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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO

THE PEOPLE'S REPUBLIC OF CHINA

FOR

THE WULIN MOUNTAINS MINORITY-AREAS DEVELOPMENT PROJECT



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CURRENCY EQUIVALENTS

Currency Unit	=	Yuan Renminbi (CNY)
USD 1.00	=	CNY 8.30
CNY 1.00	=	USD 0.12

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres
1 mu	=	0.066 ha

ABBREVIATIONS AND ACRONYMS

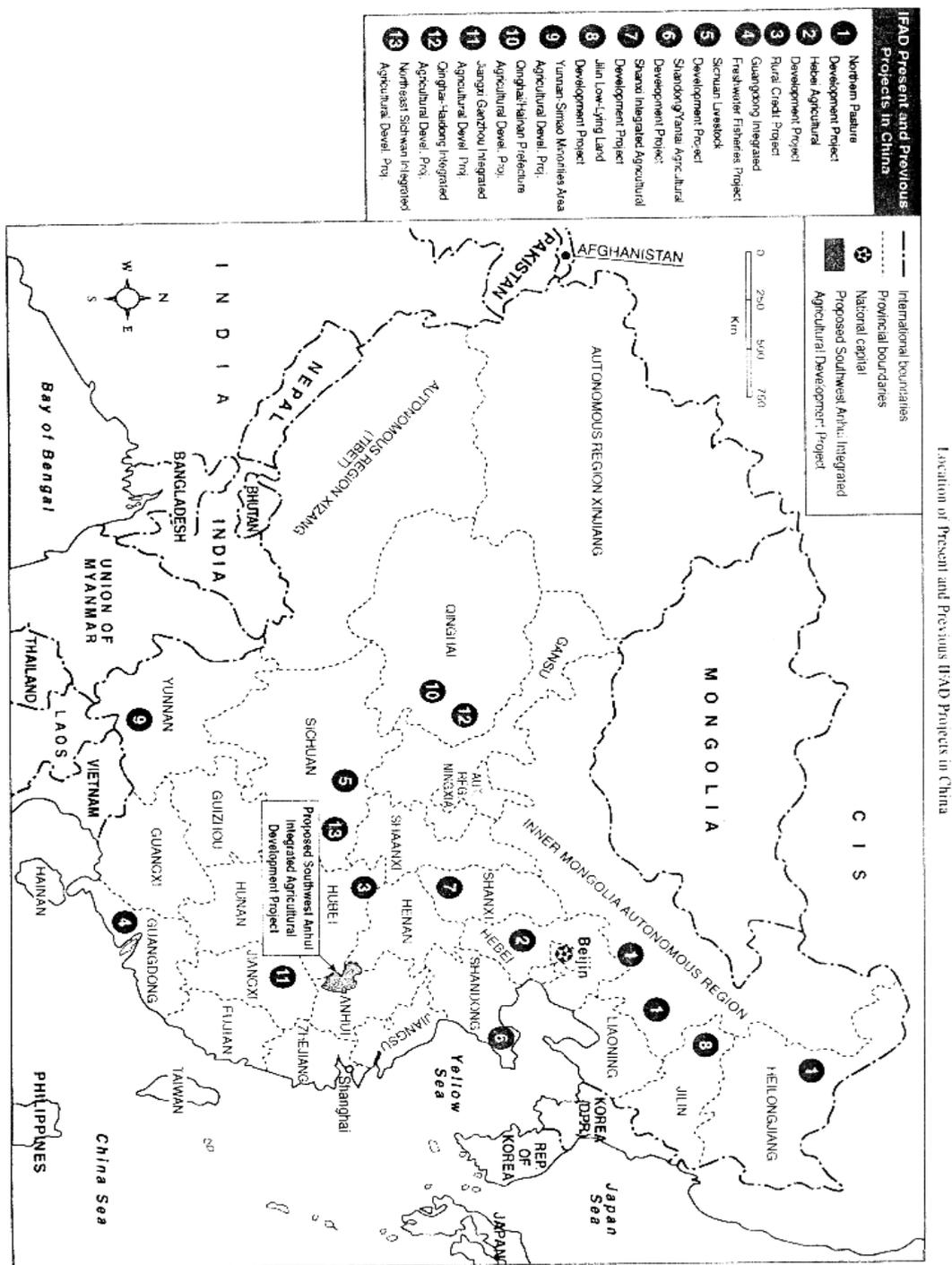
AsDB	Asian Development Bank
AusAID	Australian Agency for International Development
CPP	Constant purchasing power parity
EPB	Environmental Protection Bureau
FB	Finance Bureau
GTZ	German Agency for Technical Cooperation
M&E	Monitoring and Evaluation
PBC	People's Bank of China
PLG	Project Leading Group
PMOs	Project Management Offices
PRA	Participatory Rural Appraisal
RCCs	Rural Credit Cooperatives
UNOPS	United Nations Office for Project Services
VAM	Vulnerability Analysis Mapping
VDPs	Village Development Plans
VIGs	Village Implementation Groups
WCB	Water Conservation Bureau
WF	Women's Federation
WFP	World Food Programme

GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA

Fiscal Year

1 January - 31 December

MAP OF THE PROJECT AREA



Source: IFAD Appraisal Report

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.



PEOPLE'S REPUBLIC OF CHINA

THE WULIN MOUNTAINS MINORITY-AREAS DEVELOPMENT PROJECT

LOAN SUMMARY

INITIATING INSTITUTION:	World Food Programme (WFP) and the Ministry of Agriculture of the People's Republic of China
BORROWER:	People's Republic of China
EXECUTING AGENCIES:	Ministry of Agriculture and Ministry of Finance
TOTAL PROJECT COST:	USD 107.2 million
AMOUNT OF IFAD LOAN:	SDR 21.1 million (equivalent to approximately USD 28.0 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	WFP Germany through the German Agency for Technical Cooperation (GTZ) Australian Agency for International Development (AusAID)
AMOUNT OF COFINANCING:	WFP: USD 18.8 million Germany/GTZ: USD 2.3 million (equivalent to DEM 4.0 million; parallel financing) AusAID: USD 5.9 million (parallel financing)
TERMS OF COFINANCING:	WFP: grant Germany/GTZ: technical assistance grant AusAID: grant
CONTRIBUTION OF THE BORROWER:	USD 55.8 million
CONTRIBUTION OF THE BENEFICIARIES:	USD 4.6 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)



PROJECT BRIEF

Who are the beneficiaries?

The target group comprises about 390 000 households in 92 of the poorest townships in the remote areas of the Wulin mountain range in the provinces of Guizhou and Hunan. Approximately 80% of the population belong to 26 ethnic minorities, mainly comprising Miao, Tujia and Dong, but including Hui, Buyi, Gelao, Bai, Yi, Yao, Shui and small pockets of others. Where minorities are in the majority, the counties enjoy autonomous status and cultural privileges; and special regulations are applied with regard to budgets, financial administration and education. About 80% of the households are poor to very poor; almost 10% are classified as poorest; and many persons are physically unable to undertake any type of labour. Average income per capita is around USD 63, which is derived from an average arable area of 0.25 ha and irregular off-farm income.

Why are they poor?

Many villages are located in remote areas with no access roads to towns, obsolete health and education facilities, limited and low-yielding arable land, and inadequate coverage by weak extension services. Living conditions are very harsh, and households have extremely limited means for improving production or paying for health services and education. Most households can grow only one rice crop a year on paddy fields beset by problems of waterlogging or lack of irrigation water. The large areas of sloping land require substantial investments in terms of resources and family labour for any agroforestry or cash crop production activities. Most households have a limited labour force due to poor health, and about 30% of them are illiterate. Frequent out-migration of workers to other areas, mainly for seasonal labour, brings in additional cash income but limits the availability of farm labour and constrains production output. Rising unemployment and greater competition for jobs makes it difficult to find employment and the remoteness of the area restricts marketing opportunities.

What do they expect from the project?

Women's priority needs are for safe drinking water, crop diversification, modern technologies for special crops, such as mushrooms and medicinal plants because of their high value and low weight, and small livestock, especially pigs. The men requested access roads, irrigation, drainage to solve waterlogging problems and the development of sloping land. All requested better health and education facilities and training in improved technologies to make better use of available resources. In general, the households consulted requested assistance for investments in production activities to raise their incomes and improve food security.

How will they participate?

A participatory rural appraisal (PRA) workshop was conducted to sensitize province and prefecture-level project management offices (PMOs) to the usefulness of the PRA process. Follow-up training sessions, combined with practical exercises, will be held at county and township level to prepare the village development plans (VDPs) with the participation of the target group. The latter will provide labour for community-based civil works, assess project services, and prepare six-monthly reports. Farmer-extensionists will be responsible for on-farm cropping trials and demonstrations. Beneficiaries will be represented in the village implementation groups (VIGs) formed to monitor the VDPs and organize maintenance and user groups, especially for irrigation and access roads.



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TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO
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FOR
THE WULIN MOUNTAINS MINORITY-AREAS DEVELOPMENT PROJECT**

I submit the following Report and Recommendation on a proposed loan to the People's Republic of China for SDR 21.1 million (equivalent to approximately USD 28.0 million) on highly concessional terms to help finance the Wulin Mountains Minority-Areas Development Project. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. The People's Republic of China covers an area of 9.6 million km² and is the world's most populous country. At the end of 1996, the population was estimated at 1.2 billion people and the rural labour force at 450 million. China continues to have one of the fastest growing economies in the world. Gross Domestic Product (GDP) increased by 12.1% per annum on average from 1992 to 1996, and is projected to increase by 8% during 1998. Industry is the largest productive sector, accounting for half of GDP and generating 80% of the country's exports. Services account for about 30% of GDP and agriculture for about 20%. The agriculture sector grew at an annual rate of about 5% in 1995 and 1996, and continues to play a dominant role in terms of providing employment and a source of income for some 190 million rural households. Grain production in 1996 reached 480 million tonnes, the largest figure on record. Rice is the most important grain crop, with a share of 39% of total grain production compared with 22% for wheat.

2. One of the country's major concerns is to maintain food self-sufficiency and, to this end, the Government accords high priority to rural and agricultural development. In 1995, net grain imports amounted to nearly 20 million tonnes, a record figure but representing only 4.2% of total domestic consumption. There were no major grain imports in 1996 because of the abundant harvest. Structural improvements in the rural sector resulted in the record grain output in 1996 and a substantial increase in farmers' incomes although the income gap between urban areas and the countryside is on the increase. By 1997, the annual per capita income of farmers had dropped to about 40% of that of urban residents; and non-agricultural activities contributed more than two thirds of rural incomes. The agriculture labour force has declined from 62% in 1985 to 53% in 1995, illustrating the high degree of underemployment in the sector. By 1995, employment in agriculture stood at 330.2 million persons; the area sown to food grains had fallen from 80% to 70%; and the land used for orchards, vegetables and oil seed production had increased from 8% to 20%.

B. Lessons Learned from Previous IFAD Experience in China

3. **General.** Since it became a member of IFAD in 1980, China has received 13 IFAD loans for a total of approximately USD 313 million towards project costs of USD 719 million. The overall

¹ See Appendix I for additional information.



performance of the projects has been very satisfactory: they have disbursed on time and often ahead of schedule; and their objectives have been met and, in some cases, surpassed. Targeting has been generally effective, although there is some scope for improvement. As a general rule, the staff of the PMOs give more priority to physical targets than those of a qualitative nature; and credit recovery is considered more important than reaching the most vulnerable households.

4. **Participation.** The use of project leading groups (PLGs), PMOs and VIGs has evolved over time, and ensures effective inter-agency coordination and timely implementation. This approach has also made it possible to introduce, over time, beneficiary participation in the planning and selection of project activities. The VDPs are the main tool for this, together with a variety of investment packages which the beneficiaries are invited to choose from. Effective target group participation, however, remains critical for changing the top-down attitude, especially with the higher-level PMOs. This change will be brought about through widespread awareness-building on PRA methods, followed by intensive training workshops at the county and township levels.

5. **Targeting.** Selection of the poorest townships has been effective for reaching the poorer rural households. Credit packages have been developed to meet the requirements of the poorer farmers and ceilings established for certain activities to avoid use by better-off farmers. World Food Programme (WFP) food rations are used increasingly to provide training support for poor women, identified with the assistance of the Women's Federation (WF).

6. **Monitoring and evaluation (M&E).** Large amounts of statistical data are collected by the M&E systems, making their analysis rather cumbersome. The system was revised once cofinancing was initiated with WFP, and a number of parameters were identified to meet the requirements of both the financiers and the PMOs. To make M&E more user-friendly, participatory workshops have been conducted for the purpose of defining the indicators. Annual workshops on participatory monitoring by the beneficiaries will be strengthened by the PRA exercises.

7. **Financial services.** The use of existing financial intermediaries for the delivery of credit and other financial services to the target group was initiated in 1996, when the Government decided that rural credit cooperatives (RCCs) should become rural banks at the township level. Many RCCs are still weak but a national drive for restructuring and strengthening their capacity is being organized by the People's Bank of China (PBC) assisted by the Asian Development Bank (AsDB). Close collaboration has been established with PBC for the purpose providing technical and managerial support to the RCCs and for evaluating and supervising their performance. From now on, all IFAD sub-loans to RCCs will be administered as separate accounts in order to avoid the negative impact of the RCCs' earlier bad debt situation.

8. **Rural infrastructure works.** Irrigation scheme designs are required to meet national standards. The technical capacity of the water conservation bureaux has been found very satisfactory by several international consultants who assisted during project formulation, appraisal and implementation. However, closer monitoring of the rural infrastructure and road works may be required during implementation to ensure that the designs are correctly executed; and, as such, follow-up during implementation is deemed more important than providing international expertise during formulation.



9. **Water and soil management.** Most of the remote, mountainous project areas are prone to erosion, drought and flooding. Experience with agricultural infrastructure to improve water and soil management has been instrumental in ensuring better water harvesting, flood control, irrigation support, and land development with terracing and fertilization. All these activities have effectively contributed to reducing erosion and the risk of natural disasters. Water balance studies have been introduced on a regular basis and as a condition for implementing large-scale important irrigation works. These studies should, at one and the same time, limit any damage to the environment and increase water availability.

10. **Environmental impact.** Designs for infrastructure development will be drawn up in compliance with the Agricultural, Forestry, Land, and Water Resources Laws and the Natural Reserve Regulations. The various technical ministries, departments and divisions observe environmental stipulations when undertaking infrastructure development. Planning, design and implementation are monitored by the Environmental Protection Bureaux (EPB) at the different administrative levels. To create more awareness of infrastructure viability and environmental impact, local user groups and VIGs will be consulted, using PRA methods to identify major issues. Training will be provided in the maintenance and repair of infrastructures.

11. **Marketing.** Since recent studies have revealed that market gluts of apples and oranges may occur in certain provinces and the varieties planted do not always meet quality requirements, market studies for cash crops are now included in projects. Market information services will be introduced so as to ensure that the beneficiaries take their decisions on a well-informed basis. Most minority group women have shown keen interest in specialized crops with a high unit value. This will require that additional marketing services be developed, such as technical support for packaging and processing.

12. **Joint IFAD/WFP operations.** Experience in China has shown that project design has been more efficient when the costs were shared by WFP and its country office provided logistical assistance. WFP has benefited from the financial analysis of project proposals following the IFAD approach, but it is the rural poor that have benefited most of all. Cofinancing with WFP makes it possible to reach the poorest, who will not normally have access to credit because they are largely food-deficit and may use the credit to purchase food. WFP food aid helps the subsistence farmer to become almost self-sufficient in food for a certain period of time. The farmer can then use credit to undertake cash-generating activities and build up his/her assets for further development, thus allowing him/her to meet essential needs, including the purchase of food once WFP food rations are no longer available.

C. IFAD's Strategy for Collaboration with China

China's Policy for Poverty Eradication

13. China has built up an impressive record in terms of reducing absolute poverty over the last four decades as a result of overall economic growth and strong commitment to improving the standards of social services, such as education, health and nutrition. The number of absolute rural poor declined from about 260 million in 1978 to around 100 million in 1985. In 1997, the Government estimated that 65 million people were still living in absolute poverty, mainly concentrated in the resource-poor densely-populated mountainous areas of the centre, the south and the south-western hinterland.

14. The Government accords high priority to the alleviation of poverty and, in 1994, adopted a new poverty alleviation plan, known as *Ba-Qi* or 8-7, the objective of which was to eradicate the absolute poverty of 80 million people by the year 2000. Some USD 1.3 billion is earmarked every year for



poverty relief, and this has been increased by USD 180 million for the period 1997-2000 to include road construction, land improvement and water facilities. An additional USD 360 million in loans will support viable investments in the farming, livestock and agro-processing sectors. Poor areas will also benefit from better education and health care services, coupled with improved productive capacity.

The Poverty Eradication Activities of other Major Donors

15. The World Bank supports broad-based economic development in the pursuit of poverty alleviation. To this end, it has allocated 28% of all loans to the agriculture sector, especially for agricultural and rural development, poverty alleviation, agricultural marketing and investments in agro-processing. The AsDB focuses on enhancing economic efficiency, promoting growth to reduce poverty in poor inland provinces, and improving the management of natural resources. The United Nations Development Programme (UNDP) supports pilot projects to develop sustainable and replicable model for poverty eradication.

IFAD's Strategy in China

16. The strategic framework for IFAD assistance to China is based on integrated rural development accompanied by credit to finance on- and off-farm income generating activities, with emphasis on diversification and household food security. The strategy focuses on the poorer households in marginal rural areas where ethnic minority groups are generally concentrated. New elements have been added, such as more effective targeting through selection of the poorest townships; use of existing credit agencies to improve sustainability; participation in planning and implementation at all levels, including the target group; and collaboration with other donors.

Project Rationale

17. With arable land of only about 3.8 mu/household, low yields and low crop intensity (except in low and medium elevation areas), the average household cannot become self-sufficient in grains. Most households buy the balance of their grain requirements with income from: (i) small livestock; (ii) agroforestry; (iii) off-farm activities and labour; (iv) special cash crops, mainly as second crops on paddy land; and (v) paddy fish culture. Farmers are well aware of the problems they face, and the project will build on their perceptions through generalized use of PRA for the preparation of the VDPs. The project will provide credit for investment in agricultural production and off-farm activities, both of which are income-generating activities; better access to modern technology to improve yields; and land and irrigation development to increase resources. Additional rural infrastructure and facilities for social services will be combined with gender-specific training in health and nutrition, and in literacy and technical skills in order to increase the socio-economic empowerment of women and improve living conditions.

PART II - THE PROJECT

A. Project Area and Target Group

18. The project area is located in the Wulin mountain range in Guizhou and Hunan provinces, and includes 1 587 villages from 92 townships in 16 contiguous counties. The area is subdivided into three subprojects, with decentralized PMOs at prefecture level so as to ensure manageable units. The total project area covers about 25 400 km², of which only 8.3% constitutes arable land. The topography is steep, with narrow valleys resulting in a subsistence hill-farming system, mainly based on annual crops. Average per capita income in the project area was only CNY 521 in 1996, compared



with CNY 678 for all the 16 project counties, CNY 1 792 for the province of Hunan and CNY 1 277 for the province of Guizhou. Minorities represent about 80% of the population, and live in the poorer and most remote villages. The minority counties enjoy a number of privileges relating to family planning, taxation, education and language, and receive ethnic subsidies. Women are highly respected among the men.

19. The target group was selected on the basis of annual per capita income and net grain availability. In principle, all rural households in the target area, or about 390 000 families, will be eligible to participate in the project — priority to be given, however, to the households in the more remote villages and to the poorer households as categorized by the villagers. Households within the corridor limits of main roads and major valleys will not receive project support during the first three years. All social services will target women, who will receive 50% of the credit, mainly for livestock and fish-farming. Technical training will focus on women through food-for-training.

B. Objectives and Scope

20. The main objective of the project is to reduce the prevailing chronic level of poverty in 92 poor townships through increased food and cash crop production. The standard of living of some 390 000 poor households in the project area will be increased on a sustainable basis through higher income levels and better access to social services.

21. Farming systems have developed into self-sufficient mechanisms geared to meeting basic food requirements, supported by income-generating activities to defray cash expenses and purchase grain. The project will increase the viability, sustainability and resilience of these systems through: (i) facilitating access to credit, thus allowing farmers to acquire the necessary capital inputs for productive activities; (ii) direct investment in rural production infrastructure, such as irrigation and drainage schemes, to create the basis for economic production; and in socio-economic infrastructure, such as roads, drinking water, and health facilities, to improve productive capacity and living conditions; and (iii) reinforcing official service structures and grass-roots organizations to better assist farmers to enter the market economy and use credit more efficiently.

C. Components

22. **Credit** will be the driving force behind the production activities implemented by the project, and will address the target group's lack of capital for investments in increasing food production and income generation. Women will benefit from at least 50% of all credit supplied. Credit packages will consist of profit-making activities, many of which were proposed during the PRA and field visits. Seasonal credit will mainly cover farmers' needs for agricultural inputs. Medium-term credit will be provided for: (a) agricultural and processing equipment, mainly for small farmer groups; (b) livestock, mainly pigs, chicken, ducks and goats, especially for women who derive a major part of their cash income from such stock; and (c) fish production in paddy fields, which is generally managed by women, often in groups. Longer-term credit will cover mainly the development of cash crop trees, another important source of cash income. Special attention will be given to women's income-generating activities, such as mushrooms, weaving, embroidery, wax-inking, bamboo, bean curd, noodle making, medicinal plants, and other viable microenterprises. RCCs will receive IFAD funds as a sub-loan from the county PMO and will be responsible for distributing the credit.

23. **Rural infrastructure** to support the expansion and improvement of rural production, decrease physical isolation, and improve access to market outlets, education and hygiene and health facilities. Support is to be provided for irrigation and drainage, rural access roads, and electricity. Improved water management will include better access to safe drinking water for human beings and livestock,



increased labour availability through better health, enhanced animal health and productivity, and the creation of new opportunities for fish production. The Water Conservation Bureau (WCB) will be responsible for irrigation and drinking water and the Transportation Bureau for access roads. Detailed maps have been prepared of the different infrastructures, the locations of which have been defined on the basis of technical requirements in consultation with the beneficiaries.

24. **Agricultural production** will be intensified and diversified through bringing more land into production and raising annual crop productivity and production. Three activities will be combined: land development; seed multiplication; and technical training and extension. Agricultural bureaux (ABs) at the township and county levels will assist PMOs in implementing the component. Major works for irrigation and drainage will be supervised and supported by the WCB. Technical training for farmers and extension workers, combined with farmer field trials and demonstrations, will introduce modern technology and improved cropping practices. Food crop production opportunities and capacities will be expanded and intensified through drainage, storage of paddy land flood water, and the terracing of dry land. Livestock and fish production activities provide cash earnings and increase family consumption of protein, and are especially adapted to women's capacities and ambitions. Animal health services and farmer training will be improved to sustain and secure the related credit-supported investments. Cash crop trees will boost household cash incomes, without constraining the existing arable land, through a combination of terracing and the use of environmentally-friendly technologies for plantations on sloping land.

25. **Social support services**, directly contributing to improved living conditions, will especially target minority groups and, within these communities, the specific needs of women. Women's development activities will include literacy and technical skills training to obtain higher yields and undertake more profitable income-generating activities. Basic health care and nutrition training will be organized for poor rural women to instruct them in the use of clean water and better family hygiene and nutrition, with a view to improving overall family health and living conditions. A group savings scheme will be introduced on a pilot basis to encourage women to form groups and increase their awareness of the importance of credit and savings. The WF's operational capacity will be strengthened to support the organization and training of women.

26. **Project management** requires strong, efficient institutions at all levels, especially in the case of an integrated development project and for the successful introduction of PRA methodology. Intensive training and capacity-strengthening are essential for managing multisectoral activities and meeting the demands of beneficiaries. Institutional support should comprise training of both beneficiaries and support staff to optimize credit use efficiency through: greater awareness and effective use of new and improved technology; improved beneficiary participation; and resilience to production risks. The project will support the establishment of PMOs at the township, county, prefecture and provincial levels, in line with existing successful arrangements. County and township PMOs will be trained in PRA techniques. Since credit is the driving force for agriculture production and economic development, special training, and logistic and administrative support will be provided to the RCCs with a view to increasing their institutional capacity and improving their financial performance.



D. Costs and Financing

27. Total project costs over the five-year implementation period, inclusive of contingencies, taxes and duties, are estimated at USD 107.2 million. Foreign exchange accounts for approximately 2.1% and taxes and duties for 2.2%. Project costs have been calculated in Yuan and are based on December 1997 prices. No physical or price contingencies have been applied to the credit and WFP-supported activities. However, physical contingencies of 10% have been applied to all material costs for civil works; and price contingencies have been levied on all cash costs, with the exception of credit. A constant purchasing power parity (CPP) exchange rate has been used to allow for the difference in foreign and domestic inflation rates. Project costs are summarized by component in Table 1.

28. IFAD will finance approximately USD 28.0 million, representing 26% of total project costs. WFP will contribute food rations in the form of wheat, equivalent to USD 18.8 million, including USD 16 million from its project in Tongren Prefecture, Guizhou Province (China 5181). WFP's food rations will support infrastructure and training, especially for women's activities. Additionally, Germany/GTZ will contribute USD 2.3 million, as a technical assistance grant to support RCC capacity-building. The Australian Agency for International Development (AusAID) intends to provide USD 5.9 million for socio-economic infrastructure development in Guizhou Province, possibly followed by another USD 6 million for project years 2 and 3. The grant will replace existing Government investments in socio-economic infrastructure. The Provincial Governments are actively seeking co-sponsoring from a rich sister province. The indicative financing plan for the project components is given in Table 2.

TABLE 1: SUMMARY OF PROJECT COSTS^a
(USD '000)

Components				%	%
	Local	Foreign	Total	Foreign Exchange	Total Base Costs
Crop production	43 460	412	43 872	1	43
Livestock and fisheries	1 879	254	2 134	12	2
Cash crop trees	2 581	73	2 653	3	3
Credit	27 653	-	27 653	-	27
Social support services	2 333	72	2 405	3	2
Rural infrastructure	15 176	54	15 230	0	15
Project management	7 010	1 210	8 221	15	8
Total baseline costs	100 091	2 076	102 167	2	100
Physical contingencies	3 265	89	3 354	3	3
Price contingencies	1 648	79	1 727	5	2
Total project costs	105 004	2 244	107 248	2	105

^a Discrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN ^a
(USD '000)

Components	IFAD		WFP		Government		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
Crop production	970	2	15 117	33	28 452	62	1 141	3	45 680	43	455	44 371	854
Livestock and fisheries	618	26	36	2	1 744	73	-	-	2 398	2	283	1 744	371
Cash-crop trees	82	3	1 882	69	662	24	110	4	2 736	3	77	2 659	-
Credit	24 641	89	-	-	-	-	3 057	11	27 698	26	-	27 698	-
Social support service	248	10	-	-	2 244	90	-	-	2 492	2	74	2 418	-
Rural infrastructure	42	0.2	1 785	10	15 071	88	279	2	17 177	16	56	16 750	370
Project management	1 413	16	-	-	7 654	84	-	-	9 067	9	1 299	7 001	767
Total disbursement	28 014	26	18 826	18	55 828	52	4 586	4	107 248	100	2 244	102 641	2 363

^a Discrepancies in totals are due to rounding up of figures.





29. **Retroactive financing.** In order to ensure effective project start-up in time for the 1998-99 production season, retroactive financing not exceeding USD 300 000 will be provided for expenditure incurred after 1 August 1998. This will include, *inter alia*, material and equipment; training in participatory planning and M&E; curriculum development, particularly for women's activities; marketing studies; and detailed infrastructure design.

E. Procurement, Disbursement, Accounts and Audit

30. **Procurement.** The main items to be procured under the project are vehicles and equipment, but the quantities and extent of IFAD financing are limited. Local competitive bidding procedures acceptable to IFAD will be applied. Civil works for the construction of irrigation schemes, roads and drinking water supply will be carried out by the relevant government agencies, using contractors where necessary. Each contract estimated to cost less than USD 20 000 may be awarded on the basis of local shopping procedures.

31. **Disbursement.** The IFAD loan will be disbursed over five years and is expected to close on 31 December 2004. Withdrawals in respect of smallholder loans disbursed by the RCCs, expenditures for local training, and payments under contracts costing less than USD 20 000 equivalent will be based on certified statements of expenditure. For all credit, disbursements will be made against summaries of credit disbursed to farmers by RCCs. Monthly summaries of credit disbursed and collected will be maintained at the county-level PMOs for review by supervision missions. To ensure ready availability of loan proceeds, a separate Special Account in United States dollars will be opened and maintained by each provincial department of finance. Each Special Account will receive an initial deposit of USD 1.4 million. The county PMOs will prepare reimbursement claims for submission to the provincial PMOs for review and forwarding to the cooperating institution.

32. **Accounts and audit.** Consolidated project accounts will be maintained by county and provincial-level PMOs, assisted by the finance and credit support units established with staff seconded from the Finance Bureau (FB). Financial reporting and accounting practices followed will be those of the FB, whose accounting sections are adequately staffed and fully capable of handling the requirements of the project. RCCs will maintain detailed accounts of all project loans. The State Audit Agency, a fully independent body reporting to the State Council, will be responsible for auditing all project accounts. The audit will also cover the managerial aspects of credit operations, disbursements and recoveries and provision for bad debts. Certified copies of the audit reports will be submitted to IFAD and UNOPS not later than six months after the end of each fiscal year. WFP will also require audits of project expenditures, utilization of food aid, confirmation of workdays and rations. Both audits should be performed simultaneously.

F. Organization and Management

33. **Beneficiary participation.** Individual VDPs will be prepared through a participatory process involving the entire villages. The VIG, comprising village leaders and farmer representatives, including two women, will play a key role in disseminating information on the project and mobilizing the community. The VIGs will be responsible for preparing the VDPs through a consultative process within the villages, using PMO-assisted PRA. The beneficiaries will be mobilized also to report on the services received and to provide feedback for improvements.



34. **Gender considerations.** The project proposals are based on a gender analysis. A reality check undertaken during the introductory PRA workshop made it possible to establish a strong gender focus. Special attention will be paid to social services and credit-driven activities for women, who are disadvantaged in terms of education and training. The project will provide training for women on basic credit concepts and on analysing cash needs for income-generating activities. About 75% of all livestock activities, especially goat and pig rearing, will be implemented by women receiving loans. Women will also benefit from fish farming and cash crop activities, and about 70% of them will receive technical training related to such activities. Special attention will be given to promoting women's income-generating activities, and some 10 000 women will receive special skills training over about 10 days. A women's group savings scheme will be introduced as a pilot activity. WFP food rations will focus on poor rural women and children through literacy training and general special skills training for income-generating activities. Health care training, with emphasis on nutritional aspects and general hygiene, will be limited to women.

35. **Project management.** The Ministries of Agriculture and Finance will have overall responsibility for the project at the national level. At the provincial level, the Department of Agriculture will assume prime responsibility for project implementation and for coordinating the activities of the agencies involved. The provincial Departments of Finance will be responsible for the management and supervision of the project funds and for ensuring repayment of the IFAD loan. The project management agreement will specify both the implementation procedures and the role and responsibilities of each implementing agency, including the RCCs as financial intermediaries. The PMOs at all levels are established and staffed, and operate as the executive arm of the PLGs, which provide general guidance and ensure close coordination between executing agencies and the members of which are senior leaders drawn from the departments and bureaux concerned with project implementation. The PLGs will meet quarterly and on an *ad hoc* basis as necessary. The county PMOs will bear most of the responsibility for day-to-day project implementation. The provincial PMOs will have overall responsibility for project implementation and for coordinating the activities of the project counties with the support of the prefecture-level PMOs.

36. **Credit management** will be devolved to RCCs, which will take full responsibility for delivery, monitoring and recovery. RCCs will receive the credit funds from the county PMOs through the respective RCC unions, on the basis of subsidiary loan agreements between them and the PMOs.

37. **Monitoring** will be conducted jointly by IFAD, WFP, GTZ and AusAID. During a monitoring workshop, the existing reporting and monitoring systems will be modified/simplified to better suit the needs of project management, with the assistance of resource persons from existing projects. Yearly workshops will be held in each county to review the past year's work programme and budget. Beneficiary-initiated monitoring at village level will result in six-monthly reports on project services and their impact on households and production. The vulnerability assessment mapping (VAM) methodology will be used for the baseline survey and for its annual updating so as to assess the project's overall impact during and after implementation.

38. **Evaluation.** A joint mid-term review will be undertaken during project year 3, by IFAD, WFP, GTZ and AuSAID, in order to assess the overall progress of the project. This will include qualitative aspects of implementation, the appropriateness of targeting financial services through RCCs, and the living condition of the target group. Impact assessment and ongoing evaluation will be carried out by the M&E units of the PMOs. Analysis will focus on the impact of project activities on the production systems and socio-economic situation of participating households, with special emphasis



on women. Maximum use will be made of the VAM system and of the results of beneficiary-initiated monitoring. A joint project completion evaluation will be carried out by the donors. To ensure objectivity, non-project staff and consultants from the Academy of Agricultural Sciences and the Statistical Bureau will be recruited to carry out surveys.

G. Economic Justification

39. **Production and marketing.** Total grain production at full development will be expected to have increased by some 157 000 t annually, mainly for self-consumption by the beneficiaries. Annual per capita food availability will thus rise by 45 kg, or 25%. Major production increases will also be derived from agroforestry and location-specific cash crops. Domestic demand is expected to absorb most of the production, whereas national and international market outlets will easily absorb the balance. Total incremental production of livestock per year at full development will reach an estimated output value of USD 12.9 million.

40. **Benefits and beneficiaries.** Approximately 365 000 households will receive seasonal credit for food crop production, of which about 150 000 will also benefit from livestock or fish-farming activities and about 86 000 from agroforestry. The income of these households is expected to increase from about USD 150 to between USD 420 and USD 570. Such increases in disposable income will allow the households to purchase food in order to achieve food security and to cover other essential needs, including school costs and health services. In all, some 85% of all project area households will participate in project activities, including about 70% of the women. The majority of households will belong to one of the minorities that form the majority in the project counties.

41. **Economic rate of return (ERR).** The ERR for the project as a whole is 20%, but it is slightly higher in Tongren (22%) where there has been some considerable investment (by WFP) compared with Qiandongnan (19%) and Xiangxi (20%). This relatively high rate of return reflects the current low uptake of inputs for crop production in the project area, and the substantial production increases which can be obtained with relatively simple improvements and access to credit. The sensitivity analysis shows that the project should be able to sustain adverse movements in benefits and costs and yet generate acceptable rates of return, well above the opportunity cost of capital which is currently 8-10%.

H. Risks

42. Some risks may be related to peak climatic events, low adoption rates of improved technologies and low uptake of credit packages. However, specific measures to cope with these risks are included in the project design and comprise: civil works for irrigation and flood control; technical training and farmer-driven extension services; farmer training; and awareness-building with regard to credit services. The project will bring existing reservoirs and other water storage facilities up to national standards, and reduce the vulnerability of project areas through the construction of flood protection dykes. The predominant topography naturally limits the extent of any catastrophe. Better water storage and management will assure more regular water supply during extended dry periods. Staff and farmer training is to be provided for all food and cash crop, livestock and fishery production activities, to ensure the adoption of improved technologies and inputs already known and used in the project area. New technologies will be introduced only once the pilot research and development activities show proven results.



I. Environmental Impact

43. The environmental impact of the project is expected to be very positive, through land development and erosion control measures, construction of water management schemes combined with flood control measures, and the introduction of adaptive methods for improved organic farming. All infrastructure work is required to be implemented in accordance with Chinese legislation on environmental protection, and must comply with national technical standards monitored by the EPB. The necessary assurances will be negotiated to ensure that these standards and criteria are complied with during project implementation.

J. Innovative Features

44. The experience and lessons learned from previous project design and implementation have been used as the basis for introducing a number of innovative features in the present project. The key features are: (i) continued capacity-building of national consultants, including training of local staff in water balance studies and marketing surveys; (ii) awareness-building for and introduction of PRA methodologies for implementation planning at village level; (iii) pilot activities for traditional technologies, low chemical inputs and organic farming, and integrated pest management; (iv) diversification of agricultural crops to introduce and promote high-value crops, including medicinal plants; (v) introduction of farmer-extensionists and pilot activities, on-farm trials and demonstrations; (vi) establishment of a gender focal point in each county PMO; (vii) use of VAM as a tool for impact assessment and benchmark survey; (viii) collaboration with PBC's Department of Rural Financial Services Reform in the use of RCCs as credit intermediaries and savings promoters; (ix) introduction of livestock insurance into the credit scheme; and (x) additional financing from GTZ and AusAid.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

45. A loan agreement between the People's Republic of China and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

46. The People's Republic of China is empowered under its laws to borrow from IFAD.

47. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

48. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the People's Republic of China in various currencies in an amount equivalent to twenty one million one hundred thousand Special Drawing Rights (SDR 21 100 000) to mature on and prior to 1 December 2038 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan
President



SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan Negotiations concluded on 28 August 1998)

1. The Government of the People's Republic of China (the Government) will cause the PMOs to open and thereafter maintain separate project development accounts (PDAs) in a bank satisfactory to IFAD in each province, prefecture and county of the project area. The Government will deposit or cause to be deposited the proceeds of the loan in the PDAs and the required local counterpart funds to be provided by the Government in the county PDAs in an adequate amount from its own or other resources.
2. In each province the Government will cause, *inter alia*, the Department of Agriculture, the two provincial branches of the PBC, the Department of Finance, the Department of Forests, the Department of Public Health, the Department of Transport, the Department of Water Conservancy, the Education Commission, the Provincial Poverty Alleviation Office, the Planning Commission, the PMOs and WF to enter into a management agreement, satisfactory to IFAD, regarding the management of the project.
3. The Government will take all reasonable measures to ensure that the execution and operation of the project are carried out with due regard for environmental factors, including the maintenance of appropriate agricultural pesticide control practices. To that end, the Government and IFAD will agree on a positive list of environmentally safe pesticides to be procured no later than six months after the date of effectiveness of the loan agreement.
4. The Government will cause each RCC to establish and maintain a revolving fund for the project for the deposit of principal and interest, net of operating and other expenses, received on the credits made to farmers from the proceeds of the loan provided for incremental credit. Amounts available in the revolving fund will be used by each RCC for the expansion of credit facilities for beneficiaries, consistent with the loan agreement, until at least 15 years after the date of effectiveness of the loan agreement.
5. During the execution of the project, the Government and IFAD will periodically review the interest rates to be applied to credits given from the proceeds of the loan. The Government will, if necessary, take appropriate measures, consistent with its policies in order to harmonize the interest rates on credits with IFAD's policy on relending rates. In the implementation of the above, the Government will ensure that the RCCs minimize their costs in executing the credit operations, as these affect their margin of the interest spread.
6. PLGs will be established for each province, prefecture and county and will be responsible for providing policy guidance, approving plans and directing project activities at their respective levels.
7. PMOs will be established at the provincial, prefecture and county levels under each PLG, and at the township level to administer project activities, allocate resources, carry out detailed planning, supervise credit operations and oversee the execution of works by the technical bureaux. PMOs at all levels will have a fair share of female staff members and future recruitment will try to reach a target rate of 50% women.



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8. VIGs will be established in each village within the project area and will be chaired by the head of the village. They will comprise, *inter alia*, the Head of WF, at least three representatives of the beneficiaries, of which at least two shall be women, the village accountant and appropriate farmer technicians. The VIG will be responsible for: (a) overseeing and assisting implementation of the project; (b) disseminating information; (c) formulating the VDP in consultation with all farming households; (d) selecting the initial beneficiaries; and (e) monitoring project progress.

9. The Government will cause the PMO to draft a project booklet in simple language, in consultation with IFAD and WFP, no later than 30 days after the date of effectiveness of the loan agreement, to inform target households in the project area and to organize participatory rural appraisal workshops to assist in the preparation of VDPs.

10. The Tongren WFP PMO will be integrated into the overall project PMO so as to ensure effective project implementation.

11. Following recommendations from IFAD and WFP, every county PMO will have a gender focal point to monitor gender-related issues. WF will be a part of each PMO and, as such, will have its say on overall project implementation. Its prerogatives will not be limited to women or, by extrapolation, to gender-related issues.

12. The Government, in compliance with its standard policies and procedures, will use the difference between the lending terms of the loan and its onlending terms to each provincial government, net of costs and handling charges, for similar agricultural development activities within the project areas and other poor parts of the Government's territory consistent with the objectives of IFAD.

13. To the extent that project counties may experience difficulties in meeting the project's requirements for counterpart funds, the provincial government concerned will provide additional support as may be appropriate.

14. The Government will ensure that sufficient grant financing from local governments is made available to the project and that the sources and use of counterpart funds are confirmed and become a part of the annual workplan and budget (AWP/B).

15. The onlending exchange rate will be the rate at the time of the money transfer from the Provincial Department of Finance (PDOF) to the counties.

16. With respect to the credit funds from the proceeds of the loan, the respective PDOF will channel the proceeds to the respective provincial PMO, which will pass them to the county PMOs directly. The county PMOs will in turn pass the proceeds to the RCC union, which will distribute them to the RCCs. The county PMOs will pass an amount to the RCC union for making an initial deposit in the revolving fund account of each RCC. The deposits will cover the estimated credit requirements according to the first-year workplan and budget agreed by each county PMO.

17. All credit provided under the project will be disbursed through RCCs and exclusively in villages selected from within the project area, in accordance with the subsidiary loan agreements to be executed between RCCs and the county PMOs, acceptable to IFAD, and consistent with the approved VDPs. The RCCs will bear full responsibility for project credit funds in accordance with contractual arrangements with the PMOs at the county level. The RCCs will receive the project credit funds at such a percentage as to ensure a minimum spread to cover all transaction costs, currently estimated at



about 4%. The proceeds from the 4% for RCC administration and overheads will not be used to make up for past losses incurred through other activities. RCCs and RCC unions will maintain separate accounts for the credit funds received.

18. Provisioning for bad debts by the risk funds will be made in accordance with the regulations stipulated by PBC for such funds. Locating the Credit Risk Fund at the RCC union level will provide additional security, since the risk funds for all townships in a single county will be consolidated. A Credit Risk Fund will be formed from the interest spread with deposits equivalent to 1.5% of the average of the sub-loans outstanding and be deposited in an account to cover bad debts. This Credit Risk Fund will be kept and managed at the RCC union for 15 years, and all interest earned from this account will be retained in the Credit Risk Fund. Withdrawals from the fund will be determined by the RCC union and county PMO and submitted to IFAD for clearance prior to withdrawal.

19. RCC-contracted loans for the acquisition of animals (cattle, pigs and goats) will be covered by an insurance policy. The animal husbandry bureaux (AHBs) of the project counties will be responsible for making all necessary arrangements in their county, so that the insurance scheme becomes effective before livestock loans are disbursed to farmers. The insurance fee, which is still to be determined, will be high enough to cover the costs of the insurance scheme, but must remain low enough to not overburden poor farm households that are to benefit from the livestock production activities.

20. The Government will ensure that a minimum of 50% of the sub-loans provided under the project are reserved for women and that women will, in their own names, be able to become members of an RCC and have the same rights as men, including the right to borrow. Sub-loans will be available to the very poor and minority groups on an equal basis with other beneficiaries.

21. The Government will ensure that the monitoring and evaluation arrangements to be established include adequate provision for joint monitoring of, *inter alia*, the special concerns of IFAD, WFP, GTZ and AusAID regarding:

- (a) the level of participation of beneficiary households in the development of VDPs, the selection of development activities and the process of monitoring and reporting on project activities;
- (b) the level of participation of beneficiary households in the food-for-work activities and the effect upon household food security;
- (c) the approval of VDPs and the provisions included therein for assisting poorer households and women;
- (d) the number of women participating in training and economic activities, the number of women-headed households receiving production credit and the types of activity financed;
- (e) the development of grass-roots credit initiatives through RCCs, including the number of RCCs being assisted by the project, the number of shareholders, the capital structure of these RCCs and data relating to the effectiveness of their on-lending programmes;
- (f) the effectiveness of the RCCs in providing credit to project beneficiaries, including conformity to selection criteria, management of individual accounts, repayments, arrears and funds that are revolved to additional beneficiaries; and



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- (g) as appropriate, all monitoring shall differentiate between male and female beneficiaries.
22. The Government will ensure that appropriate environmental monitoring is undertaken.
23. The Government will ensure that households disadvantaged by the infrastructure works under the project are compensated and that, where appropriate, those losing their farms receive land with equal cropping potential. In addition, riparian rights for downstream communities will be preserved.
24. The Government will ensure that, to the fullest extent practical, labour-intensive procedures are used in the construction of works under the project. Absolute priority for unskilled labour positions will be given to command/project area household members. Where possible, skilled labour will be drawn from the project area.
25. The Government will ensure that water fees are collected at a sufficient level to cover the operation and maintenance of project irrigation schemes. The measuring devices included in the project design will make possible a “user-pays” system in the project counties. Details of the rate to be charged will be determined during the mid-term review.
26. As all village roads will be constructed or renovated to Grade IV specification, the Government will ensure that their ongoing maintenance will be the responsibility of the respective County Transport Bureau. An appropriate increase will be made in their budget and funds allocated for this purpose.
27. The Government will ensure that, under normal circumstances, the nominated project director will remain in the post at least until the end of project year 3.
28. The provincial AHB and Fisheries Bureau will ensure that animal and fish vaccines and medicines are provided to the project township stations on time and in sufficient quantity and good quality to be used by the households with project loan packages for livestock or fish production.
29. Two members of each household participating in project livestock and/or fish production will be eligible for training in these activities.
30. All infrastructure construction and rehabilitation work supported under the project will follow the relevant Chinese National Standards and ad hoc environmental legislation. All construction plans and designs will be submitted to the Environmental Protection Bureau for approval. More specifically, adequate measures to avoid negative environmental impacts of rural infrastructure development (road construction and upgrading, irrigation development) will be part of the technical design. This will include ensuring sensitive alignments to avoid erosion-prone areas, and provision of adequate cross-drainage, upslope/downslope protection measures, including dissipation ditches.
31. Irrigation infrastructure development will only proceed on the basis of proficient screening and scoping, and the inclusion of mitigation measures whenever necessary, together with the associated monitoring systems. A water-availability-and-demand balance will be carried out prior to commencement of any irrigation/drainage works and the design modified if necessary.
32. The Government will ensure that all planting material provided under the project is of high quality.



33. Detailed marketing and feasibility surveys related to the proposed credit activities will be conducted before any sub-loans are extended for any kind of project-supported credit-driven income-generating activity and the results submitted to IFAD for review before any sub-loans are extended.
34. The Government will ensure that WF does not benefit financially from marketing women's produce generated through project loans. Support to WF will be limited to training, equipment and training materials, and will include transport, office equipment, and study tours for county and township WF representatives to other provinces.
35. The Government will ensure that special attention is given to educating farmers, both men and women, in the safe use, handling and storage of agrochemicals so as to minimize acute and chronic toxic effects. When recommending essential chemicals, technical staff will choose the least hazardous effective chemical. Whenever possible, integrated-pest-management principles will prevail.
36. The Government will ensure that operational costs and the financing of technical service facilities are continued after the project and that end-of-project standards are maintained.
37. The Government will ensure that food distributed to project beneficiaries meets WFP quality standards.
38. The Government will ensure that farmers undertaking land-development activities under the project obtain land-use rights for a period of at least 30 years.
39. The construction/rehabilitation of the township agricultural and animal husbandry stations will be preceded by a needs-assessment inventory, and common premises will be proposed whenever possible to provide a more efficient use of funds for sites, buildings and services and to ensure better service to farmers.
40. Provincial Departments of Agriculture will ensure planning authority permission and land allocation for PMO training centre building construction.
41. The Government will make all possible efforts to ensure efficient coordination between IFAD, WFP, GTZ, AusAID and the implementing agencies.
42. No withdrawals will be made from the loan account:
 - (a) until the AWP/B for PY 1 shall have been submitted to and approved by IFAD;
 - (b) for expenditures under the social-support-services development component of the project, for each province, until the Executive Board of WFP shall have approved the WFP grant for the respective province; and
 - (c) for expenditures under the incremental credit component of the project, for any township in the project area where the RCC is to provide incremental credit, until the respective subsidiary loan agreement shall have been executed, acceptable to IFAD, between the respective county PMO and the respective RCC.
43. The following is specified as an additional condition to the effectiveness of the loan agreement:



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the management agreement shall have been executed in form and substance acceptable to IFAD.



COUNTRY DATA

CHINA

Land area (km² thousand) 1994 1/	9 326	GNP per capita (USD) 1995 2/	620
Population (million) 1995 1/	1 200	Average annual real rate of growth of GNP per capita, 1985-95 2/	8.0
Population density (population per km²) 1995 1/	129	Average annual rate of inflation, 1985-95 2/	9.5
Local currency	Yuan	Exchange rate: USD 1 =	CNY 8.30
	Renminbi		
Social Indicators		Economic Indicators	
Population (average annual rate of growth) 1980-95 1/	1.3	GDP (USD million) 1995 1/	697 647
Crude birth rate (per thousand people) 1995 1/	17	Average annual rate of growth of GDP 1/	
Crude death rate (per thousand people) 1995 1/	7	1980-90	10.2
Infant mortality rate (per thousand live births) 1995 1/	34	1990-95	12.8
Life expectancy at birth (years) 1994 3/	68.9	Sectoral distribution of GDP, 1995 1/	
Number of rural poor (million) 1/	96.2	% agriculture	21
Poor as % of total rural population 1/	11.5	% industry	48
Total labour force (million) 1995 1/	709	% manufacturing	38
Female labour force as % of total, 1995 1/	45	% services	31
Education		Consumption, 1995 1/	
Primary school enrolment (% of age group total) 1993 1/	109	Government consumption (as % of GDP)	12
Adult literacy rate (% of total population) 1994 3/	80.9	Private consumption (as % of GDP)	46
Nutrition		Gross domestic savings (as % of GDP)	42
Daily calorie supply per capita, 1992 3/	2 729	Balance of Payments (USD million)	
Index of daily calorie supply per capita (industrial countries=100) 1992 3/	88	Merchandise exports, 1995 1/	148 797
Prevalence of child malnutrition (% of children under 5) 1989-95 1/	17	Merchandise imports, 1995 1/	129 113
Health		Balance of trade	19 684
People per physician, 1993 1/	1 063	Current account balances (USD million)	
People per nurse, 1993 1/	1 490	before official transfers, 1995 1/	183
Access to safe water (% of population) 1990-96 3/	67	after official transfers, 1995 1/	1 618
Access to health service (% of population) 1990-95 3/	88	Foreign direct investment, 1995 1/	35 849
Access to sanitation (% of population) 1990-96 3/	24	Net workers' remittances, 1995 1/	350
Agriculture and Food		Income terms of trade (1987=100) 1995 1/	199
Cereal imports (thousands of metric tonnes) 1994 1/	16 331	Government Finance	
Food imports as percentage of total merchandise imports 1993 1/	3	Overall budget surplus/deficit (as % of GDP) 1994 1/	-1.9
Fertilizer consumption (hundred grams of plant nutrient per arable ha) 1994/95 1/	3 088	Total expenditure (% of GDP) 1994 1/	9.4
Food production index (1989-91=100) 1995 1/	135	Total external debt (USD million) 1995 1/	118 090
Food aid in cereals (thousands of metric tonnes) 1994-95 1/	n.a.	Total external debt (as % of GNP) 1995 1/	16.4
		Total debt service (% of exports of goods and services) 1995 1/	9.9
Land Use		Nominal lending rate of banks, 1995 1/	12.1
Agricultural land as % of total land area, 1994 1/	53	Nominal deposit rate of banks, 1995 1/	11.0
Forest and woodland area (km ² thousand) 1990 1/	1 247		
Forest and woodland area as % of total land area, 1990 1/	13		
Irrigated land as % of arable land, 1994 1/	51.5		

Source: IFAD/WFP.

n.a. not available.

Figures in italics indicate data that are for years or periods other than those specified.



APPENDIX

- 1/ World Bank, *World Development Report*, 1997
- 2/ World Bank, *Atlas*, 1997
- 3/ UNDP, *Human Development Report*, 1997

PREVIOUS IFAD LOANS IN CHINA

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
Northern Pasture and Livestock Development	IFAD	UNOPS	HC	22 Apr 81	20 Jul 81	31 Dec 88	L - I - 62 - CH	SDR	28 700 000	100%
Hebei Agricultural Development	IFAD	World Bank: IBRD	I	15 Sep 82	14 Jan 83	31 Dec 88	L - I - 107 - CH	SDR	22 900 000	100%
Rural Credit	IFAD	World Bank: IDA	HC	11 Sep 84	22 Jan 85	30 Jun 89	L - I - 153 - CH	SDR	24 250 000	100%
Guangdong Integrated Freshwater Fish Farming	IFAD	World Bank: IBRD	I	03 Dec 86	24 Mar 87	31 Dec 92	L - I - 195 - CH	SDR	10 150 000	96.4%
Sichuan Livestock Development Project	IFAD	UNOPS	HC	30 Nov 88	16 May 89	30 Jun 95	L - I - 233 - CH	SDR	13 400 000	100%
Shandong/Yantai Agricultural Development	IFAD	UNOPS	HC	07 Dec 89	10 Jul 90	31 Dec 96	L - I - 254 - CH	SDR	16 800 000	100%
Shanxi Integrated Agricultural Development	IFAD	UNOPS	HC	04 Apr 91	26 Jul 91	30 Jun 98	L - I - 281 - CH	SDR	17 850 000	99.9%
Jilin Low-lying Land Development	IFAD	UNOPS	HC	14 Apr 92	15 Jun 92	30 Jun 98	L - I - 300 - CH	SDR	20 000 000	99.9%
Yunnan-Simao Minorities Area Agricultural Development	IFAD	UNOPS	HC	15 Sep 93	10 Dec 93	31 Dec 00	L - I - 335 - CN	SDR	18 400 000	87.2%
Qinghai/Hainan Prefecture Agricultural Development	IFAD	UNOPS	HC	05 Dec 94	08 Jun 95	30 Jun 01	L - I - 364 - CN	SDR	13 500 000	75.0%
Jiangxi/Ganzhou Integrated Agricultural Development	IFAD	UNOPS	HC	06 Dec 95	10 May 96	30 Jun 01	L - I - 395 - CN	SDR	15 950 000	58.4%
Northeast Sichuan and Qinghai/Haidong Integrated Agricultural Development	IFAD	UNOPS	HC	11 Sep 96	14 May 97	31 Dec 02	L - I - 424 - CN	SDR	19 100 000	18.0%
Southwest Anhui Integrated Agricultural Development	IFAD	UNOPS	HC	11 Sep 97	12 Dec 97	30 Jun 03	L - I - 451 - CN	SDR	19 100 000	09.7%





PROJECT COMPONENTS

Detailed Description and Implementation Arrangements

Credit

1. The provision of loans to rural households constitutes the major project activity. Township RCCs will be responsible for supplying credit after receiving IFAD funds as a sub-loan from the county PMOs through their RCC unions. Credit will be provided on a short, medium and long-term basis, against proof of a positive cash flow and a high internal rate of return. Farmers are expected to raise 10% of the total amount for activities to be funded on medium and long-term credit. To minimize the risks involved, two lines of action are foreseen: (a) the economic environment will be improved through support for better marketing and the development of a marketing information system to assure long-term sustainability of investment efforts; and (b) the physical production environment will be improved through investments in basic socio-economic infrastructure and social services, which will increase production capacity through improvement and expansion of arable land, better education, health, transport and marketing opportunities. At least 50% of the total credit disbursed will go to women, and any viable proposal will be considered for support. To ensure women's participation in credit uptake, appropriate training and awareness-building will be arranged by the PMOs and VIGs.

2. **Agricultural credit**, mainly consisting of seasonal loans for agricultural inputs, are expected to benefit 365 000 farmers or about 80% of the target group. Seasonal credit will be especially promoted for households which have benefited from land improvement measures so as to maximize returns on investments and input use. The project will also finance medium-term loans to individuals or small groups for agricultural and processing equipment.

3. **Livestock**. Medium-term credit will be provided to 109 800 households for cattle, pig, goat, roiler and duck raising. Individual households will raise one unit of cattle, one or two pigs, five female breeding goats or 50 broilers or ducks, depending on feed and labour availability, individual interests and marketing potential. Small livestock activities, mostly undertaken by women, were high on their agenda during the PRA exercises.

4. **Fish production**. Fish farming is a traditional activity practised by all ethnic minority groups in the project area. Medium-term loans will be provided to 33 320 households and long-term credit to up to as many as 1 520 households for common carp cage culture. With a view to introducing higher-yielding production systems, credit will be provided for improved extensive/intensive paddy fish culture and common carp and grass carp cage culture. Loans will cover pond and/or cage construction costs and the purchase of fingerlings, feed and medicines.

5. **Agroforestry and cash crops**. Medium-term credit will benefit about 14 000 households whereas long term loans, mainly for fruit trees, will benefit some 5 300 households. Loans to farmers for cash crop production activities are tailor-made to the specific needs and possibilities of individual farmers. For tree crops, the first profits can only be expected after five to six years, and thus the repayment and grace periods will be scheduled accordingly. Provision will be made for multiple loan instalments to pay for annual fertilizer and pesticide requirements. Whenever possible, medium-term credit will be associated with short-term credit for rapid income-generating activities, so that the income generated may be used to invest in, and repay, medium-term credit. Short-term activities will include annual food and fodder crops for intercropping.



Rural Infrastructure

6. **Irrigation development.** This component is expected to benefit some 77 000 households through support for the construction and rehabilitation of small reservoirs, reinforcement of ponds, building of new pumping stations, and the construction of main, branch and lateral canals and farm ditches, drainage facilities, check dams and flood-control dykes. Training in water management will be provided to all directly concerned households and village technicians, thus assuring a sound understanding of responsibilities and rights with regard to water management. Water management charges will be levied to cover operational and maintenance costs, excluding voluntary labour, and water user groups will be created to monitor them. Maintenance will be the responsibility of the beneficiaries and it will be monitored by the relevant technical bureaux.

7. **Drinking water.** Safe drinking water will be provided to some 8 770 households, most of them situated in remote areas. The project will develop 45 individual schemes, comprising 40 gravity schemes, one regulating pool, and four deep wells equipped with pumps.

8. **Rural access roads and electricity.** Rural roads and track construction and/or rehabilitation will benefit some 74 000 people and 74 villages through completion of the existing network and the opening up of access to remote villages. Rural electricity development will benefit 63 villages and 64 000 people. Power transmission lines will be installed to solve the energy problem for lighting, the operation of water pumps and processing for communities without access to electricity.

Food Crop Production

9. **Land development.** Sloping land is subject to flooding, erosion and loss of fertility. The levelling and terracing of about 33 000 mu will guarantee more efficient cropping and better yields. The project will finance stones and tools, and the farmers will receive a subsidy of CNY 5/day for their labour. The project will also support drainage for flooded paddy land; conversion of drylands into paddy fields; and the improvement of infertile land.

10. **Seed multiplication.** Farms will receive support for high-yielding varieties of rice, corn and potatoes in nine project counties. To satisfy the need for planting material for soil conservation, the multiplication stations will also produce slips of vetiver and other species that bind the soil and reduce erosion.

11. **Extension.** The project will strengthen and improve the extension capacity of county and township ABs through the provision of training and equipment, and the rehabilitation/construction of extension centres. Wherever possible, the sharing of premises with other technical services will be proposed. Village-level on-farm trials and demonstrations will be carried out on farmers' fields, with at least 50% on the fields of the most vulnerable households. These on-farm trials will introduce improved technology, research and develop organic farming, and low-cost soil conservation and water harvesting methods.

Livestock and Fish Production Development

12. **Institutional support.** The livestock services have deteriorated over the past 10 years due to reforms and lack of funds. The project will support the improvement, establishment and equipping of animal husbandry and fishery service stations. Both services will share the new facilities, which will include buildings, laboratory and vehicles. Stations will be equipped to provide minimum health and extension services against payment by the farmers. Each county station will receive a pick-up,



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whereas the township stations will be provided with a motorbike so that the remote villages can be reached more easily.

13. **Training** will be provided to all households receiving loans for livestock or fish production. County and township level technicians and farmer technicians will be trained in fishery techniques. The farmers will receive training before loan disbursement and animal purchase. Training courses will be open to two members per household so that both the husband and the wife can attend.

14. **Livestock insurance.** All households receiving loans for cattle, pig and goat production will be required to participate in a compulsory insurance scheme to protect farmers in the event the animals die. The insurance premium will be part of the loan package, and it will be run in close cooperation with the animal husbandry bureaux, which will provide animal health and extension services to reduce the livestock mortality rates and hence the risk of loss.

Cash Crops

15. Cash crops, and cash crop trees in particular, figure prominently among the requests from beneficiaries, including women, because they provide substantial income. The project will support the rehabilitation of existing tree plantations and new plantings, plus one million bags of mushrooms. Whenever possible, perennial cash crop cultivation will be associated with livestock to provide manure, shade and fodder. Terracing of mountain land will be undertaken for all new plantings of cash crop trees. Loans to sustain cash crop cultivation will be disbursed only if terraces have the necessary erosion control measures. Technical training will be provided to staff of the relevant technical bureaux and farmers, particularly for new plantations.

Social Support Services

16. **Women's literacy training** will be provided for about 150 000 illiterate women between 15 and 49 years of age. Learning materials and one WFP ration per training day will be provided. General technical training, focusing on food and cash crop farming and related techniques at the village level, will benefit about 70% of the women. About 9 500 rural women at the township level will participate in special skills training focused on specific income-generating activities. Training materials, teachers' allowances, and WFP food rations will be provided. All women eligible for credit will participate in 10-day training courses on basic accounting, financial management, credit procedures and marketing. Detailed marketing and feasibility surveys will be submitted for review before any loans are extended.

17. **A group savings scheme** will be introduced on a pilot basis to encourage women to form groups and put aside money on a regular basis so as to increase their assets. Such savings will be deposited in a joint account with the local RCCs, and members will have an individual savings book. The funds in the account may be lent to members on terms and conditions decided by the group. The scheme will be initiated, managed and monitored by township and county PMOs and the Women's Federation.

18. **Health care services.** Basic health care and nutrition training will be provided to approximately 66 000 rural women. At the township level, about 773 selected village and township health care staff will participate in special skills training. A medical team in each village will organize awareness-building sessions on women's diseases in order to check the health of some 110 250 women between the ages of 16 and 45. Treatment for the poorest and very poor women will be free of charge or subsidized. Basic equipment, health care, staff travel, training allowances and transport will be provided.



Institutional Support

19. **Project management offices.** Senior provincial and county PMO staff will receive 120 man-days of training in project management and participatory techniques, data collection and interpretation, and computer skills. Access to the Internet will be provided. More advanced technical training will be conducted at the province level, where a small training centre is to be built. The project will provide training equipment, printed material, vehicles and office equipment. Provincial staff will participate in training visits to other IFAD projects in China and abroad. At least two professional staff in each province will receive coaching in English.

20. **Credit management** will be devolved to the RCCs which will assume full responsibility for delivery, monitoring and recovery. The RCCs, which will receive the credit funds from the county PMOs through their unions on the basis of subsidiary loan agreements, will be strengthened through staff training and the provision of equipment. Existing training facilities, materials and methodologies will be improved at the level of the RCC unions and the prefecture-level PBC office. This subcomponent will be financed by GTZ.

21. **The strengthening of the Women's Federation** to enable it to participate in the implementation of the women's programme, including women's income-generating activities, will be supported through training, equipment, training materials, transportation, office equipment, and study tours for county and township Women's Federation representatives to other provinces.



APPENDIX IV

LOGICAL FRAMEWORK

Narrative Summary	Verifiable Indicators	Means of Verification	Important Assumptions
Goal: Poverty reduced in Wulin Mountain Area	Family average annual income increased by 150% by end of project (eop)	1.1 County level VAM 1.2 Provincial statistical report	(Goal to Supergoal):
Purpose: Wulin Mountain Area agricultural production increased	Annual per capita food availability increased by 25% by eop	1.1 Sample household surveys, annual 1.2 Provincial statistical report	(Purpose to Goal): 1. Prices for agricultural produce remain attractive 2. No major floods or droughts.
Outputs:			(Output to Purpose):
1 Township RCC level small farmer lending increased	1.1 Small farmer loans reach 365 000 units for livestock; 35 000 for fish farming; 67 000 for economic trees; 53 000 for women activities by eop.	1.1.1 Project M&E system 1.1.2 RCC reports	Loans are used for defined purposes such as agricultural production and off-farm income generation)
2 Responsive farmer-extensionist services provided to poor farmers	2.1 80% of the project farmers have adopted the recommended improved technologies by eop	2.1.1 Project M&E 2.1.2 Beneficiary 6-monthly report	Technical advise is matched with availability of inputs
3 Participatory VDP established and operational	3.1 1 587 VDPs prepared with PRA by eop	3.1.1 Project M&E 3.1.2 Beneficiary 6-monthly report	Farmers priorities are in line with market demands
4 Paddy land upgraded, and arable sloping land for cash-crop trees increased and upgraded	4.1 80 400 mu flooded paddy land with drainage and 33 000 mu dryland converted for irrigation by eop 4.2 63 000 mu sloping land with new plantations and 22 000 mu with 200% yield increase by eop	4.1.1 Project M&E 4.2.1. Project M&E	Water users agree to the need of formalising WUGs and accept the need for cost recovery to sustain the irrigation system
5 Productivity of existing agricultural land improved	5.1 88 000 mu of infertile land with 25% yield increase by eop	5.1.1 Project M&E	
6 Improved marketing information available to PMOs, RCCs and beneficiaries	6.1 5 market surveys executed	6.1.1 Project M&E	Market information is effectively used for decision making in investment planning
7 Women's access to credit, and female literacy status among ethnic minorities improved	7.1 105 000 adult ethnic minority women reach functional literacy level by eop 7.2 50% of overall project loan amount borrowed by women	7.1.1 Project M&E 7.2.1 Project M&E 7.2.2 RCC records	
8 Adaptive R&D programme established and improved production technologies developed	8.1 0.5 mu per village and per year on-farm trials and demonstrations 8.2 4 improved technology packages tested, and introduced on 10 mu in each township by eop	8.1.1 Project M&E 8.2.1 Project M&E	Field trials results are positive and produce appropriate, feasible and profitable packages, acceptable to farmers



Narrative Summary	Verifiable Indicators	Means of Verification	Important Assumptions
<p>9 Rural infrastructure upgraded, including roads, drinking water and irrigation</p>	<p>9.1 63 km class IV access roads constructed, rehabilitated and maintained by eop 9.2 45 drinking water schemes completed by eop 9.3 157 000 mu with improved irrigation and 10 000 water-user groups operational by eop</p>	<p>9.1.1 Project M&E 9.2.1 Project M&E 9.3.1 Project M&E</p>	
Activities	Inputs	Means of Verification	Important Assumptions
<p>1.1 Provide credit line to RCCs 1.2 Upgrade RCC's capacity to operate larger loan portfolio efficiently 1.3 Upgrade beneficiary capacity for credit use 2.1 Construct and rehabilitate extension service stations and provide necessary equipment and transport 2.2 Conduct training for technical service staff and farmer-extensionists 2.3 Organize on-farm trials and demonstrations 3.1 Organize PRA training for VIGs and PMO staff 4.1 Construct and rehabilitate ponds, reservoirs, pumping stations, canals and ditches, check dams, flood-control dikes and drains 4.2 Train farmers and technicians in water management 5.1 Terrace and level mu sloping land and establish soil-protection bunds</p>	<p>1.1 Credit line of USD 21.6 million 1.2.1 RCC staff training, computer and transport facilities, USD 750 000 1.3.1 Beneficiary training, to understand, request, utilize and repay credit, USD 500 000 2.1.1 Buildings, laboratory and office equipment, USD 7.2 million 2.1.2 Vehicles and motorbikes, USD 2.5 million 2.2.1 Training and teaching material; food-for-training, USD 1.2 million 2.3.1 Materials for on-farm trials and demonstrations, USD 800 000 3.1.1 Training, workshops, USD 250 000 4.1.1 Unskilled and skilled labour, USD 8.5 million 4.1.2 Construction materials, USD 1.3 million 4.2.1 Training, food-for-training for farmers, USD 800 000 4.2.2 Training materials, USD 500 000 5.1.1 Skilled and unskilled labour, USD 1.9 million 5.1.2 Materials, tools, USD 200 000</p>	<p>1.1 Project M&E system 1.2 Project M&E system 1.3 Project M&E system 2.1 Project M&E system 2.2 Project M&E system 2.3 Project M&E system 3.1 Project M&E system 4.1 Project M&E system 4.2 Project M&E system 5.1 Project M&E system</p>	<p>Cofinancing available on a timely basis Beneficiaries risk aversion mitigated Counterpart funds and cofinancing available on a timely basis Counterpart funds available on a timely basis Counterpart funds and cofinancing available on a timely basis Counterpart funds and cofinancing available on a timely basis</p>



APPENDIX IV

Activities	Inputs	Means of Verification	Important Assumptions
5.2 Construct drainage for flooded paddy land, convert dry land into paddy land	5.2.1 Unskilled labour, USD 6 million 5.3.2 Construction material, USD 1.3 million	5.2 Project M&E system	
6.1 Develop marketing survey model, train county PMOs and carry out 5 market surveys	6.1.1 PMO budget for surveys, USD 250 000	6.1 Project M&E system	
7.1 Provide credit for women and earmark part of the project's credit line for women	7.1.1. Out of total credit line, USD 10.8 to be allocated to women.	7.1. Project M&E system and RCC records	
7.2 Organize literacy and health care training for women	7.2.1 Teachers allowance, books and materials, USD 480 000 7.2.2 Food rations for participating women, USD 0.9 million	7.2 Project M&E system	
7.3 Upgrade capacity of the Women's Federation to facilitate implementation of the WID activities	7.3.1 Training of WF representatives, study tours, USD 250 000 7.3.2 Office equipment, USD 300 000	7.3 Project M&E system	
7.4 Create awareness among PMO and RCC staff and VIGs for gender issues	7.4.1 Gender focal point in PMOs, training, workshops, USD 300 000	7.4 Project M&E system	
8.1 Establish on-farm trials for improved technologies	8.1.1 Materials and inputs for trials, USD 250 000	8.1 Project M&E system	
9.1 Construct and/or rehabilitate rural roads, drinking water schemes and power transmission lines	9.1.1 Skilled and unskilled labour, USD 6.1 million 9.1.3 Materials, 8.6 million	9.1 Project M&E system	Counterpart funds and cofinancing available on a timely basis

COST AND FINANCING

Disbursement Accounts by Financiers USD '000

	WFP		IFAD		Government		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
1. Materials and civil works	-	-	-	-	21 710.72	98.1	412.70	1.9	22 123.42	20.6	-	21 268.04	855.37
2. Labour	15 007.21	63.5	-	-	7 494.52	31.7	1 116.66	4.7	23 618.39	22.0	-	23 618.39	-
3. Vehicles and equipment	-	-	2 598.61	50.0	2 598.61	50.0	-	-	5 197.22	4.8	987.94	2 702.09	1 507.19
4. Credit	-	-	24 641.38	100.0	-	-	-	-	24 641.38	23.0	-	24 641.38	-
5. Beneficiary contribution	-	-	-	-	-	-	3 056.83	100.0	3 056.83	2.9	-	3 056.83	-
6. Supplies and services	-	-	294.11	50.0	294.11	50.0	-	-	588.22	0.5	79.22	509.00	-
7. Staff training, consultants and studies	-	-	479.62	12.6	3 317.03	87.4	-	-	3 796.65	3.5	1 061.80	2 734.85	-
8. Food support/beneficiary training	572.31	71.3	-	-	229.82	28.7	-	-	802.13	0.7	-	802.13	-
9. Beneficiary training	-	-	-	-	2 521.36	100.0	-	-	2 521.36	2.4	1.46	2 519.90	-
10. RCC support	-	-	-	-	756.25	100.0	-	-	756.25	0.7	113.44	642.81	-
11. Food handling	3 240.40	18.6	-	-	14 162.36	81.4	-	-	17 402.76	16.2	-	17 402.76	-
12. Incremental operating costs	-	-	-	-	2 743.04	100.0	-	-	2 743.04	2.6	-	2 743.04	-
Total	18 819.92	17.5	28 013.73	26.1	55 827.8	52.1	4 586.2	4.3	107 247.7	100	2 243.9	102 641.2	2 362.6



Expenditure Accounts by Components - Base Costs
USD '000

	Crop Production	Livestock and Fisheries	Agroforestry Trees	Credit	Social Support Service	Rural Infrastructure	Project Management	Total	Physical Contingencies	
									%	Amount
I. Investment Costs										
A. Materials and civil works										
Rural infrastructure	1 329.61	-	201.69	-	-	8 622.10	-	10 153.39	9.9	1 006.38
Buildings	1 957.05	381.05	-	-	-	-	759.04	3 097.13	10.0	309.71
Other	6 145.57	-	-	-	-	-	-	6 145.57	10.0	614.56
Subtotal materials & civil works	9 432.22	381.05	201.69	-	-	8 622.10	759.04	19 396.09	10.0	1 930.65
B. Labour										
Unskilled labour	12 902.92	-	1 944.82	-	-	4 491.28	-	19 339.02	1.8	353.75
Skilled labour	1 671.08	-	-	-	-	1 682.72	-	3 353.81	7.6	255.12
Subtotal labour	14 574.01	-	1 944.82	-	-	6 174.00	-	22 692.83	2.7	608.87
C. Vehicles and equipment	1 521.40	1 005.42	-	-	-	-	2 110.41	4 637.23	10.0	463.72
D. Credit	-	-	-	24 641.38	-	-	-	24 641.38	-	-
E. Beneficiary contribution	-	-	-	3 011.40	-	-	-	3 011.40	-	-
F. Staff training, consultants and studies	623.73	213.24	374.90	-	-	215.71	2 169.14	3 596.73	0.4	12.89
G. RCC support	-	-	-	-	-	-	743.94	743.94	-	-
H. Health care service and equipment	-	-	-	-	478.19	-	-	478.19	-	-
I. Supplies and services	-	32.80	14.27	-	-	-	37.35	84.42	7.1	6.03
J. Beneficiary training	652.72	254.21	117.61	-	1 926.66	217.75	-	3 168.95	2.4	76.27
K. Food handling	17 068.00	-	-	-	-	-	292.72	17 360.72	0.2	29.27
Total Investment Costs	43 872.07	1 886.72	2 653.29	27 652.78	2 404.86	15 229.56	6 112.60	99 811.88	3.1	3 127.70
II. Recurrent Costs										
A. Staff allowances	-	-	-	-	-	-	89.16	89.16	-	-
B. Operation and maintenance	-	246.99	-	-	-	-	2 018.70	2 265.69	10.0	226.57
Total Recurrent Costs	-	246.99	-	-	-	-	2 107.86	2 354.84	9.6	226.57
TOTAL BASELINE COSTS	43 872.07	2 133.71	2 653.29	27 652.78	2 404.86	15 229.56	8 220.46	102 166.73	3.3	3 354.27
Physical contingencies	1 309.83	192.05	38.31	-	2.29	1 292.39	519.41	3 354.27	-	-
Price Contingencies	-	-	-	-	-	-	-	-	-	-
Inflation	-	-	-	-	-	-	-	-	-	-
Local	1 960.12	241.33	139.96	154.30	321.32	2 383.09	1 064.70	6 264.81	-	-
Foreign	15.96	8.04	3.74	-	2.62	2.38	46.35	79.09	-	-
Subtotal Inflation	1 976.08	249.36	143.70	154.30	323.94	2 385.47	1 111.05	6 343.91	-	-
Devaluation	-1 477.81	-177.26	-99.73	-108.87	-238.90	-1 730.88	-783.82	-4 617.26	-	-
Subtotal price contingencies	498.27	72.10	43.98	45.44	85.04	654.59	327.23	1 726.65	7.0	121.71
TOTAL PROJECT COSTS	45 680.17	2 397.86	2 735.58	27 698.21	2 492.19	17 176.54	9 067.10	107 247.65	3.2	3 475.98
Taxes	854.34	371.12	-	-	-	370.31	766.80	2 362.57	9.1	214.78
Foreign exchange	454.97	282.54	76.71	-	74.35	56.31	1 298.98	2 243.86	4.1	91.02



ORGANIZATION AND MANAGEMENT

A. Project Management

1. The Ministries of Agriculture (MOA) and Finance (MOF) will have overall responsibility for the project at the national level. At the provincial level, the departments of agriculture of Guizhou and Hunan will be responsible for project implementation and for directing and coordinating the work of the other agencies involved. The provincial departments of finance will be responsible for the management and supervision of project funds and for ensuring that the township RCCs repay the IFAD loan to the provincial level. A management agreement will set out the role and responsibilities of each implementing agency and provide details on implementation procedures. In accordance with the established management pattern for ongoing IFAD/WFP-supported projects in China, the project will be implemented through PMOs under the general guidance and direction of PLGs responsible for providing policy guidance, for approving plans and for directing the activities of the project.
2. The PMOs will be responsible for the day-to-day execution of the project. These offices have been established at the province, prefecture, county and township level and are seen as semi-permanent bodies that will continue to function after project closing and administer the revolving funds for 20 years at the county level and 25 years at the provincial level. All PMOs have been staffed with qualified personnel from the concerned technical agencies, and representatives of the departments of finance and the Women's Federation.
3. As the project will intervene in the two provinces of Guizhou and Hunan, an inter-provincial PMO will be established to approve the project credit manual; assure overall coordination of the project; monitor and evaluate project activities in both provinces to ensure that they meet the general objectives of the project; and provide overall supervision, monitoring and reporting on project progress and impact, in accordance with the reporting requirements of government, IFAD, WFP and other donors.
4. Village implementation groups will be established in each village prior to project implementation. Each VIG will be composed of the village leader, village accountant, a representative of the Women's Federation, village technicians for agriculture and livestock, and three elected beneficiaries, two of which will be women. The VIGs will play an important role in ensuring that the project beneficiaries are identified and selected in a transparent and participatory manner, and will be responsible for formulating the VDPs and organizing labour to participate in food-for-work activities. Four VIG members will be trained in participatory methods and decision-making. The VIGs' operations will be monitored and supported by the township PMOs and, through them, by the county PMOs. The VIGs will report twice-yearly on project goods and services received against annual programmes of work and budget.
5. The VDP will constitute the main instrument for targeting project beneficiaries through a participatory process involving the entire village through its representatives on the VIG. The VDP will list the activities undertaken by the project, the number of beneficiaries for each activity, the characteristics of beneficiary households and the justification for their selection. Through the VDP, it will be possible to ensure that project activities are truly demand-driven.



B. Project Implementation

6. **Irrigation and drinking water.** The WCB will be responsible for irrigation and drinking water matters in the project counties, while the water conservation stations and village committees will be responsible at the township and village levels. The provincial-level WCB will examine the impact of each scheme on the overall water management plan and check that the infrastructure complies with environmental legislation. Wherever possible, local user groups and/or VIGs will receive training on environmental issues and will work to mitigate environmental hazards through timely maintenance and repair, and proper management of the infrastructure. The project will support the establishment of WUGs wherever water-related infrastructure is built. The WUGs will organize farmers as user groups, and select water management workers to organize the distribution of water and maintain the networks.

7. **Rural roads.** The transportation bureau of each county will be responsible for the execution of the rural roads sub-component. Supervision of the roads and their maintenance will be carried out in accordance with national procedures.

8. **Food and cash crops, livestock and fish production.** The main agencies responsible for providing technical services are the ABs and animal husbandry bureaux, together with the associated agricultural technology centre at county level and the respective stations at township level. Demonstrations and field trials/pilot activities will be carried out in every village to show farmers the practical implications of the improved technologies and inputs.

9. **Social activities.** Representatives of the Women's Federation and health care and education line agencies are members of all PLGs at the provincial, prefectural and county levels. They will also participate in all PMOs to mobilize, organize and assist rural women to participate in project activities. The Women's Federation will assist PMOs in the distribution of cereal grain rations as part of all training and for specific women's activities, assist in targeting eligible candidates, fully involve local VIGs to evaluate their family financial status, and participate in publicizing the project's activities.

C. Credit Organization and Management

10. The RCCs will be responsible for extending credit financed from the proceeds of the IFAD loan to farmers living in selected villages in the project area. The credit management structure is intended to reflect the project management structure and to involve the participation of relevant organizations from the various levels, i.e., provincial PMOs and departments of finance, county PMOs, RCC unions and township RCCs. The township RCCs will be fully responsible for the project credit funds sub-loaned to them, as well as for their delivery, utilization, recovery and repayment; and for loan approval and credit risk, in accordance with contractual management arrangements between the RCC unions and county PMOs. Township RCCs will cooperate with the VIGs. Once the VDP has been approved, the VIG will request the RCC to provide the loan applications from individual households and groups for the activities they wish to undertake. The VIG will review the applications and make appropriate recommendations thereon to the RCC.

11. Each PMO will have a finance and credit support unit (FCSU), staffed with personnel of the finance departments/offices, which will advise and support project management in the implementation of the credit programme. The FCSU will also present the credit programme to the beneficiaries and ensure synchronization of the lending programme and the technical support activities.



12. The provincial departments of finance will assume the foreign exchange risk. The project management agreement will set out the details of relending arrangements, including the interest spread by the various levels on the IFAD loan. The funds generated from the IFAD loan are expected to be used in the project counties for at least 20 years after project start-up, including a five-year grace period to allow sufficient time for the beneficiaries' economic status to be improved. The responsibility for credit repayment will rest with the credit delivery organization and the provincial PMOs responsible to the provincial department of finance. Close monitoring of the credit component will be required for the purpose of readjusting the programme during implementation, if necessary. Care will be taken to ensure that the repayment rates are disaggregated by gender and that the loans have been used for their original purpose. It will also be ascertained whether or not households have had to borrow money from the informal sector in order to repay their loans.

13. **Credit procedures.** Credit assessment will be made in accordance with the appraisal procedures described in the credit manual. At the request of potential borrowers, the RCCs will supply loan application forms which, once completed, will be passed on to the VIGs for review and recommendation to the RCCs. The VIGs' recommendations will not be treated as mandatory and the responsibility for evaluating the loan applications will rest solely with the RCCs.

14. **Interest rates.** For lending through RCCs, the interest rates to be charged will be those determined by PBC for short, medium and long-term credits and adjusted within the allowed ceilings of a maximum of 40% to ensure positive rates of interest on the funds lent. These rates will be adjusted periodically to reflect changes in prevailing rates determined by the PBC during the project implementation period.

15. **Repayment** schedules will be determined on a case-by-case basis for each production activity, reflecting the expected cash flow and specific requirement of the borrowers during project implementation. Grace periods will be allowed for principal repayments of medium and long-term loans, and interest should be paid during the grace periods. Reminder letters will be sent to borrowers one month prior to the repayment date, and the VIGs will assist in the recovery of loans. If a loan is not repaid in time, follow-up visits will be made by the RCC and, if necessary, legal action taken.

16. **Risk fund.** A credit risk fund will be established, using 1.5% of the sum equivalent of average loans outstanding. This money will be deposited into a separate account managed and administered by the respective RCC unions. Locating the credit risk fund at the RCC union level should provide additional security because the risk funds for all townships in any one county will be consolidated.

17. **Monitoring and reporting.** A specific credit programme management and information system will be established to monitor credit activities, including typology of borrower, loan disbursement, loan recovery, loan overdues, default and breach of obligations and the main reasons for their occurrence. The monitoring system will be computer-based within individual RCCs and designed to quickly provide data on lending and recovery performance and financial status, including savings mobilization. This information will be aggregated by the RCC unions on a monthly basis and provided to the county PMOs. Representatives of PBC will collaborate in the monitoring activities to ensure that the RCCs strictly adhere to the lending practices and procedures.

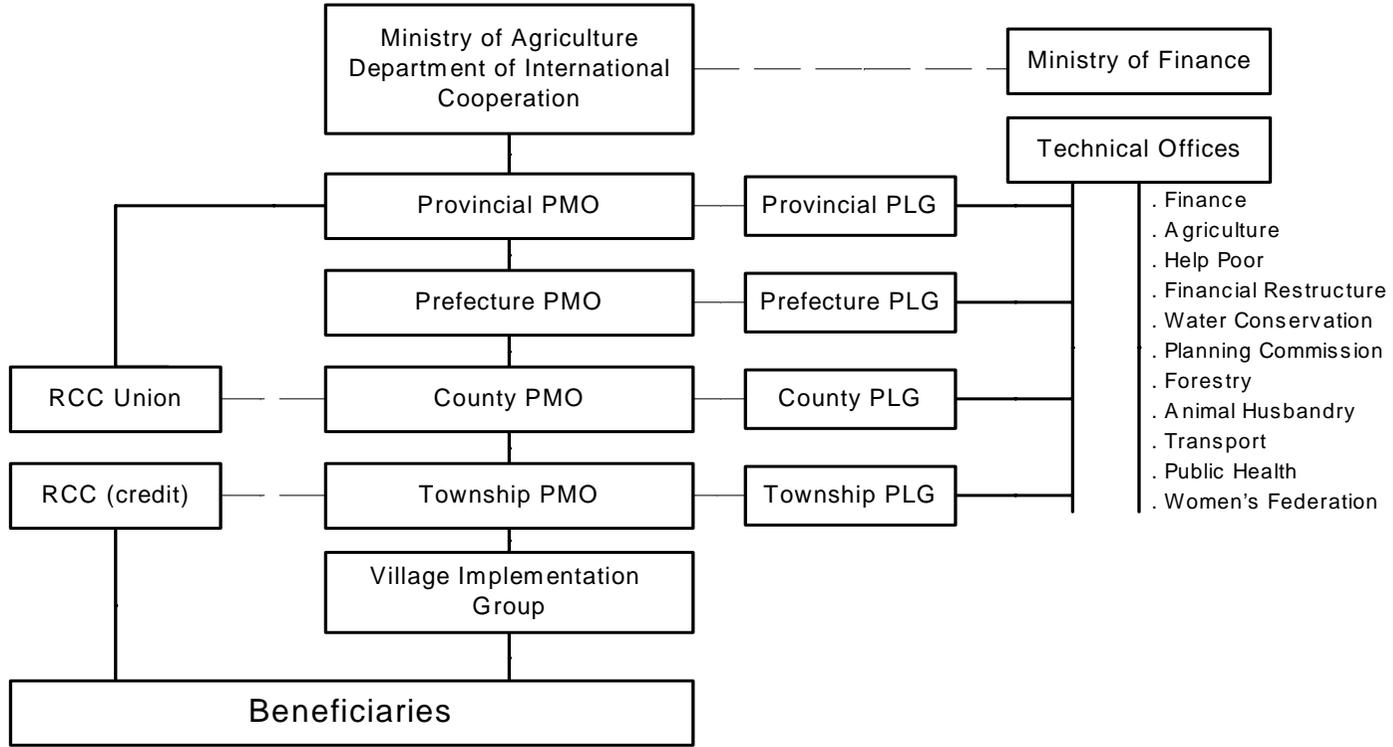
18. **Capacity-building of RCCs.** In order to ensure the long-term sustainability of the RCCs' rural credit operations and satisfactory repayment performance, the capacity of the RCCs will be strengthened. These activities will mainly involve the provision of computers and training in their use, and means of transport. The costs involved will be financed from the parallel GTZ project. The staff of the RCCs will also be strengthened as and when required.



APPENDIX VI

19. **Beneficiary credit training.** Farmer training on credit concepts will be organized, especially during loan appraisal, with particular focus on women. Training in cash flow assessment and management will be probably necessary for all potential borrowers. Beneficiary training will be carried out by RCC and PMO staff.

Project Organizational Structure

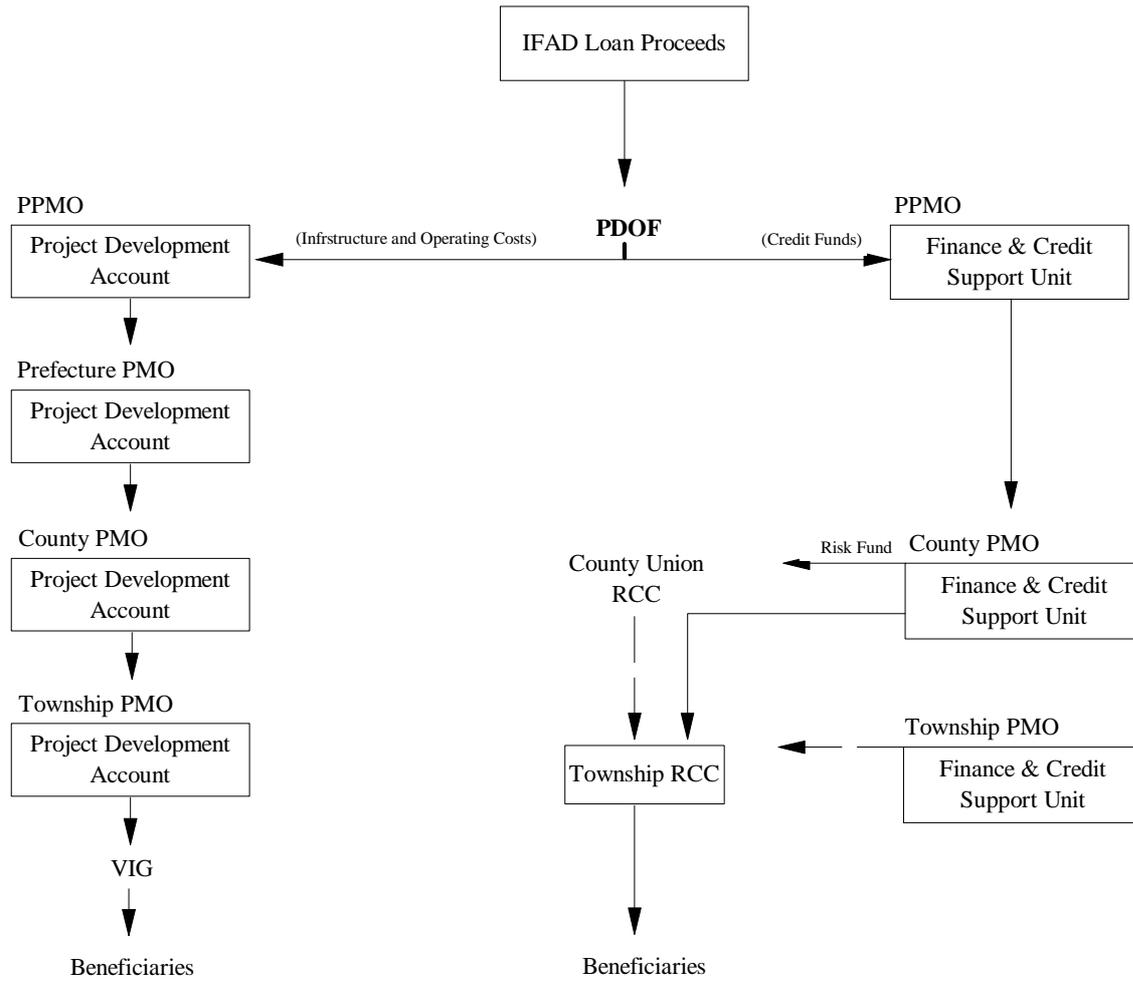


— Line of Administration
 - - - Coordination





Chart: Flow of Funds



—— Line of administration
—— - Line of coordination and technical support



ECONOMIC AND FINANCIAL ANALYSIS

Assumptions

1. The project will support agricultural development in four subsectors, namely, field crop production, agroforestry, livestock and fresh-water fisheries. The project will provide training, appropriate extension messages and credit to farm households taking up opportunities within each of these subsectors. The economic analysis was based on the number of households in each county which, it has been estimated, will take up project credit phased over the five project years (the investment period). This gives the planned number of beneficiary households that will borrow to rehabilitate and/or support new agricultural enterprises, and the planned total area (number of mu) that will benefit from land development, seasonal crop loans, medium-term loans for the establishment of cash crop trees, and/or investment in livestock enterprises or fish culture.

2. For each economic activity, the financial analysis provided an estimate of incremental production per mu or per enterprise (in kg), of incremental net benefit excluding labour (in Yuan), and of the associated incremental labour requirement (in person-days). The financial models also realistically assumed that it will take time to build up to full development (one year for smallstock enterprises and fish culture; two or three years for field crops and some of the livestock activities; and up to 12 years for some of the agroforestry crops. The economic analysis adopted the same phasing to full development for the different agricultural activities as the financial analysis.

3. The economic analysis valued the incremental net benefit using financial prices as a best estimate of economic value of both inputs and outputs, and excluding all financing costs. This reflects the progress in liberalizing prices over the last six years and the convertibility of the Yuan. Both have produced an environment in which most domestic financial prices are close to world market prices. Incremental household labour has been valued at Yuan 10 per person-day, equivalent to the unskilled wage rate in the project area and demonstrating that there is very little surplus labour in the rural areas, especially during planting and harvesting seasons. Project costs have been translated into economic values using a SCF of 0.95, and eliminating all taxes and price contingencies. Incremental recurrent costs will be necessary to maintain adequate levels of support and extension after the end of the project investment period; these have been assumed at the level of recurrent costs in project year 5. It has been assumed that project benefits will accrue for at least 20 years and the rate of return has been calculated over a 20-year period.

Results

4. The economic rate of return (ERR) for the project as a whole is 19%. It is slightly lower in Tongren (17%), where all previous WFP-supported investment have been included, while a substantial part of the benefits is unknown compared with Qiandongnan (19%) and Xiangxi (20%). This relatively high rate of return reflects the current low level of input utilization for crop production in the project area and the substantial production increases which can be obtained with relatively simple improvements and with access to credit. Sensitivity analysis shows that the project is able to sustain adverse movements in benefits and costs and still generate acceptable rates of return, well above the opportunity cost of capital (assumed at 10%).



ERR Sensitivity Analysis

Benefits down by 20%	14%
Costs up by 20%	16%
Benefits down and costs up by 10%	15%
Benefits down and costs up by 20%	12%
Benefits lagged by one year	15%
Benefits lagged by two years	13%

5. The project's sensitivity to the economic valuation of incremental labour was also evaluated. This analysis shows the impact on the project's economic viability in the event a growing shortage of labour in the project area increases the opportunity cost of labour (by 50%). The result is a fall in the overall ERR from 19% to 15%. This outcome confirms the robustness of the project investment, and the fact that it makes good economic sense.