13,266 ha) under the three crops. It is expected that women will account for 60 per cent of beneficiaries and youth will constitute around 30 per cent.
17. **Project area.** The project will cover seven counties: Taojiang, Hengshan, Yanling, Pingjiang, Heshan, Yuanling and Xupu. These have been selected based on: (i) willingness and commitment of government and beneficiaries to participate; (ii) financial capacity of government to incur and repay debt; (iii) high potential for smallholders to produce the commodities; and (iv) willingness of private sector enterprises to invest in the selected value chains.

18. **Target group.** The project will target mainly former registered poor and low-income households, with an inclusive strategy for engaging women, youth and ethnic minorities.

B. Components, outcomes and activities

19. The project will have the following components:

Component 1. Smallholder integration in value chains, with an emphasis on women and youth smallholders, consists of four subcomponents focusing on enhancing the production quality, productivity and inclusivity of the selected value chains. The Forestry Bureau will lead the implementation in partnership with the State-owned county development investment company (CDIC), the State-owned forest farm, private enterprises, cooperatives and the village planning committee. Production will be mainly bamboo shoots and wood, *Camellia oleifera* fruits and medicinal plants. It will focus on improved management of existing plantations of bamboo, rehabilitating lands for *Camellia oleifera* production and cultivation of medicinal plants. The main outputs under this component will include: (i) inclusive and sustainable production management plans and partnership agreements; (ii) increased area under sustainable and climate smart management practices; (iii) infrastructure for crop cultivation; and (iv) a monitoring and accounting model for carbon sequestration.

Component 2. Enterprise-led inclusive business development will invest in upstream businesses and selected government enterprises. It includes three subcomponents focusing on: (i) enhancing business plan development including smallholders and growth of enterprises in value chains; (ii) establishing energy efficient productive infrastructure; and (iii) enhancing enterprises' processing capacity, product development, diversification and marketing. The CDIC will invest in public enterprises such as government farms and private enterprises through joint ventures.

Component 3. Project management and capacity-building focuses on building management capacity for implementation. Forestry bureaux will provide office accommodation, logistical support and staff, and will manage the project. Arrangements for monitoring and evaluation (M&E) and knowledge management, and opportunities for South-South and Triangular Cooperation (SSTC) with the support of the International Bamboo and Rattan Organization (INBAR) will be included. Funding will be covered by the IFAD loan and the provincial and county governments.

C. Theory of change

20. If smallholders are better integrated into high-value commodity chains, and agroprocessing enterprises in the same value chains are provided inclusive business development opportunities, then, together, they can drive increased production and quality of produce, climate adaptation and enhanced CO₂ sequestration, increased value addition and market share. This is because: (i) cooperatives/smallholders are inclusively organized and empowered and receive adequate technical advisory assistance and incentives for sustainable production; and (ii) technically, environmentally and financially inclusive feasible business plans and infrastructure investments incentivize private sector engagement with smallholders. These will support green development while reducing emissions and improving carbon sequestration.

D. Alignment, ownership and partnerships

21. **Alignment with national priorities and strategies.** The project is aligned with the Government's Rural Revitalization Strategy, the 14th Five-Year Plan (2021–2025) and the No.1 document of Hunan Province, which highlights the development of integrated industry for specialized local products and enhancement of quality value chains to improve farmers' diversified incomes. The project also aligns with the Government's National Climate Change Adaptation Plan and will contribute to increased carbon sequestration, economic development, poverty reduction and environmental protection.

22. **Alignment with the Sustainable Development Goals.** The objectives of HuSFID are aligned with SDG 1 (no poverty), SDG 2 (zero hunger), SDG 5 (gender equality), SDG 10 (reduced inequalities), SDG 13 (climate action) and SDG 15 (life on land).
23. **Alignment with IFAD strategies.** The project is aligned with IFAD's Strategic Framework 2016–2025 and will increase rural people's productive capacities, enhance benefits from markets, and strengthen environmental sustainability and climate resilience. It is also aligned with the country strategic opportunities programme (COSOP) and the recommendations of the country strategy and programme evaluation as it focuses on inclusive value chains, and will contribute to China's carbon neutral economy goal, and environmental and climate resilience. The project is aligned to IFAD's Private Sector Engagement Strategy and is forward-looking as it initiates a transition from the poverty alleviation model to the shared prosperity model through vitalization of rural industries. It also initiates IFAD's contribution to China's commitments to the global public good on environmental sustainability, and in sustaining key rural institutions that foster socioeconomic development.
24. **Harmonization and partnership.** The project management offices will coordinate their investment plans with other departments to strengthen and support the investments in the plantations and enterprise parks. HuSFID will coordinate with the carbon sequestration centre and the carbon platform and develop a partnership with KfW Development Bank in enhancing carbon sequestration from the agroforestry sector. Collaboration with the recently approved market-based trading of carbon emission rights will be explored and partnerships with INBAR on SSTC and the United Nations Industrial Development Organization on implementation of the agroenterprise parks will be pursued.

E. Costs, benefits and financing

25. As per the multilateral development banks' methodologies for tracking climate change adaptation and mitigation finance, the total amount of IFAD climate finance for this project is estimated at EUR 55.9 million (EUR 22.2 million for adaptation and EUR 33.7 million for mitigation).
26. **Project costs.** The total project cost is estimated at EUR 213.5 million over the six-year period.

Table 1
Project costs by component and financier
(Thousands of euros)

Component	IFAD loan		Other cofinanciers		Beneficiaries			Borrower/recipient			Total	
	Amount	%	Amount	%	Cash	In kind	%	Cash	In kind	%	Amount	%
	1. Smallholder integration in value chains	39 952	32.5	52 660	42.9	-	14 898	12.1	15 291	-	12.5	122 801
2. Enterprise-led inclusive business development	30 489	36.2	49 722	59.0	-	-	-	4 029	-	4.8	84 240	39.5
3. Project management and capacity-building	2 179	33.7	-	-	-	-	-	4 280	-	66.3	6 459	3.0
Total	72 620	34.0	102 382	48.0	-	14 898	7.0	23 600	-	11.1	213 500	100.0

Table 2
Project costs by expenditure category and financier
(Thousands of euros)

Expenditure category	IFAD loan		Other cofinanciers		Beneficiaries			Borrower/recipient			Total	
	Amount	%	Amount	%	Cash	In kind	%	Cash	In kind	%	Amount	%
	Investment costs											
1. Operation and maintenance	-	-	759	81.24	-	-	-	175	-	18.8	934	0.4
2. Goods, services and inputs (IFAD)	26 831	100	-	-	-	-	-	-	-	-	26 831	12.6
3. Counterpart funding (Government)	-	-	-	-	-	-	-	21 860	-	100.0	21 860	10.2
4. Works (IFAD)	16 692	100	-	-	-	-	-	-	-	-	16 692	7.8
5. Equipment and material (IFAD)	29 097	100	-	-	-	-	-	-	-	-	29 097	13.7
6. Beneficiaries	-	-	-	-	-	14 898	100	-	-	-	14 898	7.0
7. Private sector	-	-	96 971	100	-	-	-	-	-	-	96 971	45.4
Total investment costs	72 620	34.0	97 730	50.8	-	14 898	7.2	22 035	-	11.5	207 283	97.1
Recurrent costs												
1. Operating costs	-	-	4 652	74.8	-	-	-	1 565	-	25.2	6 217	2.9
Total recurrent costs	-	-	4 652	74.8	-	-	-	1 565	-	25.2	6 217	2.9
Total	72 620	34.0	102 382	48.0	-	14 898	7.0	23 600	-	11.1	213 500	100.0

Table 3
Project costs by component and project year (PY)
(Thousands of euros)

Component	PY1		PY2		PY3		PY4		PY5		PY6		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
	1. Smallholder integration in value chains	12 514	10.19	30 573	24.9	42 805	34.86	24 487	19.94	12 360	10.07	62	0.05
2. Enterprise-led inclusive business development	19 483	23.13	15 835	18.8	21 973	26.08	15 499	18.4	7 719	9.16	3 731	4.43	84 241
3. Project management and capacity-building	1 658	25.68	861	13.32	861	13.32	861	13.32	861	13.32	1 358	21.03	6 459
Total	33 655	15.77	47 269	22.14	65 639	30.74	40 847	19.13	20 940	9.81	5 151	2.41	213 500

27. **Financing and cofinancing strategy and plan.** The Government has requested a loan of EUR 72.6 million from IFAD, to be provided under the Borrowed Resource Access Mechanism (BRAM) on ordinary terms. There is no international cofinancing. The Government will contribute EUR 23.6 million, the private sector will contribute EUR 102.4 million and smallholder beneficiaries will contribute EUR 14.9 million.

Disbursement

28. A designated account in United States dollars will be opened at the Hunan Provincial Department of Finance to receive funds from IFAD. The treasury accounts of each county (County Bureaux of Finance [BOFs]) will be used as project accounts in local currency to receive funds transferred from the designated account.
29. **Funds flow** will follow the revolving fund mechanism, which is outlined in the IFAD Financial Management and Financial Control (FMFC) Handbook and the FMFC Letter. The provincial project management office (PPMO) will need to submit interim financial reports on a quarterly basis and separate withdrawal applications (advance and justification) through the IFAD Client Portal with cash projections for the next two quarters to request disbursements from IFAD.

Summary of benefits and economic analysis

30. HuSFID will reach 43,500 smallholder households directly and 128,000 people given the average household size of 2.95 people in the province. These numbers already exclude double counting.
31. **Financial analysis** has been conducted for component 1 only, as post-production activities under component 2 will be covered by the development of business plans, of which the financial analysis will be integral part.
32. The **economic analysis** (for component 1 only, as with financial analysis above) yields an economic internal rate of return of 15 per cent with economic net present value at CNY 718.66 million using a discount rate of 8 per cent. These figures indicate that the project is economically viable. A sensitivity analysis was carried out to test the robustness of the two key factors, namely output price decline and cost increase.

Exit strategy and sustainability

33. This is based on a three-pronged approach, using the enterprises as the main driver of growth, strengthening capacities of beneficiaries, and a sustained enabling environment and policy engagement. The three value chains selected are considered strategic by the Government and have significant potential for green growth and development. Enterprise expansion is based on providing access to facilities through the agroenterprise parks to enhance processing capacity, and a sustained raw material supply base involving smallholders and their cooperatives. Strengthening the capacities of beneficiaries on improved management knowledge and practices, and access to production techniques and facilities will enhance adaptation to climate risks. The sustained enabling environment and policy engagement will be driven by the provincial and county levels. The CDIC will continue to make investments from its resources in the development of the selected value chains.

III. Risk management

A. Risks and mitigation measures

34. The key risks associated with this enterprise-driven value chain project are market dynamics, climate risks, transparency and equity in terms of engagement between smallholders and the enterprises and ensuring that smallholders are not locked into contracts that do not enable them to share equitably in the returns from an increase in demand or price. The project will build the capacity of farmers and support infrastructure development for irrigation, storage, primary processing and greater access to public sector insurance measures (agroforestry insurance will be piloted).

The agroenterprise parks will provide processing facilities for private enterprises aligned to environmental protection standards.

35. The national laws of China and IFAD’s Social, Environmental and Climate Assessment Procedures (SECAP) provisions will be adhered to in terms of socio-environmental safeguards at all stages of infrastructure development. The project will screen partner enterprises to ensure they have and disclose environment and social governance systems in line with government and IFAD standards. The private enterprises will also adhere to standards of safety for their workers and protect them from any harassment and abuse.
36. Ethnic minorities exist in only two of the seven counties in which the project will be implemented and are well integrated into mainstream society. An Indigenous Peoples Planning Framework has been developed with emphasis on free, prior and informed consent (FPIC) processes and will ensure that the project does not pose a risk to any minority member.
37. HuSFID will draw lessons on implementation efficiency from previous projects and will embark on comprehensive start-up support and training for project staff and local technical experts called upon by PPMO to provide technical guidance for project implementation.
38. **Financial management risk.** The overall financial management risk of HuSFID is moderate. The inherent financial management risk is moderate with no assessed residual risk at this stage. The Provincial Forestry Department (PFD) has experience in implementing foreign-funded projects including those of the World Bank and European Investment Bank. Financial management capacity of the private sector will be built to fully meet project requirements.

Table 4

Overall risk summary

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

* Based on the analysis of country risks assessed through the Procurement Risk Matrix and taking into account relevant lessons learned from ongoing or recently completed projects.

B. Environment and social category

39. The environmental and social risk category for the project is rated as moderate. In a nutshell, risks remain manageable as these areas are highly regulated in China, whose related policies have been evaluated as satisfactory by the World Bank.

C. Climate risk classification

40. The climate risk classification for the project is assessed as low. The climate-related hazards include rainstorms, flooding, drought and extreme temperatures. The risk sensitivity and vulnerability will be mitigated with project investments in water-saving irrigation technologies to reduce the impact of droughts. The Government’s agricultural meteorological index insurance will be applied to reduce farmers' losses.

D. Debt sustainability

41. China has a moderate overall risk of sovereign stress.³ Debt is expected to rise over the medium and long term, but can be stabilized with a gradual fiscal adjustment over 2025–2035. Medium-term liquidity risks as analysed by the gross financing needs finance ability module are high. However, China's partially closed capital account and the Government's ample financial assets mitigate liquidity risks. To contain debt risks, China should seek to reduce public investment and close its structural revenue gap through comprehensive tax reform.

IV. Implementation

A. Organizational framework

Project/programme management and coordination

42. The project will be executed and coordinated by the PFD in Hunan, which will set up a PPMO. The provincial forestry fund station (PFFS) will undertake the day-to-day coordination and management of the project. The PPMO within the PFFS will be staffed adequately for project management and will mobilize relevant technical experts in the province through a technical advisory group.
43. Inter-agency coordination arrangements will be established to review both strategic and operational aspects of HuSFID. An interdepartmental coordinating mechanism covering forestry, finance and development reform will be established at the provincial level while the Vice-Governor will lead county-level coordination and supervision through a steering group with relevant technical agencies. This mechanism will serve as the steering committee of the project to ensure timely assistance to project implementation.
44. County project management offices will be established at the County Forestry Bureaux (CFBs) to manage the project (including targeting beneficiary and implementation planning, overseeing business planning, coordinating with the CDIC for value chain investment, and coordinating with institutions responsible for social and environmental safeguards). Short-term technical assistance will also be procured through consultancy or service provider.
45. The CDIC will receive the loan funds directly through the BOF and will work in partnership with the CFBs in production and processing in each county. They will use the loan to support smallholders, cooperatives and small and medium-sized enterprises (either private or State-owned) for both the production and the processing side of the value chain and operate under strict socio-environmental safeguards. Investment criteria to ensure participation of smallholders, women and youth in both production and processing will be used.
46. Village implementation groups (VIGs) will be established in the administrative villages within the project area to support project implementation locally. Each VIG will be headed by the chief of the village committee and will be composed of seven or eight people, including four or five farmer representatives with a minimum women's representation of 50 per cent and at least one or two youth representatives.

Financial management, procurement and governance

47. Financial management staffing will be provided by PPMO. The budgeting process will include annual workplan and budget (AWPB) preparation by each county project management office consolidated by the PPMO. Disbursements will be processed through the designated account opened at the Hunan Provincial Department of Finance to receive funds from IFAD. The treasury accounts of each county (BOF) will be used as project accounts in local currency to receive funds transferred from the designated account. The project accounts will be used to finance all project activities

³ International Monetary Fund (IMF) Country Report No 24/38, China, 2023 Article IV Consultation, February 2024.

and operational costs. Fund flow will follow the revolving fund mechanism, which is outlined in the FMFC Handbook and the FMFC Letter.

48. The financial management system will be supported by the rigorous treasury systems of the BOFs, which will monitor and verify the reporting of expenditures. The project will apply IFAD's anticorruption policy to guide project operation. Key internal control procedures will also be specified in the project implementation manual and financial management manual. The Chinese Accounting Standards will be applied for project annual financial reporting and daily accounting. Interim financial report format and submission deadlines for annual financial reporting are specified in the financial management manual.
49. Project financial reports will be audited by the Provincial Audit Office. The audit report will follow specific formats and timeframes as specified in the IFAD Handbook for Financial Reporting and Auditing.
50. Section 7.05 of the General Conditions for Agricultural Development Financing provides that the procurement of goods, works and services shall be carried out in accordance with the provisions of the borrower/recipient's procurement regulations, to the extent such are consistent with the IFAD Project Procurement Guidelines, as amended from time to time. Each AWPB must contain a procurement plan, which shall identify the procedures that must be implemented by the borrower/recipient, ensuring consistency with IFAD's Project Procurement Guidelines.

Target group engagement and feedback and grievance redress

51. A stakeholder engagement plan has been developed for HuSFID to ensure meaningful engagement of project stakeholders in line with the policies of Hunan Province. VIGs will be established to support project implementation.
52. The Hunan Women's Federation and the Community Youth League will be engaged as stakeholders in organizing smallholders and cooperatives and will apply the FPIC process to ensure that the communities are in agreement.
53. All documents will be disclosed locally at county level before project implementation.
54. There are existing grievance systems in Chinese governance from central to county levels, and project stakeholders can access these readily through various mediums. HuSFID will additionally adopt an easily accessible grievance mechanism at the project level to receive and resolve concerns and complaints from people who may wish to seek redress.

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

55. The project will be implemented based on an AWPB. The PPMO will consolidate the AWPBs prepared by each county for submission to IFAD for no objection prior to effectiveness.
56. Full ownership, accountability and budgeting for M&E will rest with the PMOs, with IFAD providing technical guidance and support in line with the related M&E manual and guidelines. Monitoring of project progress towards scaling up will be reported during implementation.
57. The project knowledge management activities and approaches will focus on capturing and documenting experiences, lessons and successful cases from project activities to inform policymaking and share with other countries through SSTC and participation in knowledge exchange forums.
58. HuSFID will support a range of initiatives in which the CDIC will attempt certain innovative direct private sector agribusiness partnership and financing models to strengthen social and environmental safeguards and framework, and dividends-sharing.

59. HuSFID will assess new efficient and cost-effective technologies for extraction of camelia oil and the project will help mitigate plastic pollution by contributing to bamboo products that will substitute plastics.
60. The project will collaborate closely with the carbon sequestration centre within the PFD and the carbon platform at the provincial level to pilot a carbon monitoring methodology, and assess the potential for carbon trading through the China Certified Emission Reduction platform to support the carbon label that facilitates the export of its commodities.

C. Implementation plans

61. Implementation readiness plans have been prepared to facilitate quick start-up after the project becomes effective. Detailed procurement plans are included in the project implementation manual, which also contains detailed terms of reference for all service providers to be recruited as well as a clear schedule and step-by-step programming process.
62. IFAD's annual direct supervision will mainly relate to the project's physical and financial progress and will primarily address issues related to: (i) effectiveness and development focus; (ii) sustainability and scaling up; (iii) project management; and (iv) financial management and execution.
63. A midterm review is scheduled for 2027 to provide an opportunity to assess, together with stakeholders, the progress, performance and any emerging impact of the project and any modifications to activities that may be needed.
64. Implementation support will be provided on a demand-driven basis as follow-up to supervision and any additional support required by the project will be made available.
65. A project completion report will be prepared no later than three months after the project completion date to assess the project's performance, including its relevance, effectiveness, efficiency and sustainability in accordance with the prevailing guidelines.

V. Legal instruments and authority

66. 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.
67. The People's Republic of China is empowered under its laws to receive financing from IFAD.
68. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

69. 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 seventy-two million six hundred and twenty thousand euros (EUR 72,620,000) on ordinary terms and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Alvaro Lario
President

Negotiated financing agreement

Hunan Specialized Forestry Industry Development Project

(Negotiated 13 September 2024)

Loan No: _____

Project name: Hunan Specialized Forestry Industry Development Project (the "Project")

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

and

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

(each a "Party" and together the "Parties")

WHEREAS, the Borrower has requested a loan from the Fund for the purpose of financing the Project described in Schedule 1 to this Agreement;

WHEREAS, the Fund has agreed to provide financing for the Project;

NOW THEREFORE, 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 the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of December 2022, 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. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein, unless the Parties shall otherwise agree in this Agreement.
3. The Fund shall provide a Loan (the "Financing") to the Borrower which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is seventy-two million six hundred twenty thousand Euros (EUR 72 620 000).
2. The Loan is granted on ordinary terms and shall be subject to interest on the principal amount of the Loan outstanding at a rate equal to the IFAD Reference Interest Rate including a variable spread, payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of eighteen (18) years, including a grace period of three

(3) years, starting from the date as of which the Fund has determined that all general conditions precedent to withdrawal have been fulfilled.

3. The Loan Service Payment Currency shall be in Euros.
4. The first day of the applicable Fiscal Year shall be the 1st of January.
5. Payments of principal and interest shall be payable on each 1st May and 1st November.
6. There shall be a Designated Account in Euros (EUR) for the exclusive use of the Project opened at the Hunan Provincial Department of Finance. The Borrower shall inform the Fund of the officials authorized to operate the Designated Account.
7. The Borrower shall, through Hunan Province, provide counterpart financing for the Project in the amount of approximately twenty three million six hundred thousand Euros (EUR 23 600 000) in cash and / or in kind. The contributions from Project cofinanciers and Project beneficiaries will be approximately one hundred seventeen million two hundred and eighty thousand Euros (EUR 117 280 000), in cash and / or in kind based on estimates made during Project design.

Section C

1. The Lead Project Agency shall be the Provincial Forestry Bureau ("PFB") in Hunan Province.
2. A Mid-Term Review will be conducted as specified in Section 8.03 (b) and (c) of the General Conditions; however, the Parties may agree on a different date for the Mid-Term Review of the implementation of the Project.
3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement and the Financing Closing Date shall be six (6) months later, or such other date as the Fund may designate in consultation with the Borrower.
4. Procurement of goods, works and services financed by the Financing shall be carried out in accordance with procurement methods and any other measures identified by IFAD.

Section D

1. The Fund will administer the Loan and supervise the Project.

Section E

1. The following is designated as additional grounds for cancellation of this Agreement:
 - (a) The Borrower did not request a disbursement of the Financing for a period of at least twelve (12) consecutive months without justification subsequent to the first eighteen (18) months from the Effective Date.
2. The following are designated as additional specific conditions precedent to withdrawal:
 - (a) The IFAD no objection to the PIM shall have been obtained.
 - (b) Key Project personnel has been appointed as per paragraph 11, Schedule 3 of this Agreement.

- (c) IFAD must receive, a duly completed Authorised User(s) Letter, from the designated representative or a sufficiently senior delegated official, designating the name(s) of official(s) authorised to approve Withdrawal Application(s) and Interim Financial Reports (IFR).
- (d) The first Annual Work Plan Budget (AWBP) shall have been submitted and received a no-objection from IFAD.

3. 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 has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

PEOPLE’S REPUBLIC OF CHINA

"[Authorised Representative title]"

Date: _____

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Alvaro Lario
President

Date: _____

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall primarily benefit former registered poor and low-income households, specifically engaging women, youth and ethnic minorities.
2. *Project area.* The Project will cover seven counties – Taojiang, Hengshan, Yanling, Pingjiang, Heshan, Yuanling and Xupu (*the "Project Area"*). These have been selected based on (i) willingness and commitment of government and beneficiaries to participate; (ii) high potential for smallholders to produce the commodities; and (iii) willing private sector enterprises to invest in the selected value chains.
3. *Goal.* The goal of the Project is to promote rural revitalization and enable smallholders to benefit from rural transformation through an enterprise led inclusive green growth model.
4. *Objectives.* The development objective of the Project is to increase the capacity of approximately 128,000 smallholder beneficiaries for enhanced production and access to markets and employment, while optimizing environmental sustainability, climate resilience and contributing to China carbon neutrality goal, focusing on three value chains – bamboo, camelia oleifera, and medicinal plants. It is expected that women beneficiaries will be around 60% and youth will constitute around 30%.
5. *Components.* The Project shall consist of the following Components:

Component 1: Smallholder Integration in Value Chains with emphasis on women and youth smallholders: Consists of four sub-components focusing on enhancing the production quality, productivity, and inclusivity of the selected value chains, including (i) Developing inclusive and sustainable production management plans, (ii) Implementation of sustainable and climate smart management practices, (iii) Key climate resilient infrastructure investments for cultivating the selected high value chain crops, and (iv) Enhancing carbon sequestration, resilience and monitoring and accounting. The Forestry Bureau will lead the implementation in partnership with the County Development Investment Company (CDIC), the forest farm, private enterprises, cooperatives, and the village implementation groups. Production will be mainly bamboo shoots and wood, camellia oleifera fruits, and medicinal plants.

Component 2: Enterprise-led inclusive Business Development: This component will invest in upstream businesses and selected government enterprises. It includes three sub-components focusing on enhancing the business development and growth of enterprises in the valuechains, assisting enterprises to partner with smallholder farmers, and enhancing enterprises' processing capacity, product development, diversification, and marketing. The sub-components include: (i) Inclusive Business Plan Development, (ii) Establishment of energy efficient productive infrastructure, and (iii) Product development and marketing.

Component 3: Project Management and Capacity Building: This component will focus on building management capacity for implementation. The Lead Project Agency and Forest Bureaus will provide office accommodation, logistical support, staff and manage the Project. Arrangements for monitoring and evaluation, knowledge management, and opportunities for South-South Triangular Cooperation (SSTC) with the support of the International Bamboo and Rattan Organization will be included.

II. Implementation Arrangements

1. *Lead Project Agency.* The Project will be executed and coordinated by the Provincial Forestry Bureau (PFB) in Hunan Province. A Provincial Project Management Office (PPMO) will be set up in the PFB. Specifically, the Provincial Forestry Fund Station (PFFS) will undertake the day-to-day coordination and implementation management of the Project.
2. *Project Oversight Committee.* An inter-agency coordination mechanism will be established at provincial level to provide policy guidance and implementation oversight of the Project, as well to ensure implementation of China's environmental and social safeguards policy. At the county level, a County Vice Governor will lead the county level coordination and supervision through a leading group with member agencies including forestry, finance, agriculture and rural affairs, development reform, water, natural resources, and environment protection.
3. *County Project Management Offices (CPMO).* County Project Management Offices (CPMO) will be established at the County Forestry Bureaus (CFB) to manage the project (including targeting beneficiary and implementation planning, overseeing business planning, coordinating with CDICs for value chain investment, and coordinating with institutions responsible for social and environmental safeguards).
4. *Key Project Personnel.* Each PMO will be staffed adequately including but not limited to an executive Project Director; a Finance Officer and Accountant; as well as officers coordinating: Agriculture and Agribusiness Development; Planning, M&E and Knowledge Management; Procurement; and SECAP-related work including Gender and Youth/ Social Inclusion (the "Key Project Personnel").
5. *County Development Investment Company (CDIC).* The CDIC will receive the loan funds directly through the Bureau of Finance and will work in partnership with the CFBs in the production and processing in each county. They will use the loan to support smallholders, cooperatives, and small and medium enterprises (either private or State owned), both for the production and the processing side of the value chain and operate under strict socio-environmental safeguards. Investment criteria to ensure participation of smallholders, women and youth in both the production and processing will be used.
6. *Village Implementation Groups (VIGs).* VIGs will be established in the administrative villages of the Project to support the Project implementation locally. Each VIG shall be headed by the Chief of the village committee and composed of 5 to 6 members including 3 to 4 farmer representatives with a minimum women representation of 50% and at least one or two youth representatives.
7. *AWPB.* The Project will be implemented based on an AWPB which identifies the activities that will be carried out in each Fiscal Year, the Lead Project Agency, the resources, and the time needed to complete them and a procurement plan. The PPMO will consolidate the draft AWPBs prepared by each county and submit for IFAD's No Objection prior to its effectiveness.
8. *Monitoring and Evaluation.* An M&E system will be established from the outset of the Project spanning the entire Project cycle, for tracking progress and supporting decision-making. Key elements of the M&E system will be aligned to the logframe and will include specific responsibilities for monitoring targeted performance on environment and climate (including carbon sequestration, adoptions of sustainable practices, training of groups on sustainable natural resource management etc.) and for beneficiary monitoring, especially women, youth and vulnerable groups (e.g. persons with disabilities).

Key M&E deliverables required throughout the Project cycle by Project stage would be: Start up: recruitment of M&E service provider if PMO is not able to assume due functions by itself; assignment of M&E focal points at all levels followed by capacity building; validation of Project; Theory of Change (TOC) and Log frame; making M&E plan; set-up of Management Information System (MIS); undertaking Core Outcome Indicator(COI)

baseline survey and reporting. Implementation: elaboration of AWPB; semi-annual and annual progress and results reports; contribution to annual supervision missions; mid-term review survey and report; training on M&E. Completion: COI completion survey and reporting; Project completion report; impact assessment when required. Key elements of the monitoring and evaluation system will be aligned to the logframe and will include specific responsibilities for monitoring targeted performance on environment and climate (including carbon sequestration, adoptions of sustainable practices, training of groups on sustainable natural resource management etc.) and for beneficiary monitoring, especially women, youth and vulnerable groups (e.g., persons with disabilities).

9. *Knowledge Management.* The Knowledge Management activities/approaches would focus on capturing and documenting experiences, lessons, and successful cases from Project activities that would inform policymaking and shared with other countries through SSTC and participation in knowledge sharing fora. Knowledge Management will be used both as an adaptive management tool to help the Project to build practical and actionable knowledge and know-how that lead to improved project performance and results, and supports innovation, scaling up and country-level policy engagement. The Project will ensure KM related activities are included and budgeted in the AWPBs. KM responsibilities will be assigned to focal points at PMOs of all levels, who shall orient project staff through guidance and training for KM implementation. The Project KM activities/approaches will focus on, among others: (i) capturing and documenting experiences, lessons, and successful cases resulting from Project activities, especially regarding the project's innovative models and approaches that could be replicated and scaled-up, inform policy-making - or shared with other developing countries through south-south cooperation; (ii) study tours, exposure and exchange visits, both within and outside the country for peer learning and sharing knowledge; (iii) organizing and participating workshops to share knowledge, innovations and best practices; and (iv) well designed and operational information management systems, including electronic archives that enable easy access to data, reports and other documentation.

10. *Project Implementation Manual.* The PIM provides guidelines for implementation of the Project. The PIM indicates the overall Project framework and highlights the principles of engagement for the Project; it provides a Project description detailing components, subcomponents, and activities as Project interventions in support of the Project's development objective and expected outcomes. The PIM also provides guidance on the structure and operations of the planning, monitoring, evaluation and knowledge management, policy engagement, and SSTC functions which will be put in place by the Project. The PIM is a living document that may be amended from time to time as agreed between IFAD and the Borrower (through Hunan Province). Prior to dissemination of the PIM to counties, IFAD must provide a no-objection.

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 to each category of the Financing and the percentages of expenditures for items to be financed:

Category	Loan Amount Allocated (expressed in EUR)	Percentage eligible for IFAD financing including indirect taxes as applicable
Goods, Services, Inputs, Works, Equipment & Material	72 620 000	100%
TOTAL	72 620 000	

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

“Goods, Services and Inputs”: includes goods and consultancy and non-consultancy services.

“Works”: includes works and infrastructure-related expenditures.

“Equipment and materials”: include equipment and materials only.

The Percentage is applied to Project expenditures, including indirect taxes and shares of other financiers.

2. *Disbursement arrangements*

(a) Retroactive financing

As an exception to section 4.07 (a)(ii) of the General Conditions for Agricultural Development Financing, specific eligible expenditures incurred as after the date the project has been approved by the IFAD Executive Board until the date of entry in force of this Agreement shall be considered eligible up to an amount equivalent to seven million two hundred and sixty-two thousand Euros (EUR 7 262 000) for activities relating to the project's start-up and preparation project activities such as: (i) purchase of essential items (including equipment and procurement of MIS system) for the PMOs; (ii) recruitment of project staff; (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 requirements 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 MI; (vi) exposure visits for knowledge and experiences sharing; (vii) surveys and feasibility studies; (viii) training and technical assistance for cooperatives, including recruitment of service providers.

Activities to be financed by retroactive financing and their respective category of expenditures and source of financing will require prior no objection from IFAD to be considered eligible. Pre-financed eligible expenditures shall be reimbursed to the Borrower once additional conditions precedent to the first disbursement of funds specified in Section E.2 of the Agreement are fulfilled.

Schedule 3

Special Covenants

I. General Provisions

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. Within six (6) months of entry into force of the Financing Agreement, the Project will identify and install a customized accounting software as is the practice in IFAD on-going supported projects, to satisfy International Accounting Standards and IFAD's requirements.
2. *Planning, Monitoring and Evaluation.* The Borrower (through Hunan Province) shall ensure that a Planning, Monitoring and Evaluation (M&E) system shall be established within twelve (12) months from the date of entry into force of this Agreement.
3. *Gender and Social Inclusion.* The Borrower (through Hunan Province) shall ensure that the Project will increase the socio-economic empowerment of rural women including young women and women in the project areas by setting an overall outreach target at 60% women and 30% youth. The Project will pay particular attention to the empowerment of women by: (i) expanding their access to and control over resources; (ii) strengthening their agency, decision making role in community affairs, and representation in local institutions; and (iii) building on their untapped potential for sustainable development.
4. *Ethnic Minorities Concerns.* Where applicable and in compliance with the 2021 SECAP Procedures of the Fund, the Borrower (through Hunan Province) shall ensure that the concerns and rights of ethnic minorities are given due consideration and respect in implementing the Project and, to this end, shall ensure that:
 - (a) the Project is carried out in accordance with the applicable provisions of the relevant national legislation; and
 - (b) ethnic minorities are adequately and fairly represented in all local planning for Project activities.
5. *Land tenure security.* If applicable, the Borrower (through Hunan Province) shall ensure that the land acquisition process and compensation processes are consistent with the 2021 SECAP Procedures of the Fund.
6. *Anticorruption Measures.* The Borrower shall comply with IFAD's Policy on Preventing Fraud and Corruption in its Activities and Operations.
7. *Sexual Harassment, Sexual Exploitation and Abuse.* The Borrower and the Project Parties shall ensure that the Project is carried out in accordance with the provisions of the IFAD Policy on Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse, as may be amended from time to time.
8. *Use of Project Equipment during Project implementation.* The Borrower (through Hunan Province) shall ensure that:

- (a) all equipment procured under the Project is exclusively allocated for the Project implementation;
- (b) the equipment procured under the Project is appropriate to the needs of the Project; and
- (c) all equipment transferred to or procured under the Project are dedicated solely to Project use.

9. *IFAD Client Portal (ICP) Contract Monitoring Tool.* The Borrower (through Hunan Province) shall ensure that a request is sent to IFAD to access the project procurement Contract Monitoring Tool in the ICP. The Borrower shall ensure that all contracts, memoranda of understanding, purchase orders and related payments are registered in the Project Procurement Contract Monitoring Tool in the ICP in relation to the procurement of goods, works, services, consultancy, and non-consulting services. The Borrower shall ensure that the contract data is updated on a quarterly basis during the implementation of the Project.

10. *The Key Project Personnel* is defined in Schedule 1. The Key Personnel shall be assigned or recruited based on qualifications, experience and terms of reference are satisfactory to IFAD and in accordance with Section 7.16 of the General Conditions.

II. SECAP Provisions

1. The Project is assessed as presenting moderate environmental and social risks and low climate risk. In line with IFAD's SECAP requirements, the Borrower shall carry out the implementation of the project in accordance with the measures and requirements set forth in the Environmental, Social and Climate Management Framework (ESCMF), Environmental, Social and Climate Management Plan (ESCMP), Stakeholder Engagement Plan, and Free, Prior and Informed Consent (FPIC) Plan, the "Management Plans", as applicable, taken in accordance with SECAP requirements and updated from time to time by the Fund. The Parties shall not amend, vary or waive any provision of the Management Plans, unless: (i) agreed in writing by IFAD and the Borrower (through Hunan Province) and (ii) Borrower has complied with the requirements applicable to the original adoption of the Management Plans.

2. The Borrower (through Hunan Province) shall not, and shall cause the Lead Project Agency, all its contractors, its sub-contractors, and suppliers not to commence implementation of any works, unless all Project affected persons have been consulted and compensated, as applicable, in accordance with the FPIC principles.

3. The Borrower (through Hunan Province) shall ensure that all bidding documents and contracts for goods, works and services contain provisions that require contractors, sub-contractors and suppliers to comply at all times in carrying out the Project with the standards, measures and requirements set forth in the SECAP 2021 Edition and the Management Plans prepared for the Project.

4. In the case of a serious ESHS incident, defined as a serious incident, accident, complaint with respect to environmental, social (including labor and adjacent community), health and safety (ESHS) issues that occur in the context of the loan or within the Borrower's activities. Serious ESHS incidents may involve (i) environmental; (ii) occupational; (iii) public health and safety; or (iv) social nature as well as material complaints and grievances addressed to the Borrower⁴ which (i) have, or are likely to have a material adverse effect; or (ii) have attracted or are likely to arouse substantial adverse attention of outside parties or (iii) to create substantial adverse media/press reports; or (iv) give, or are likely to give rise to material potential liabilities), the Borrower (through Hunan Province) shall:

- Notify IFAD promptly;
- Provide information on such risks, impacts and accidents;
- Consult with Project-affected parties on how to mitigate the risks and impacts;
- Carry out, as appropriate, additional assessments and stakeholders' engagements in accordance with the SECAP requirements;
- Adjust, as appropriate, the Project-level grievance mechanism according to the SECAP requirements; and
- Propose changes, including corrective measures to the Management Plan(s) (if any), in accordance with the findings of such assessment and consultations, for approval by IFAD.

5. The Borrower (through Hunan Province) shall ensure or cause the Lead Project Agency, contractors, sub-contractors and suppliers to ensure that the relevant processes set out in the SECAP 2021 Edition as well as in the Management Plans are respected.

6. Without limitation on its other reporting obligations under this Agreement, the Borrower (through Hunan Province) shall provide the Fund with:

- Reports on the status of compliance with the standards, measures and requirements set forth in the SECAP 2021 Edition and the Management Plans on a semi-annual basis upon submission of the progress and results reports - or such other frequency as may be agreed with the Fund;
- Reports of any social, environmental, health and safety incidents and/accidents occurring during the design stage, the implementation of the Project and propose remedial measures. The Borrower (through Hunan Province) will disclose relevant information from such reports to affected persons promptly upon submission of the said reports; and
- Reports of any breach of compliance with the standards, measures and requirements set forth in the SECAP 2021 Edition and the Management Plans promptly after becoming aware of such a breach.

7. In the event of a contradiction/conflict between the Management Plan and the Financing Agreement, the Financing Agreement shall prevail.

⁴ For example, any explosion, spill or workplace accident which results in death, serious or multiple injuries or material environmental contamination, accidents of members of the public/local communities, resulting in death or serious or multiple injuries, sexual harassment and violence involving Project workforce or in relation to severe threats to public health and safety, inadequate resettlement compensation, disturbances of natural ecosystems, discriminatory practices in stakeholder consultation and engagement (including the right of indigenous peoples to free, prior and informed consent), any allegations that require intervention by the police/other law enforcement authorities such as loss of life, sexual violence or child abuse.

Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions	
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility		
Outreach	1 Persons receiving services promoted or supported by the project				Project M&E	Annually	PMOs	Sustained investment from government to rural revitalization in the focused sectors/areas of this project	
	Males - Number	0	8700	17400					
	Females - Number	0	8700	26100					
	Young - Number	0	1740	13050					
	Indigenous people - Number	0	870	2175					
	Total number of persons receiving services - Number	0	17400	43500					
	Male - Percentage (%)	0	50%	40%					
	Female - Percentage (%)	0	50%	60%					
	Young - Percentage (%)	0	10%	30%					
	1.a Corresponding number of households reached				Project M&E	Annually	PMOs		
	Women-headed households - Number	0	870	2 175					
	Non-women-headed households - Number	0	16 530	41 325					
	1.b Estimated corresponding total number of households members				Project M&E	Annually	PMOs		
Household members - Number of people	0	60 900	128 325						
Project Goal Promote rural revitalization and enable smallholders to benefit from rural transformation through a private sector led green growth model which is inclusive and environmentally sustainable.	Supported households reporting increased income from the project supported value chains				Core Outcome Indicator(COI) survey	Baseline, Mid-term and completion	PMOs, M&E service provider	Continuity of economic, social and marketing stability in the target project area.	
	Total households - Percentage (%)	0	35%	80%					
	Female headed households - Percentage (%)	0	35%	80%					
	Indigenous households - Percentage (%)	0	35%	80%					
Development Objective Increase smallholder's capacity for increased production and improved quality, climate resilience and access to markets through the development of three selected value chains namely bamboo, camellia oleifera and medicinal plants in seven selected counties in the Hunan Province	2.2.6: Households reporting improved physical access to markets, processing and storage facilities				COI survey	Baseline, Mid-term and completion	PMOs, M&E service provider	Productions of smallholder farmers are linked to the processing and storage facilities supported by the project	
	HH reporting improved physical access to processing facilities	0	1400	5700					
	HH reporting improved physical access to processing facilities %	0	35%	70%					
	Size of HH (number of people)	0	4060	16530					
	HH reporting improved physical access to storage facilities	0	1400	5700					
	HH reporting improved physical access to storage facilities %	0	35%	70%					
	Size of HH (number of people)	0	4060	16530					
	3.2.2 Households reporting adoption of environmentally sustainable and climate-resilient technologies and practices				COI survey	Baseline, Mid-term and completion	PMOs, M&E service provider		
	Households - Percentage (%)	0	35%	80%					
	Households - Households	0	5250	28000					
	Total number of household members - Number of people	0	15487.5	82600					
	2.2.1 Beneficiaries with new jobs/employment opportunities				COI survey	Baseline, Mid-term and completion	PMOs, M&E service provider		Employment opportunities generated from the project investment in private sectors of the selected value chains are attractive to local people, particularly to female and youth. Meanwhile local people are qualified or could be trained to meet the employment requirement
	Males - number	0	480	960					
Females - number	0	720	1440						
Indigenous people - number	0	60	120						
Young - number	0	720	1440						
Total number of persons with new jobs/employment opportunities	0	1200	2400						
SF.2.1 Households satisfied with project-supported services				COI survey	Baseline, Mid-term and completion	PMOs, M&E service provider			
Households (%)	0	50%	75%						
Households-number	0	8 700	32 625						
Household members	0	25 665	96 244						
SF.2.2 Households reporting they can influence decision-making of local authorities and project-supported service providers				COI survey	Baseline, Mid-term and completion	PMOs, M&E service provider			
Households (%)	0	50%	75%						
Households (number)	0	8 700	32 625						
Household members(number)	0	25 665	96 244						
IE.2.1 Individuals demonstrating an improvement in empowerment				COI survey	Baseline, Mid-term and completion	PMOs, M&E service provider			
Total persons - Percentage (%)	0	25%	64%						
Total persons - Number of people	0	4350	24360						
Females - Percentage (%)	0	25%	60%						
Females - Females	0	2175	15660						
Males - Percentage (%)	0	25%	50%						
Males - Males	0	2175	8700						
Outcome 1 Increased production & productivity	1.2.2 Households reporting adoption of new/improved inputs, technologies or practices				COI survey	Baseline, Mid-term and completion	PMOs, M&E service provider	Smallholder farmers will be organized through cooperative, village or private sectors for collective action and for provision of services and support.	
	% of Households	0	25%	50%					
	Number of Households	0	3750	17500					
Total number of household members	0	11063	51625						
Output 1.1 - Inclusive & Sustainable Production Management Plans developed	Inclusive & Sustainable Production Management Plans				Project M&E	Annually	PMOs, M&E service provider	The willingness of the smallholders, the cooperatives, village communes and private enterprises to participate in the project has been assessed by the County Governments	
	Number of plans	0	8	8					
Output 1.2 - Area under sustainable & climate smart management practices increased (incl. women & youth led)	Supported areas under sustainable & climate adaptive management practices				Project M&E	Annually	PMOs, M&E service provider	Cooperative, village or private sectors have the willingness and capacity to organize collective production with adopted sustainable & climate adaptive management practices	
	Bamboo production area-ha	0	2400	4800					
	Camellia oil tea area-ha	0	2500	5000					
	Medicinal herbs area-ha	0	1700	3500					
	1.1.4 Persons trained in production practices and/or technologies				Project M&E	Annually	PMOs, M&E service provider		
	Females-number	0	8100	16200					
	Males-number	0	5400	10800					
	Youth-number	0	2700	5400					
	Indigenous people -number	0	675	1350					
	Total-number	0	13500	27000					

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Outcome 2 Climate Adaptation & Enhanced CO2 sequestration	Households reporting improved access to climate adaptive infrastructures				COI's survey	Baseline, Mid-term and completion	PMOs, M&E service provider	Supported infrastructures are responsive to actual needs and with good O&M plan.
	Households - Percentage (%)	0	25%	55%				
	Households - Households	0	3750	19250				
	Number of household members	0	11063	56788	2019 Refinement to the 2006 IPCC Guidelines for National Greenhouse Gas Inventories, and FAO's X-ACT	Baseline, Mid-term and completion	PMOs, M&E service provider	Carbon sequestration will be increased through improved climate smart management of the plantations
	3.2.1: Tons of Greenhouse gas emissions (tCO2e) avoided and/or sequestered (one of optional mandatory COIs for climate finance project)							
	Hectares of Land	0	2 500	5 000				
tCO2e/ha	0	37.7	37.7					
tCO2e/ 20 years	0	250 571	501 142					
CO2e/ha/year	0	1.9	1.9					
Output 2.1 -Key Infrastructure built & functional	3.1.4 Land brought under climate-resilient management				Project M&E	Annually	PMOs, M&E service provider	Local agro-entities and farmers have been fully consulted on the demand before construction
	Hectares of Land	0	425	850				
	2.1.5 Roads constructed, rehabilitated or upgraded				Project M&E	Annually	PMOs, M&E service provider	
Length of roads (km)	0	500	1000					
Output 2.2- Model for carbon accounting developed	Bamboo and camellia plantations land monitored by the developed model for carbon monitoring and accounting				Project M&E	Annually	PMOs, M&E service provider	Model for carbon accounting developed
Hectares of Land	0	980	980					
Outcome 3 Increased value addition & Market share	2.2.2: Supported rural enterprises reporting an increase in profit				COI's survey	Baseline, Mid-term and completion	PMOs, M&E service provider	Continuity of production and marketing stability of the three value chains in the target project area.
	Percentage of enterprise	0	60%	100%				
	Number of enterprise	0	8	8				
Output 3.1 -Inclusive Business Plans developed & financed	2.2.2: Supported rural enterprises reporting an increase in profit				Project M&E	Annually	PMOs, M&E service provider	The terms of engagement between the smallholders and cooperatives on the one hand and between the cooperatives and the private enterprises will be mutually beneficial and will ensure sustained growth and production of the model
	Entitles supported through inclusive, technically and financially feasible business plans (including enterprises and cooperatives)							
	Number of entities	0	7	14				
	Number of women-led entities	0	3	7	Project M&E	Annually	PMOs, M&E service provider	
	Households benefiting from productive investment through implementation of business plans							
Total households - number	0	2895	5790					
Women-headed hh-number	0	145	290					
Output 3.2- Enhanced Processing Capacity & Efficiency	CI 2.1.6: Market, processing or storage facilities constructed or rehabilitated				Project M&E	Annually	PMOs, M&E service provider	Social, environment and climate risks identified will be properly managed through implementation of necessary management plans along the project implementation.
	Processing facilities	0	7	15				
	Storage facilities	0	4	8				
	Total facilities	0	11	23				
Output 3.3 - Product diversification	Product exhibition and e-commerce platform established				Project M&E	Annually	PPMO, M&E service provider	
Number of exhibition and e-commerce platform	0	3	5					

Integrated project risk matrix

Risk categories and subcategories	Inherent	Residual
Political Commitment		No risk envisaged - not applicable
There is strong political commitment of both central and local governments to the project goals/objectives in promoting rural revitalization through thriving agro-industries to benefit the smallholders and rural economy, while maintaining eco-environmental sustainability and promoting food security, nutrition and health for the people. Rural revitalization envisions key milestones for 2035 and 2050, current and next Five-Year Plan (2026-2030) will surely adhere to the rural revitalization strategy, these and the overall green development strategy is the overarching government strategies for sustainable development that the project will contribute to. China is also committed to carbon peak by 2030 and neutral 2050. Necessary policies, various resources, and institutional performances are geared at the provincial and county levels towards aligning with these strategic goals and directions. No. 1 document of 2023 continues to give spotlight to rural development and rural revitalization support for disadvantaged areas and households will continue for the next 5 years. Meanwhile, there is strong stability and continuity of political party and government leadership and strategies, the current leadership just embarked on a new term. Despite the one party system being seen as not ideal from outsiders, the government and the people have confidence and trust in the current political system and commitment of the ruling party. During the project life of just 6 years, no major risks are foreseen in terms of political commitment. Counterpart financing for IFAD project has always been adequate in recent projects as result of the targeted poverty reduction strategy and rural revitalization strategy.		
Governance	Low	Low
<p>Risk: 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. Dedicated management arrangements will be made at both provincial and county level for IFI funded development projects, where government attaches higher emphasis in accountability and performances. Project audit and performance M&E are commissioned by national ministries for almost all loan funded projects. Government institutions have gained experience from poverty eradication program and there is generally strong planning and implementation capacity at all levels. The ongoing rural revitalization strategy clearly aims to enhance rural governance. Combating corruption has been given very emphasis by President Xi himself since he took power, and stringent measures and policies were put into places. Risks are likely with regard to performance and accountability of staff in relevant institutions in the county level, which may result into inefficiencies and delays of processes and certain compliances.</p>	Low	Low
<p>Mitigations: The Project Leading Groups at county level and Inter-agency coordinating mechanism at provincial level will be established to supervise the performance of institutions and key individuals of the project, as well as the key indicators and important milestones on project performance, through biannual review exercises.</p>		
Macroeconomic	Low	Low
<p>Risk: China is on steady recovery path from the pandemic with forecasted economic growth rebound to 5.6% in 2023, with removal of mobility and surge in consumer</p>	Low	Low

<p>spending in services. The country is relatively insulated from global food and energy market shocks, maintaining a modest inflation level. Monetary policy continues to support the recovery and ensure adequate liquidity. Fiscal policy continues to provide support to the recovery through tax cuts and exemptions. Growth momentum however remains fragile and dependent on continued policy support. Sluggish income growth, lingering uncertainty about the recovery in the labor market (e.g. youth unemployment rate at 20.4% in April 2023) and high household saving could hold back consumer spending. Externally, uncertain global growth path, tightening in financial conditions and heightened geopolitical tensions are major risks for macroeconomic development. Weak global demand also tempers export growth but shall recover when demand rebounds. The market performance of <u>HuSFID</u> value chains can be influenced by overall economic situation.</p>		
<p>Mitigations: The project will adopt an enterprise led approach in developing the value chain, an inclusive business development component will specifically energize the private sector in enhancing their market performance and productivity while outreaching to rural beneficiaries including youth and women to increase their income level from specialised production. Proper business and investment assessment taking into consideration of SECAP requirement will be part of the process in reviewing/approving investment to ensure economic viability as well as social and environmental sustainability.</p>		
Fragility and Security	Moderate	Moderate
<p>Risk: China continues to improve in its fragility rating. No major fragile vulnerabilities are identified. Emerging risks as part of the pandemic consequences are: a) higher youth unemployment rate; b) persistent income inequality among population groups; c) high non-financial sector debt at all-time high of 287% of 2022 GDP. Aging and population peak may have long-term impact to the fragility of the country.</p>	Moderate	Moderate
<p>Mitigations: (1) Tailored measures by government to promote youth employment (vocational training, loan subsidy, employment services etc.); 2) Expanding coverage and benefit adequacy of social safety nets; 3) further liberalize hukou system and deploy fiscal tools</p>		
Sector Strategies and Policies	Moderate	Moderate
Policy alignment	Low	Low
<p>Risk: The project is well aligned with the government strategies and policies relating to green development, rural revitalization and food security. The project focus on fostering smallholder inclusivity in rural transformation and green development while also ensuring food security and consolidating poverty eradication achievements, which will contribute to sustainable rural transformation. Governments expects IFAD project to add value by demonstrating innovative ideas and practices that can contribute to the consolidation of no poverty and no hunger, and food security as part of the ongoing rural transformation in the country. The project will promote private sector led business models contributing to sustainable rural transformation, in addition, sustainable benefit generation for and sharing with vulnerable groups of the 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. At the grassroots level however, the practices of pro-poor strategies might be not totally aligned with IFAD's new targeting policy in some cases when leading industries and better/scaled performers tend to be given more focus, alignment with IFAD desired practices and priorities in social inclusion and environmental requirements may still require external facilitation to be satisfactory and conducive for project achievements.</p>	Low	Low
Mitigations:		

Targeting strategy and ESCMP requirements and mitigation actions will be elaborated in the PIM for follow-up compliance. Training and follow up support at Start-up and during implementation will be enhanced to enhance comprehension and buy-in of project stakeholders to these strategies/requirements.		
Policy Development and Implementation	Moderate	Moderate
Risk: Government's strategies and policies, especially those relating to modernization and rural revitalization, are highly responsive to the needs of the rural people and visionary in making rural areas more attractive places for people to live. Despite favourable and upper-level government policies, the implementation of policies is subject to the absorbing capacity and commitment of local level governments, especially in outlining the specific implementing strategies, measures and actions. In less developed areas, the limitation in capacity of local government and staff may restrict the full attainment of policy expectations and results.	Moderate	Moderate
Mitigations: Institutional capacity building, demonstration, enhanced monitoring and evaluation plus learning through project implementation will be helpful to mitigate policy implementation risks. Having an oversight and coordinating mechanism at county and provincial level will also be conducive for policy implementation in favor of the project.		
Environment and Climate Context	Moderate	Low
Project vulnerability to environmental conditions	Moderate	Low
Risk: The project involves agroforestry plantation in mountain areas and will have limited sensitivity to environmental conditions. Soil and water erosion are always a risk in any agricultural project, notably in mountain but appear limited in the area and well regulated. In addition, the cultivation of bamboo forests and oil tea pays attention and contribute to soil conservation as forestry planting also helps to improve water yield and ecological carbon sequestration, thereby reducing vulnerability to such erosion. The resources involved in the project are mostly renewable, post-production also does not generate excessive residues/waste that may have negative impact on environment. Civil work and infrastructure are of relative limited scale and will be subject to government strong safeguards	Moderate	Low
Mitigations: The project has formulated a detailed ESCMF and ESCMP reviewing government own safeguards and additional specific measures including several to mitigate vulnerability to environmental conditions: i) implementing government water and soil conservation stringent policy and ensure that erosion control and drainage measures will be part of the process and contracting requirements for all infrastructures. If large roads are built in sensitive areas, impact assessment will be conducted; ii) the passageways which are built on the plantations serve the dual purposes of transporting the bamboos down the hills and act as fire break, thereby reducing vulnerability to wild fire. iii) Camellia Oleifera new plantation will be on used or degraded land thereby also positively contributing to reduce vulnerability. iv) The medicinal plants will be planted in the shade of trees, in commercial forest, thereby with reduced erosion risks thanks to trees; The project will promote integrated pest and input management to ensure sustainable input management/mitigate any pollution risks.		
Project vulnerability to climate change impacts	Moderate	Low
Risk: The project area and involved agroforestry crops are exposed to climate-related hazards including drought, flooding, high temperature, and low temperature disasters, which are becoming more frequent and of sever in magnitude. However, the project is not situated in the most exposed and fragile area as it is in hilly areas rather than mountains (so no steep slope and elevation below 500 m as per China definition). The occurrence of weather-related hazards affecting crops, forestry and biodiversity is low. The population is not too sensitive as it is	Moderate	Low

not mainly depending on agricultural income, poverty is low with strong social protection mechanisms and enabling environment. Finally, adaptive capacities are strong coming from government, community and farmers levels, including pre-disaster warning, post disaster support and agricultural insurance (supported by the project) that are widely carried out in the project area.		
Mitigations: a).Focus on key areas and vulnerable populations, to apply hazard identification, monitoring, early warning, and emergency preparedness for areas affected by natural disasters; b) introduce efficient irrigation facilities, water storage and water monitoring systems in areas where the project support tree crops sensitive to drought situation and consider climate when screening relevant tree/crop varieties c) train water user associations in managing climate risks; d) explore weather index insurance to address the risks of climate change and reduce farmers' losses; e) ESCMF-P makes provision to incorporate climate change factors and nature-based solutions into infrastructure improvements to increase resilience to natural disasters and the impacts of climate change: f) Finally, the project will promote the use of supporting trees which can effectively prevent bamboo bending, lodging, and other phenomena caused by rain and snow weather.		
Project Scope	Moderate	Moderate
Project Relevance	Moderate	Moderate
Risk: The project is highly relevant to the government strategy of rural revitalization in its pursuit for inclusive and thriving agribusiness and ecologically liveable countryside in line with the “two-mountain theory” of president Xi. The mains risks pertain to the fact that the benefit generated by the project may not adequately attract/support those economically less active households for their increased income, also their overall benefit sharing with engaged enterprises may not be attractive enough for them to effectively invest/engage in the value chains, because: (i) income from agricultural production constitute a relative declining proportion of the rural people, the project’s contribution to their household income increase could be limited; (ii) many remaining vulnerable with low income either have their land transferred or are lack of labour; (iii) re-financing arrangements may not be conducive in engaging smallholders who has potential and interest in generating income from managing tree crops; (iv) mainstreaming themes and non-tangible benefits maybe given less emphasis during implementation thus bring down project effectiveness and impact	Moderate	Moderate
Mitigations: (i) Promoting diversified but private sector led business models with multiple options of benefiting approach to allow project generated dividends benefiting different kind of vulnerable households. (ii) Expand income generating opportunities for the target groups beyond production, labor, primary processing, employment etc.; (iii) allow reallocation of resource to better performing counties and diversify business models to suit evolving context under the key criteria of inclusiveness and market access; (iv) maximize project support to cooperatives that can enrol adequate number for smallholders and adopt standardize operation		
Technical Soundness	Moderate	Moderate
Risk: The models are not benefiting enough the smallholders and the socio-environmental safeguards aren’t followed	Moderate	Moderate
Mitigations: The Governments at the Provincial and county level are committed to consolidating the achievements of poverty alleviation, green growth and neutral carbon pathways through a private sector led transformative model. The Governments will channel their support and resources for the development and growth of the selected value chains through the government-owned County Development Investment Company (CDIC) which are committed to making equity		

<p>investments and attract private enterprises that have sound environmental and social management system. The production and business plans preparation, stakeholder engagement and ESG enforcement will ensure that terms of engagement between the smallholders and cooperatives on the one hand and between the cooperatives and the private enterprises will be mutually beneficial and will ensure sustained growth and production of the model. The market dynamics will continue to support the expansion in the demand of the three selected value chains and bring commensurate benefits from enhanced production and processing of these high value-added commodities.</p>		
Institutional Capacity for Implementation and Sustainability	Moderate	Low
Implementation Arrangements	Moderate	Low
<p>Risk: Overall implementation arrangement with government institutions will be in line with established and proved arrangements for donor/IFI financed projects. The potential risks are: a) the actual functioning and role of government institutions in this project where the private sector is taking lead in financing businesses however requires clearer defining; b) introducing a financing intermediary in the implementation and supporting smallholders through private sector could be the main risk factors; c) role of technical agencies and mechanism of their entry into project implementation to be clarified; d) capacity in overseeing business models, mainstreaming themes, knowledge and M&E could be lacking among PMOs</p>	Moderate	Low
<p>Mitigations: Design has defined the co-financing arrangement with private sectors through a BP approach. Actions to mitigate implementation risks include: a) intensified start up support and training; b) involvement of local technical experts called upon by PPMO to provide technical guidance to project implementation; c) take full advantage of CDIC experience and expertise in business investment; d) soonest finalization of PIM by PPMO with the level of details/specifics that can best guide activity implementation; e) early appointment of staff with designated roles and responsibilities.</p>		
Monitoring and Evaluation Arrangements	Moderate	Low
<p>Risk: Risk of delayed implementation of MIS and M&E system is present. Efficiency and collaboration by private sector in M&E remains uncertain.</p>	Moderate	Low
<p>Mitigations: The Project should set up the MIS and M&E system at the first months of implementation before operations roll out. MIS/M&E samples and experiences of ongoing China projects will be referenced and fully shared for HuSFID. PMOs should take full ownership and accountability of the M&E work to ascertain quality and more importantly make use of the M&E information. Support of potential service providers will be explored and possibly contracted for project benefit. Periodical reports, internal workshops and knowledge products will need to make full use and build on the M&E information. ICO follow up and support will be given to HuSFID. PIM will be further detailed before its official dissemination to counties to reflect the necessary provisions for M&E requirements.</p>		
Project Financial Management	Moderate	Moderate
Project Organization and Staffing	Substantial	Substantial
<p>Risk: • Staff capacity of PPMO and especially in the counties may not be on the required level. • The financial operations of the project within the PPMO and County PMOs will be distinct, and ring fenced from the country public financial management. A Project Implementation Manual which describes the financial management and procurement arrangements is outlined in Annex 8 Volume II. • providers proposed for implementing Components 1 and 2 will have capable</p>	Substantial	Substantial

staff and a financial management (FM) system for managing project funds with qualified Finance staff, safeguarding assets and providing periodical financial reports and other required reports to the PPMO.		
Mitigations: <ul style="list-style-type: none"> • FM staff at PPMO and counties will have detailed job descriptions and detailed FM manual (in PIM). • Start-up training, and continuous support missions from IFAD. • Experience exchange between PMOs on FM in Hunan province. 		
Project Budgeting	Moderate	Moderate
Risk: <ul style="list-style-type: none"> • Preparation of AWPB might be delayed due to staff capacity and approval procedures. • AWPB might not be realistic or not achievable. • The budget preparation and revision process have rigorous procedures within the entity and may cause strict control but some delays in loan disbursement. 	Moderate	Moderate
Mitigations: <ul style="list-style-type: none"> • Training to PPMO and CPMO staff on preparation of AWPB. • A mechanism in place to timely capture the progress of expenditure Vs. budget. 		
Project Funds Flow/Disbursement Arrangements	Substantial	Substantial
Risk: <ul style="list-style-type: none"> • Delay during the start-up of project activities. • Delay in submission of IFRs and WAs to IFAD. • DA and project account arrangements cannot be clear to the project staff. 	Substantial	Substantial
Mitigations: <ul style="list-style-type: none"> • Retroactive financing will be suggested to ensure the timely launching of the project. • Ensure good accounting system that capable to provide IFR and WA in required formats. • Capacity building workshops on preparation of IFRs. • IFR timing will be set 30 days rather than 45 in FMFCL. • FM manual will provide detailed guidance on DA and PA arrangements. 		
Project Internal Controls	Moderate	Moderate
Risk: <ul style="list-style-type: none"> • Big bulks of loan funds will be concentrated in 3 cost categories (Works, GSI & Materials) and procurement process transparency can be challenging. • Limited suppliers for goods and services and less capacity may lead to overpayment for services. • Staff capacity and awareness of anti-corruption policy. 	Moderate	Moderate
Mitigations: <ul style="list-style-type: none"> • Detailed PIM with detailed FM and Procurement procedures along with extensive training on PIM will be provided to the project staff. • Segregation of duties in the project will be set up. • External audit of the project to be conducted annually. • IFAD anti-corruption policy will be included in PIM and training delivered to staff and stakeholders. • Effective computerized software shall be used to ensure the reconciliation of account and chasing of payment. 		
Project Accounting and Financial Reporting	Moderate	Moderate
Risk: <p>Financial reporting is not produced properly and timely due to manual accounting. Cost categories cannot be properly reflected in the financial reporting. Risk that accounting systems – including polices and standards – are not integrated and reliable, leading to inaccuracies in financial records and that reasonable records are not prepared, issued and stored, leading to lack of informed decision-making.</p>	Moderate	Moderate

Mitigations: <ul style="list-style-type: none"> The accounting software already used in other Chinese project will be set up to meet to IFAD accounting and financial reporting requirements. Including cost categories. 		
Project External Audit	Moderate	Moderate
Risk: The provincial SAI capacity cannot be of an acceptable level and quality of audit reports cannot be acceptable, reports are provided in local language and not in the FA official language, the reports provided with delay.	Moderate	Moderate
Mitigations: <ul style="list-style-type: none"> The Hunan provincial NAO will be responsible for external audit and IFAD will communicate IFAD requirements on financial reporting and auditing to the auditors. 		
Project Procurement	Moderate	Moderate
Legal and Regulatory Framework	Moderate	Moderate
Risk: Legal, regulatory and policy framework are clear and mainstreamed with international procurement practices. There are complete system framework on procurement and corresponding laws and regulations in China. The domestic supply market is sufficient and the conditions for the implementation of international funded projects are favorable. Open Tendering is most common competitive method that prescribed in China Tendering and Bidding Law, of which the thresholds are not less than CNY4 million for Works, CNY2 million for Goods, and CNY1 million for Services. The other methods include Bidding by Invitation, Shopping, Competitive Negotiation, etc. The direct contract can be applied in special cases based on sufficient reasonable ground. Risk: - IFAD's Consulting Services methods (QCBS/LCS/CQS/QBS/FBS) are not indicated in the National Procurement Law. - The minimum of advertising time prescribed in China Tendering and Bidding Law are shorter than the requirement of IFAD. For example, the national laws prescribed that minimum of 20 days for national Open Bidding (competitive); minimum of advertising time from 10 to 20 days for less competitive procurement processes.	Moderate	Moderate
Mitigations: - The Project Procurement Arrangement (PPA) will specify provisions for application of different procurement methods and direct contracting/single source selection, satisfying IFAD requirements. - In term of efficiency and practicability, the application of the national advertising rules will have limited impact on the project.		
Accountability and Transparency	Moderate	Moderate
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. Risk: - The stakeholder support to strengthen integrity in procurement is relatively weak due to the lack of enough channels for engagement and feedback that are promoted by the government.	Moderate	Moderate
Mitigations: - Promote anti-corruption framework, establish internal compliance measures or support integrity and ethical behavior in public procurement.		

Capability in Public Procurement	Moderate	Moderate
<p>Risk: The Provincial Project Management Office is instituted in the Provincial Forestry Department of Hunan, which is experienced in implementing international financial organizations projects. The PPMO is basically capable of implementing the procurement of IFAD funded projects. The sustainable procurement capacity building for all the procurement participants at each level will be taken into account throughout the entire project lifecycle. A provincial procurement agency should be recruited to provide the professional services for project procurement as early as possible.</p> <p>Risk: - Less training, advice and assistance could be directly acquired from government department relate to procurement. - The professional certifications regarding to the government procurement department are absent. - The performance management system still needs to be improved, more comprehensive monitoring indicators should be applied for performance assessment.</p>	Moderate	Moderate
<p>Mitigations: - Develop the capacity of procurement officials by increasing the professional procurement training at project level. - The system or mechanism should be established for assessing the capacity and profession of the government procurement department, for example, through the measures of training, examination or authentication. - It is necessary to reform and establish the regulations for supporting and improving the public procurement system. For example, put the Post Procurement Evaluation into practice.</p>		
Public Procurement Processes	Moderate	Moderate
<p>Risk: Procurement of Goods, Works and Consulting Services financed by IFAD will be involved in Procurement Plan and carried out in accordance with the IFAD Procurement Guidelines, IFAD Procurement Handbook and relevant procurement policy of IFAD. China National Procurement Laws and corresponding implementation manuals will be applied for the procurement financed by government counterpart. The procurement methods to be applied, prior review arrangements, and the thresholds for different procurement methods will be taken into account at detailed design stage and the Project Procurement Arrangement (PPA) will be developed to guide the project procurement. While the procurement processes are implemented on the government public trading platform, the Project Implementation Agency should coordinate with the platform to ensure that more flexible processes and procedures are applied for IFAD funded project to comply with IFAD Procurement Guidelines, IFAD Procurement Handbook and its subsequent. The platform should be able to implement the electric procurement processes which could serve as an alternative procurement approach.</p> <p>Risk: - The sustainability criteria applied during the planning stage are not sufficiently to ensure value for money. - The discrepancies exist between national procurement processes and IFAD's. - Delays in contract implementations are often happened due to objective and subjective matters</p>	Moderate	Moderate
<p>Mitigations: - Improve the bidding document containing the sustainability to ensure the value for money at planning stage. - Combine the national rules and IFAD's as far as possible from the principle of value for money. Some innovative measures could be introduced in place to bridge these discrepancies in practice. - Monitoring closely contract implementation progress with periodic progress reports and follow-up actions.</p>		
Environment, Social and Climate Impact	Moderate	Low

Biodiversity Conservation	Moderate	Low
Risk: The risk that the project may cause significant threats to or the loss of biodiversity, availability of diversified nutritious food, ecosystems and ecosystem services, territories of the indigenous peoples, or the unsustainable use/production of living natural resources. The Project is fully dependent on production of living natural resources and deal with agro-forestry system so requires attention.	Moderate	Low
Mitigations: The project will only intervene in areas that are already under some kind of agro-forestry system or in degraded areas for limited new. Zoning will also be done and ensure that the project does not intervene in protected areas or red ecological zoning. As per Wild Plants Protection Regulations (2017 Amendment), any entities or individuals are prohibited to illegally collect wild plants or damage their growing environment. Only bamboo is harvested for woody material and the harvesting practices promoted are to ensure sustainable bamboo forest management. Digging bamboo shoots and thinning bamboo forests are commonly used methods for managing bamboo forests, which can effectively prevent the disorderly expansion of bamboo and increase the yield of bamboo shoots and the main grain of bamboo and wood. Finally, the project will promote use of supporting trees which can effectively decrease pest, limit propagation and increase the species diversity of bamboo forests. Furthermore, it will not undertake activities that may cause significant threats to or the loss of biodiversity and ecosystem and its services. By adopting good agricultural practices, the project will also be conducive to the sustainable use of natural resources		
Resource Efficiency and Pollution Prevention	Moderate	Moderate
Risk: The project is sited in an existing agricultural area, with low environmental and/or social sensitivity. Risks related to resource use and pollution includes 1. Use of fertilizer in plantation but this will be limited as mostly organic, and no pesticides used. 2. water use for irrigation: The irrigation systems will be of small scale and use surface water with negligible impact on existing resources. 3. in enterprise: the establishment of enterprise parks will assist in pollution prevention, energy efficiency, solid waste disposal and enforcement and monitoring of quality standards.	Moderate	Moderate
Mitigations: Project supported Business Plan and partnership will elaborate on input use and pollution prevention measures in production and processing. As envisaged in SECAP guidance, project will promote practical options including zero-growth of fertilizer use and integrated fertility management combining with non mineral options & use of micro-organisms & integrated farming; Integrated Pest Management plan to reduce use of pesticide ; Potential dedicated digital advisory to recommendation to specific conditions / micro dosing; Utilization of planting waste and promotion of energy saving, renewable energy ; promoting efficient water management, training water user associations and piloting water monitoring in areas of water scarcity		
Cultural Heritage	Low	Low
Risk: The project activities do not foresee impact to degradation or loss of resources of historical, religious or cultural significance. Project is targeting to use national heritage knowledge and medicinal plants which are not tight to specific areas. However, project may identify and wish to work on some cultural farming systems practices, varieties or knowledge along for instance valorization of medicinal crops,	Low	Low
Mitigations: If a project proposes to utilize cultural heritage / heritage of IP, what is not foreseen in this project, including knowledge, innovations or practices of local communities to benefit the project or for commercial purposes, communities		

should be informed of: (i) their rights under national law; (ii) the scope and nature of the proposed use; and (iii) the potential consequences. FPIC of the local communities should be sought, and arrangements should be made for fair and equitable sharing of benefits.		
Indigenous People	Moderate	Low
<p>Risk: The project area has limited number of ethnic minority people (8.39%), among them, 74.2% inhabit in Yuanling County, and they will share the priority of project targeting. Furthermore, they are integrated in the mainstream of the society and almost no differentiation is made to the ethnic minority people. The government applies preferential policies and support to ethnic minorities in social, cultural and economic development as compared to the majority of Han. There is no risk anticipated of the project to the ethnic minority people in the project areas. However, the project may be sited within commuting distance of ethnic minority and offer them employment.</p>	Moderate	Low
<p>Mitigations: An IPPF has been formulated as well as an FPIC in a culturally appropriate manner. FPIC of the local communities should be sought, and arrangements should be made for fair and equitable sharing of benefits.</p>		
Labour and Working Conditions	Moderate	Low
<p>Risk: Labour and Working Conditions are highly regulated and there is no evidence of violation or deviation reported in relationship with the project design.</p>	Moderate	Low
<p>Mitigations: Standard contract templates for labor will be developed before the start of the project and will require strict implementation during project implementation. The project's beneficiary feedback and grievance redress system will be put in place in complementarity with the government's vertical complaint system. The personal safety protection would be strictly implemented to ensure the safety of labors. The workers involved in the project will sign contracts. Wages and salaries are negotiated by both parties and implemented according to industry standards. There are early warning and defensive measures for emergencies. If necessary, arbitration and appeal can be conducted.</p>		
Community Health and Safety	Moderate	Low
<p>Risk: The risk that the project may cause significant adverse impacts on the physical, mental, nutritional or social health/safety status of an individual, group, or population. Major risks here include: 1) construction of building Any construction envisioning in the project need to have construction permits which require an environmental impact assessment and selection of carefully selected areas with limited exposure to climate/natural risks; 2) Traffic: Work track, dirt roads and gravel roads, planned in bamboo forest are used only for workers to deliver bamboo shoots and bamboo woods and will be small so it is expected that maximum 10 people may use one track a day. 3) Labor influx: additional labour will be required to develop the infrastructure, intensify agro-forestry work and engage in enterprise park processing activities; however, considering rural density of population in China, the project should be able to source labour locally to ensure additional labor can commute daily and won't affect the existing community setting.</p>	Moderate	Low
<p>Mitigations: Government environmental management systems are designed to protect public and worker safety against the potential risks associated with exposure to toxic chemicals, hazardous wastes, and otherwise dangerous materials Measures have been taken to reduce the exposure of workers and community members to hazardous materials in the environment during the implantation of the project, to safeguard human health and community safety. In the construction of public infrastructure, the design, construction, and operation of structural elements comply with national legal requirements and the IFAD's "Environmental,</p>		

<p>Health and Safety Guidelines", while also considering the safety risks to third parties and affected communities. Construction insurances are purchased as required. The selection of the location of the warehouse for storing fertilizers should meet the requirements of GB/T 42958-2023 "Instructions for the Use of Fertilizer Products". The warehouse should be far away from water sources and residential areas, should be built in a place with high terrain and no water, should be equipped with fire equipment and first aid medicine boxes, should have good ventilation conditions and install lighting system. For labor influx, Corporate company bidding to join the project and enterprise park will need to include assessment of labor needs and plans to source labor, prioritizing local labor and including appropriate mitigation and management measures to address risks and potential impacts on the health and safety of communities arising in case of limited influx of project workers.</p> <p>The construction will be designed and constructed by competent professionals, and certified or approved by competent authorities, having clear construction safety guidelines. This should also be clearly stated in the procurement of such constructions.</p>		
Physical and Economic Resettlement	Moderate	Low
<p>Risk: The risk that the project may cause significant adverse physical, social, cultural or economic impacts, especially for marginalized groups, from land acquisition, and involuntary loss of land, assets, access to assets, income sources, or means of livelihoods.</p> <p>No resettlement is foreseen under the project but the project may lead to minor economic displacement and temporary change of land tenure arrangement. The allocation of land for roads is limited considering their limited width (1.5 to 3.5 meter max, so maximum 2% of an average smallholder plot) and possible compensation for road and enterprise constructions will follow government regulations; smallholder farmers may decide to sign long term land lease with the enterprise but this will not change ownership and will be done through a free and prior informed consent and dedicated government procedure</p>	Moderate	Low
<p>Mitigations: Minimize economic displacement during infrastructure construction, applying government measures favoring construction in barren land / existing constructions. For irrigation, this will also include ensuring transparent, informed and documented discussion with all farmers benefitting from the planned irrigation system to reach voluntary signed consent with land user rights holders for placing water ponds or pools on their land. project will review and strengthen property right as needed and, in case of land dispute, do not engage in infrastructure or production investments in concerned land unless dispute settled formally through fair, open, and transparent means. In case of economic displacement to construct infrastructure, ensure appropriate compensation as per province standards following the principle of the national unified guarantee of the basic living standards and property rights and interests of the expropriated farmers.</p>		
Greenhouse Gas Emissions	Low	Low
<p>Risk: The project will aim to contribute to the net reduction of Greenhouse Gas as result of increasing biomass by rehabilitating and improvement the management of the tree crops for increased carbon sequestration and by promoting energy efficient irrigation and transformation infrastructure, including use of renewable energy .</p>	Low	Low
<p>Mitigations: Emissions will be tracked as per project Log frame and component dedicated to improve monitoring of carbon storage in bamboo plantations</p>		
Vulnerability of target populations and ecosystems to climate variability and hazards	Moderate	Low
Risk:	Moderate	Low

Based on historic data analysis, the project area has found become warming as result of global climate change. Especially in the past ten years the warming trend is much more obvious. There is an obvious upward trend that the annual rainfall is also increasing, result in more frequent rainstorm. Increased high-temperature days throughout the year and prolonged low temperature days were also observed.		
Mitigations: The project will take advantage of proven interventions and experiences in mitigating the vulnerability of the target groups to ecosystem and climate impacts in the country programme and incorporate the good practices in the final design. For instance, it will also invest in climate resilient practices, climate advisory / alert systems, adoption of disaster preparedness plan and promote use of adapted insurance.		
Stakeholders	Moderate	Moderate
Stakeholder Engagement/Coordination	Moderate	Moderate
Risk: There is risk that some stakeholders are not adequately engaged due to the limitation in their business coverage, such as rural finance and insurance providers, technical extension providers, participating line agencies and other entities along the value chains that the project promoting.	Moderate	Moderate
Mitigations: (i) Government will make value chain development plan to outline potential stakeholders in the specific value chains and analyse their roles; (ii) Project workshop will be organized back to back with SIS missions to enhance clarity of project implementation requirements and allow participation and coordination with relevant stakeholders; (iii) Project management offices are encouraged to reach out to relevant partners to support the implementation of business plans; (iv) Apps developed to allow better dissemination of project related information and feedback/response from stakeholders.		
Stakeholder Grievances	Moderate	Moderate
Risk: 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 moderate.	Moderate	Moderate
Mitigations: VIGs and CPMOs will conduct regular notifications to the villagers on the planned activities and means/criteria of participation.		
Political Commitment		No risk envisaged - not applicable
There is strong political commitment of both central and local governments to the project goals/objectives in promoting rural revitalization through thriving agro-industries to benefit the smallholders and rural economy, while maintaining eco-environmental sustainability and promoting food security, nutrition and health for the people. Rural revitalization envisions key milestones for 2035 and 2050, current and next Five Year Plan (2026-2030) will surely adhere to the rural revitalization strategy, these and the overall green development strategy is the overarching government strategies for sustainable development that the project will contribute to. China is also committed to carbon peak by 2030 and neutral 2050. Necessary policies, various resources, and institutional performances are geared at the provincial and county levels towards aligning with these strategic goals and directions. No. 1 document of 2023 continues to give spotlight to rural		

<p>development and rural revitalization support for disadvantaged areas and households will continue for the next 5 years. Meanwhile, there is strong stability and continuity of political party and government leadership and strategies, the current leadership just embarked on a new term. Despite the one party system being seen as not ideal from outsiders, the government and the people have confidence and trust in the current political system and commitment of the ruling party. During the project life of just 6 years, no major risks are foreseen in terms of political commitment. Counterpart financing for IFAD project has always been adequate in recent projects as result of the targeted poverty reduction strategy and rural revitalization strategy.</p>		
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