



**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Executive Board – Seventy-Seventh Session**  
Rome, 10-11 December 2002

**REPORT AND RECOMMENDATION OF THE PRESIDENT**

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

**PEOPLE'S REPUBLIC OF CHINA**

FOR THE

**ENVIRONMENT CONSERVATION AND POVERTY-REDUCTION PROGRAMME  
IN NINGXIA AND SHANXI**





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## CURRENCY EQUIVALENTS

|               |   |                     |
|---------------|---|---------------------|
| Currency Unit | = | Yuan renminbi (CNY) |
| USD 1.00      | = | CNY 8.26            |
| 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 <sup>2</sup> ) | = | 10.76 square feet (ft <sup>2</sup> ) |
| 1 acre (ac)                      | = | 0.405 ha                             |
| 1 hectare (ha)                   | = | 2.47 acres                           |
| 1 mu                             | = | 0.066 ha                             |
| 1 ha                             | = | 15 mu                                |

## ABBREVIATIONS AND ACRONYMS

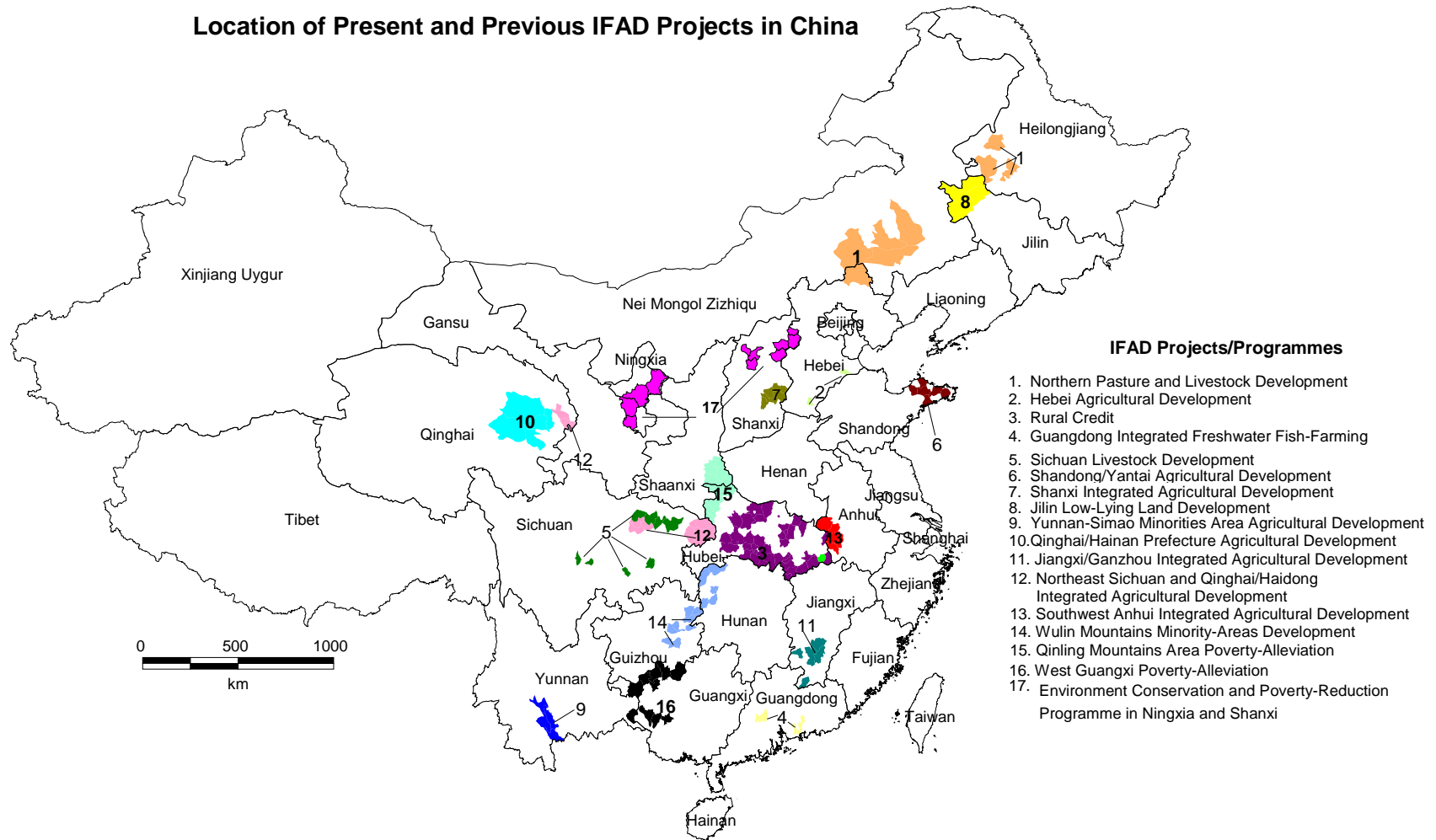
|      |                                      |
|------|--------------------------------------|
| DOF  | Department of Finance                |
| MOF  | Ministry of Finance                  |
| PBC  | People's Bank of China               |
| PLGs | Project/Programme Leading Groups     |
| PMOs | Project/Programme Management Offices |
| PRA  | Participatory Rural Appraisal        |
| RCC  | Rural Credit Cooperative             |
| RCCU | Rural Credit Cooperative Union       |
| VAM  | Vulnerability Analysis and Mapping   |
| VDP  | Village Development Plan             |
| VIG  | Village Implementation Group         |
| WFP  | World Food Programme                 |

## GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA

### Fiscal Year

1 January - 31 December

## Location of Present and Previous IFAD Projects in China



MAP OF THE PROGRAMME AREA

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT



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.



WFP/IFAD China VAM Unit, March 2002





**PEOPLE'S REPUBLIC OF CHINA**

**ENVIRONMENT CONSERVATION AND POVERTY-REDUCTION PROGRAMME  
IN NINGXIA AND SHANXI**

**LOAN SUMMARY**

|                                       |   |
|---------------------------------------|---|
| <b>INITIATING INSTITUTION:</b>        | IFAD and World Food Programme (WFP)   |
| <b>BORROWER:</b>                      | People's Republic of China  |
| <b>EXECUTING AGENCY:</b>              | Ministries of Agriculture and Finance   |
| <b>TOTAL PROGRAMME COST:</b>          | USD 90.30 million   |
| <b>AMOUNT OF IFAD LOAN:</b>           | SDR 21.95 million (equivalent to<br>approximately USD 28.97 million)  |
| <b>TERMS OF IFAD LOAN:</b>            | 40 years, including a grace period of ten<br>years, with a service charge of three fourths<br>of one per cent (0.75%) per annum |
| <b>COFINANCIER:</b>                   | WFP   |
| <b>AMOUNT OF COFINANCING:</b>         | USD 7.28 million  |
| <b>TERMS OF COFINANCING:</b>          | Grant   |
| <b>CONTRIBUTION OF BORROWER:</b>      | USD 46.94 million   |
| <b>CONTRIBUTION OF BENEFICIARIES:</b> | USD 7.12 million  |
| <b>APPRAISING INSTITUTION:</b>        | IFAD and WFP  |
| <b>COOPERATING INSTITUTION:</b>       | United Nations Office for Project Services<br>(UNOPS)   |



## PROGRAMME BRIEF

**Who are the beneficiaries?** The target group comprises 300 000 households in the 126 poorest townships of 12 of the poorest counties in Ningxia Hui Autonomous Region and in Shanxi Province in western China. In Ningxia, the Hui population forms a clear majority in most parts, while Shanxi is inhabited almost exclusively by Han people. At least 90% of the households are poor, with almost 10% classified as very poor. Many of the latter are physically unable to undertake any type of labour. Women make up most of the target group, since they contribute most to farm production and household tasks. They have less than average access to education and training, and hence to income-earning opportunities. Average income per capita is USD 82. It is derived from an average arable area of 0.26 hectares (4 mu) and little off-farm income. Many girls drop out of primary school for lack of resources.

**Why are they poor?** Most villages are in isolated upland areas with inadequate access roads, obsolete and underperforming health and education facilities, low-yielding arable land and weak extension services. Living conditions are harsh, drinking water is lacking in many locations, and the cost of education prevents many children from attending school. Almost all arable land is rainfed, and most is on slopes. Rainfall is unreliable, and droughts and floods occur regularly. Farmers cannot take advantage of improved technology for lack of funds and training. As a result, most households experience a food deficit for two to four months a year. Farmers have developed complex cropping systems that make the most of local conditions and minimize the inherent risks. Some sloping land can be improved with simple but still substantial investments in terms of resources and family labour. Other sloping land needs to be retired from annual cropping and returned to permanent vegetation cover such as grazing area and economic shrub or tree cropping. This may only be possible, however, if the productivity of the better land is improved, in particular with irrigation. Some outmigration exists but does not affect the labour availability in most areas.

**What do they expect from the programme?** The priority needs expressed by the households as determined by a participatory rural appraisal (PRA) are the following: (a) more food in order to bridge the hunger season, and immediate access to safe drinking water; (b) more income; and (c) improved education and health facilities. Findings from the field visits also indicate strong expectations of improved health, education and extension services. In general, the households consulted requested assistance for investments in production activities to raise their incomes and improve food security. They are aware of the opportunities available with perennial cash crops, but lack the resources and sometimes the know-how to take advantage of them.

**How will they participate?** PRA workshops were conducted in the counties to train management officers in the use of participatory planning and implementation methodologies. Implementation calls for fully participatory village development plans (VDPs) and the carrying out of programme activities, resulting in the election of village implementation groups (VIGs) and the drafting of overall and annual VDPs. Prior to loan effectiveness, the programme will hold pilot village- and township-development planning exercises to test appropriate and cost-effective methodologies. A vast functional literacy and training programme, mainly for women, will build capacity for participation in technical skills training and related productive activities. The target group will provide labour for community-based civil works, assess programme services and prepare semi-annual reports. Poor farmers will conduct demonstrations in their fields, assisted by technical support services that have been strengthened and reformed for this purpose. The VIGs will monitor the VDPs, evaluate achievements, and organize maintenance and user groups, especially for common irrigation and domestic water supply.





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I submit the following Report and Recommendation on a proposed loan to the People's Republic of China for SDR 21.95 million (equivalent to approximately USD 28.97 million) on highly concessional terms to help finance the Environment Conservation and Poverty-Reduction Programme in Ningxia and Shanxi. 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 STRATEGY<sup>1</sup>**

**A. The Economy and Agricultural Sector**

1. The People's Republic of China covers an area of 9.3 million square kilometres (km<sup>2</sup>). It is the most populous country in the world, with an estimated 1.3 billion people, increasing by 14-17 million annually. It also continues to enjoy one of the fastest economic growth rates in the world. Gross domestic product (GDP) is estimated to have increased by 7 and 8% in real terms in 1999-2000, and private consumption per capita at an annual rate of over 7%. In 2000, 'secondary' industry remained the largest productive sector, accounting for half of GDP, generating 80% of exports and employing more than 125 million workers. Services accounted for 34% of GDP, while agriculture's share continued to decline, reaching about 16%. Consumer and retail price indices for 1999 and 2000 decreased by 1.3 and 2.9% respectively. A modest inflation level has since returned, but the prediction is for sustained and inflation-free growth. In the past, rapid overall growth has led to rapid poverty reduction, also in rural areas. While this occurred in the coastal areas first, considerable progress has now also been achieved in western China. National investment programmes for infrastructure and poverty alleviation focus on these areas. China joined the World Trade Organization in 2001, and membership is expected to enhance the underlying growth capability of the Chinese economy.

2. Over the Ninth Five-Year Plan period (1996-2000), agricultural GDP increased at 4.3% per annum, which was substantially above the population growth rate. Growth has been more modest in recent years, between 2 to 3% annually. The agricultural sector continues to play a dominant role in terms of employment, constituting an important income source for many millions of rural households. Grain production in 1996 was 505 million tonnes (t), the highest figure on record. Output for 2000 was 462 million t, and a further decline was noted for 2001. Any shortfalls were made up from previously established buffer stocks. Annual crops dominate the production pattern of agriculture (55%), followed by animal husbandry (30%) and fisheries (10%). Rice is the most important grain crop, but its relative

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<sup>1</sup> See Appendix I for additional information.



share has been decreasing in favour of other cereals, notably wheat and maize. Livestock output has grown rapidly, in line with demand from prospering cities. The forestry subsector contributes relatively little to the national economy. Government policies stimulate investments away from the main industrial areas, resulting in an increasing flow of private remittances by migrant workers. Nowadays, even more backward rural areas show lively economics, which provide earning opportunities in the non-agricultural sectors.

## **B. Lessons Learned from Previous IFAD Experience**

3. Since 1980, IFAD has financed 16 loans to China for a total of about USD 402 million. Project performance has been good: objectives are normally achieved ahead of time, and poor households obtain effective access to project investments and support. IFAD/World Food Programme (WFP) joint operations started in 1996 and have created strong synergies between food-driven actions supported by WFP and production-oriented investments through IFAD resources. WFP food aid helps the subsistence farmer become almost self-sufficient in food. This allows the farmer to use credit for cash-generating activities and build up assets for further development, with better prospects for sustainability.

4. A number of lessons for project management and organization can be highlighted: (a) participatory rural appraisal (PRA) findings confirm that poverty reduction requires a multisectoral approach; (b) progress reports show that in China this approach works and that coordination among the different sectoral agencies is ensured with the assistance of project/programme management offices (PMOs) and project/programme leading groups (PLGs) at provincial, prefecture, county and township levels; (c) participatory village development plans (VDPs) are the main tool for effective target-group ownership; (d) vulnerability analysis and mapping (VAM) has provided an analytical approach for project-area selection; (e) monitoring systems gather large amounts of statistical data, the analysis of which is cumbersome, and systems are presently being revised with respect to participatory monitoring by the beneficiaries; and (f) PMOs have been effective in project implementation, but restructuring of local government services and the need for more-sustainable approaches now require lighter PMO structures that will only coordinate and facilitate the work of the technical agencies.

5. Further improvement of targeting, beneficiary participation and gender mainstreaming will require the following measures: (a) credit packages should be flexible to meet the requirements of the poorer farmers, especially women; (b) functional literacy and skills training should be tailored to women's interests and potential; (c) the presence of the Women's Federation in the village implementation groups (VIGs) and PMOs has ensured gender focus; the collaboration with the Women's Federation should therefore be strengthened; (d) beneficiaries need to be organized in user groups under the guidance of and with support from the village committees in order to maintain irrigation systems satisfactorily, but beneficiaries should maintain terraces and other dryland structures entirely on their own; (e) projects should specifically identify women as major beneficiaries and decision-makers and set targets accordingly; and (f) to increase gender impact, more self-targeting activities should be developed, such as better access to health and education, literacy training and awareness-building.

## **C. IFAD's Strategy for Collaboration with China**

6. **China's policy for poverty reduction.** Absolute poverty in China is defined by four criteria: (a) income of about USD 0.66 per day in 1999 values; (b) food deficit for at least three months each year; (c) lack of drinking water within 2 km horizontal or 100 metres (m) vertical distance of the home; and (d) lack of irrigation water for at least six months annually. Because of overall economic growth and the strong commitment of the Government to improve standards of living for the entire population, the number of absolute poor has declined by about 240 million since the late 1970s. In 2001, the Government estimated that 30 million people were still living in absolute poverty, compared



with more than 100 million on the basis of the poverty line of USD 1 per day. Poverty is increasingly concentrated in the resource-poor densely-populated mountain and loess plateau areas of the centre, north-west and south-south-west, where potential for agricultural production is lowest. These areas are usually inhabited by minorities, who consequently tend to be more affected by residual poverty problems than other inhabitants. Recent economic reforms of the public sector and the resulting lay-offs may cause many former workers and their families to backslide into poverty. Therefore, the Government needs to focus on sustainability and increased support over a longer period.

7. **The poverty-reduction activities of other major donors.** The new development-oriented Poverty Reduction Programme for Rural China will focus over the next ten years on the 30 million of absolute poor and an additional 60 million who have achieved basic subsistence but remain in danger of slipping back into absolute poverty. The Leading Group for Poverty Reduction, under the State Council, prepared the new strategy in October 2001 following an international conference in May 2000 organized with the assistance of major donors. Good practices of participation and sustainability will be introduced, combined with improved targeting down to village level. Rural poverty will be assessed by the overall living standards of households and their access to basic services, including electricity, drinking water, transport, health and education. Each province will have to identify poor villages and townships, introduce village-level participatory planning with the assistance of a poverty-reduction worker in each village. Loans and microfinance will be major funding sources, while central government will commit about USD 3 billion a year. Some government funding may be channelled through emerging Chinese non-governmental organizations (NGOs). The new strategy will receive support from major donors, including the World Bank, the Asian Development Bank, the United Nations Development Programme (UNDP), IFAD and WFP. Moreover, UNDP has coordinated the process of the common country assessment and the United Nations Development Assistance Framework, which was finalized with IFAD's involvement.

8. **IFAD's strategy in China.** The basic strategy combines geographic targeting of poverty-stricken areas with a multisectoral programme of activities that provide the building blocks for the strategic framework and the regional strategy. Activities include: (a) enabling better access to natural resources through infrastructure to expand arable land agriculture, improve productivity, create cash-generating activities in livestock and perennial crops, and promote off-farm income-generating activities; (b) promoting better access to technology through technical support and training to build productive capacity and to improve the credit-worthiness of the beneficiaries; (c) ensuring better access to financial markets through the promotion of credit for viable productive activities; and (d) strengthening the human capital base by improving access to health and education facilities to increase labour productivity and heighten learning capacity. Four approaches constitute the basis for enhancing field impact, the catalytic role of projects and sustainability: (a) a combination of WFP food aid, IFAD loans and government counterpart funds to enable integrated rural development in remote and marginal mountainous areas; (b) targeting of the poorest townships using VAM; (c) beneficiary participation in planning, monitoring and implementation through VIGs and VDPs; and (d) support to poverty- and gender-sensitive rural finance institutions, strengthening the existing system of rural credit cooperatives (RCCs).

9. **Programme rationale.** Limited and deteriorating natural resources, the low productivity of labour and land, and poor access to social services are the root causes of high poverty levels. These factors are exacerbated by the isolation of many villages, resulting in a lack of government services (especially in health and education) and inadequate infrastructure. The main technical support institutions are insufficiently aware of poverty and gender issues, to the detriment of women. To overcome these constraints, the programme will carry out multisectoral activities to improve the functioning of support services and enhance the agricultural production potential and income-earning capabilities of the target group. It will also take special measures to protect the environment and to promote the rational use of land. The programme aims to unite three basic factors needed for sustainable development: beneficiaries, technology and institutions. In order to combine human and economic



development, the programme will (a) invest in rural production infrastructure (such as irrigation, terracing, rangelands and ecological tree-planting) to create the basis for economic production, and in socio-economic infrastructure (such as drinking water, health and education facilities) to improve productive capacity and living conditions; (b) facilitate access to financial services, and especially credit, allowing poor farmers to acquire the necessary capital inputs for productive activities; and (c) reinforce grass-roots organizations for empowerment, and to assist farmers (and particularly women) in entering the market economy and using credit effectively.

## PART II - THE PROGRAMME

### A. Programme Area and Target Group

10. **The programme area** comprises 1 738 administrative villages situated in 126 townships of 12 counties. It covers 1.34 million rural inhabitants in 310 000 households. The Ningxia programme area comprises 482 administrative villages in 58 townships of five counties and covers 800 000 rural inhabitants in 160 000 households. The Shanxi programme area comprises 1 256 administrative villages in 68 townships of seven counties and covers 540 000 rural inhabitants in 150 000 households. All counties in the programme have been designated poverty areas at national, provincial or regional level. The programme area in Ningxia holds a large minority presence of Hui (Muslim) people. The average possession of cultivated land in the programme area is around 0.26 ha (4 mu) per capita, with small variation between Ningxia and Shanxi but large variations among counties. Continuous large areas of flat cultivated land is found only in a few small basins and valleys. Other land is on hill and mountain slopes. Large parts of the cultivated sloping land are only marginally suitable for cereal cropping, and are officially considered as forest and grassland. Actual forest, however, is only found in a limited number of government-backed reforestation areas. Pasture is equally under-represented. Traditional grassland and livestock production systems are nevertheless an important part of agricultural production in the programme area. Because of the degradation of traditional grazing areas, livestock management is increasingly based on recycling crop residues and fodder crops.

11. **The farming system** depends on water availability. The area is characterized by low precipitation that occurs in erratic patterns, mostly late in the cropping season. Irrigation, particularly needed in the early crop-growing stages, is only possible with water saved from the previous summer's rain. Main crops are summer cereals, with maize and wheat representing the largest acreages. Fodder crops are sometimes taken as a second crop in late summer and autumn where residual soil moisture allows. Overall, the cropping intensity index is around unity. Low fertilization rates, intrinsically poor soil and lack of water at critical periods during the cropping cycle result in low overall yields. Most households have livestock. Two complementary systems are in evidence: some animals, in particular pigs and cattle, are kept in pens at the homestead; others, mainly sheep and goats, are despatched to graze on the vast common rangelands, with some supplementary feeding during winter. In non-Muslim areas, pigs are fattened for sale. There are strong interrelationships between crops and livestock, with the latter recycling agricultural waste and by-products into manure.

12. **The target group's** average per capita income was estimated in 2000 at USD 82. Annual grain availability from on-farm sources was about 320 kilograms (kg), in sharp contrast with the national average of 400 kg. Meagre household cash incomes are further eroded by lack of food production. Livestock provides the main farm cash income, with minor contributions from cash crops. Off-farm employment also provides some cash income, especially in the coal-mining areas of Shanxi. Outmigration, primarily of men, is a common practice, hence the feminization of agricultural production. Due to the remoteness of many villages in the programme area, the provision of social services is deficient. Farmers usually classify themselves in one of four categories: the better-off, the poor, the very poor, and the poorest. Programme activities will primarily target the last three groupings, or about 300 000 households in total. Households in more remote villages, poorer than



those with better access to facilities, will receive top priority. The poorest category, usually with family members who have illnesses or disabilities, will face difficulties in participating in productive activities. The programme will give them extra support and guidance to ensure that, where practical, they can participate in social activities, especially related to health and education.

## B. Objectives and Scope

13. The goal of the programme is sustainable and equitable poverty reduction for 300 000 vulnerable rural households living in an environment with limited and deteriorating natural resources. The objective is to achieve a sustainable increase in productive capacity, both on- and off-farm, and to offer households increased access to economic and social resources, including financial services, education, health and social networks.

14. Specific programme outputs will be: (a) provision of more farmer-, gender- and poverty-responsive extension services, with poor farmers as demonstrators; (b) land and land use improved through increased investment in irrigation for 208 000 mu and improvements in dryland agriculture for about 480 000 mu; (c) environmental management and desertification control strengthened for about 300 000 mu; (d) RCC financial services dispensing investment and seasonal loans, and made more sensitive to poverty and gender issues, with lending substantially increased to poor women and men; (e) social service facilities in health and education upgraded, including 547 village schools and a large adult literacy programme for 31 000 trainees; (f) women's support programmes, in particular skills training, implemented for about 45 000 trainees; (g) a rural infrastructure construction, rehabilitation and maintenance programme implemented; and (h) participatory and gender-sensitive VDPs established and operational.

## C. Components

15. Programme components will seek to achieve increased agricultural output, notably of staple food items and highly marketable livestock products, and much-improved access to social services. Human capital development and financial services are the principal means of stimulating on- and off-farm production and income. For credit to achieve its fullest potential, the intrinsic productivity of agricultural land must be increased through irrigation and dryland improvements, and key extension services strengthened. Sustainability requires special remedial action to restore damaged natural resources and to arrest further degradation, in particular desertification. Significantly increased domestic water supplies will facilitate the full participation of isolated communities in economic and social development. Human development requires better access to social services, especially for women. The facilities and operational capacity of health and education services need to be improved, and the systems adjusted to cater more effectively to the poorer households. It is equally important to enhance target-group receptivity to progress. Hence the programme will include a substantial training and awareness-building programme, addressing the requirements of adult women and children on a priority basis.

16. **Land-based activities** will increase the proportion of more-productive land through (a) adequate irrigation of about 14 000 ha of flat land; (b) lining of 250 km of canals for better water-use efficiency; (c) construction of 4 000 individual irrigation tanks of 50 m<sup>3</sup> each; and (d) the construction of other water storage structures. About 5 000 ha of drylands, mainly on slopes, will be improved through soil levelling and terracing. Soil fertility and productivity will be enhanced through increased use of organic manure resulting from higher production of crop residues and intensified livestock production. Some 14 000 ha of rangelands will be rehabilitated, and 4 300 ha of environmental trees and shrubs will be planted within the framework of a vast demonstration programme of desertification, land-degradation control and communal management techniques. In addition, about 20 000 ha of degraded forest will be placed under village guardianship for regeneration. VIGs will organize the beneficiaries in water users' groups to ensure operation and



maintenance of common irrigation and domestic water supply systems. Technical training and about 97 000 on-farm demonstrations for crops and livestock will be conducted on land worked by poor farmers and especially women. Extension stations will be strengthened and made more gender- and poverty-responsive.

17. **Financial services** with a poverty and gender focus are a major instrument in helping the target group build assets for sustainable development. The programme will emphasize credit and savings mobilization to ensure sustainability. The driving force behind the production activities will be credit implemented by the township RCCs, under the overall supervision of the county rural credit cooperative unions (RCCUs) and higher apex institutions or the People's Bank of China (PBC). Improved access to credit will directly benefit farmers, especially women, and target profitable activities such as grain production, annual and perennial cash crops, livestock, food processing and a wide range of income-generating off-farm activities. The aim will be to develop the RCCs into an effective, efficient and viable rural (cooperative) banking system, with farmers as members holding shares and with savings collected for additional sustainability. A savings and credit awareness campaign will be carried out at the village level, with close coordination among RCCs, the Ministry of Finance (MOF), the PBC, the PMOs, the Women's Federation, village committees and other concerned bodies. Details of loan availability, procedures, terms and conditions will be explained to households. The programme will enable township RCCs to acquire incremental equipment and training in management, loan assessment, processing and inspection, to ensure efficient credit activities and to develop an overall capacity as prudent financial intermediaries.

18. **Social development.** Poor education levels and ill health reinforce poverty. Therefore improved access of the poor to social services is the starting point for creating human capital to produce physical assets. Activities will concentrate on training and include literacy training (particularly for women), health, nutritional awareness-building and the provision of health equipment. The reduction of primary school drop-out rates, particularly among girls, will be another major objective. Support to village health workers and doctors, and rehabilitation of about 550 primary schools at the village level to improve access to literacy and skills training, will shore up previous activities. A large element of skills training will also be included in preparation for obtaining loans for income-generation activities. The Women's Federation will organize this training in recognition of this component's strong focus on women. A special micro-initiatives fund will be set up within each county's Women's Federation chapter. Training will be provided for trainers, for women and men in the villages and for administrators in the PMOs and RCCs.

19. Improvements in the availability and quality of drinking water will ease the burden of fetching water, which falls in particular on women. It will also free additional cash resources, now devoted to purchasing water. Drinking water will be provided mainly through the construction of almost 17 000 individual water tanks with collectors of about 50 m<sup>3</sup> each and about 275 small common supply systems at the village level.

20. **Management** will use the PLGs and PMOs, the proven methodology of previous IFAD/WFP projects. However, the role and structure of the PMOs has been revised to become more supportive of the technical implementing agencies. Staffing has been reduced to the minimum required for effective facilitation of programme implementation. The PMOs will use and coordinate the existing technical and social agencies and bureaux at province, prefecture, county and township levels for undertaking programme activities. Support will consist in provincial start-up workshops, training on monitoring and PRA methodologies, computer and accounting training, transport facilities, office equipment and associated running costs. Study tours and inter-project PMO workshops will be organized to share experiences. Training is incorporated in the relevant activities to demonstrate the integrated nature of the training as part of each technical agency's programme. All PMOs have nominated a gender focal point, often a senior staff member of the local Women's Federation transferred into the PMO.



## D. Costs and Financing

21. **Programme costs.** Total programme costs over six years, inclusive of contingencies, taxes and duties, are estimated at USD 90.30 million. The foreign exchange component is estimated at 3%. Taxes and duties account for slightly less than 3% of programme costs. Programme costs were calculated in yuan renminbi (CNY) prior to conversion into USD and are based on prices prevailing during the fourth quarter of 2001. Physical contingencies of 10% have been applied to all material costs related to infrastructure works. Price contingencies have been levied on all cash costs. No physical or price contingencies have been applied to WFP food support and the credit revolving fund. A constant purchasing power parities exchange rate has been calculated to allow for the difference in foreign and domestic inflation rates. The summary of programme costs by component is presented in Table 1.

22. **Financing.** An IFAD loan of USD 28.97 million is proposed, which will finance 32.1% of total programme costs. WFP will provide grain equivalent to USD 7.28 million, or 8.1% of total programme costs. The Government will contribute USD 40.40 million equivalent in cash, exclusive of all taxes and duties, and USD 4.42 million equivalent in food, for a combined 49.6% of total costs, net of taxes. Beneficiary contributions, mainly in kind, will amount to USD 7.12 million or about 8% of total programme costs. Details of the financing proposal are presented in Table 2.

23. **Retroactive financing.** To ensure effective start-up in both provinces, the programme will provide retroactive financing not exceeding USD 300 000 each for Ningxia and for Shanxi for expenditures incurred after 1 January 2003. Such expenditures will include support for staff training, preparation of VDPs, preparation of the baseline survey, elaboration of a literacy curriculum, visits of staff of PMOs to projects in the area, design of irrigation and water schemes, detailed plan of rehabilitation of agricultural extension stations and animal health stations. They will also include the cost of pilot village and township planning exercises and other preparatory activities carried out prior to loan effectiveness.

**TABLE 1: SUMMARY OF PROGRAMME COSTS<sup>a</sup>**  
(USD '000)

| Components                   | Local         | Foreign      | Total         | % of Foreign Exchange | % of Base Costs |
|------------------------------|---------------|--------------|---------------|-----------------------|-----------------|
| Land-based activities        | 37 773        | 855          | 38 628        | 2                     | 47              |
| Financial services           | 6 082         | 18           | 6 101         | -                     | 7               |
| Social development           | 24 351        | 1 054        | 25 405        | 4                     | 31              |
| Management <sup>b/</sup>     | 11 854        | 190          | 12 044        | 2                     | 15              |
| Total base costs             | 80 061        | 2 117        | 82 178        | 3                     | 100             |
| Physical contingencies       | 5 028         | 154          | 5 182         | 3                     | 6               |
| Price contingencies          | 2 869         | 75           | 2 944         | 3                     | 4               |
| <b>Total programme costs</b> | <b>87 957</b> | <b>2 346</b> | <b>90 303</b> | <b>3</b>              | <b>110</b>      |

<sup>a</sup> Discrepancies in totals are due to rounding.

**TABLE 2: FINANCING PLAN<sup>a</sup>**  
(USD '000)

| Components                     | IFAD          |             | WFP          |             | Government (Food) |            | Government (Net) |             | Beneficiaries |             | Total         |              | Foreign Exchange | Local (Excl. Taxes) | Duties and Taxes |
|--------------------------------|---------------|-------------|--------------|-------------|-------------------|------------|------------------|-------------|---------------|-------------|---------------|--------------|------------------|---------------------|------------------|
|                                | Amt.          | %           | Amt.         | %           | Amt.              | %          | Amt.             | %           | Amt.          | %           | Amt.          | %            |                  |                     |                  |
| <b>Land-based activities</b>   |               |             |              |             |                   |            |                  |             |               |             |               |              |                  |                     |                  |
| Crop development               | 3 326         | 30.3        | 249          | 2.3         | 204               | 1.9        | 1 487            | 13.5        | 5 429         | 49.4        | 10 987        | 12.2         | 36               | 10 659              | 292              |
| Irrigation                     | -             | -           | 1 693        | 14.3        | 722               | 6.1        | 8 996            | 76.1        | -             | -           | 11 816        | 13.1         | 810              | 10 601              | 405              |
| Dryland improvement            | -             | -           | 2 307        | 46.6        | 1 446             | 29.2       | 1 139            | 23.0        | -             | -           | 4 952         | 5.5          | 120              | 4 772               | 60               |
| Rangeland and livestock        | 2 572         | 36.8        | 221          | 3.2         | 156               | 2.2        | 3 504            | 50.1        | 397           | 5.7         | 6 993         | 7.7          | 7                | 6 843               | 143              |
| Environmental tree planting    | 1 576         | 18.8        | 697          | 8.3         | 514               | 6.1        | 4 040            | 48.1        | 1 293         | 15.4        | 8 399         | 9.3          | -                | 8 120               | 279              |
| <b>Subtotal</b>                | <b>7 473</b>  | <b>17.3</b> | <b>5 167</b> | <b>12.0</b> | <b>3 042</b>      | <b>7.0</b> | <b>19 166</b>    | <b>44.4</b> | <b>7 119</b>  | <b>16.5</b> | <b>43 147</b> | <b>47.8</b>  | <b>972</b>       | <b>40 995</b>       | <b>1 179</b>     |
| <b>Financial services</b>      | <b>6 109</b>  | <b>99.1</b> | -            | -           | -                 | -          | -                | -           | -             | -           | <b>6 163</b>  | <b>6.8</b>   | <b>19</b>        | <b>6 090</b>        | <b>54</b>        |
| <b>Social development</b>      |               |             |              |             |                   |            |                  |             |               |             |               |              |                  |                     |                  |
| Health                         | 3 724         | 51.6        | 213          | 3.0         | 248               | 3.4        | 2 879            | 39.9        | -             | -           | 7 223         | 8.0          | 318              | 6 746               | 159              |
| Education                      | 2 996         | 49.9        | 498          | 8.3         | 350               | 5.8        | 2 055            | 34.2        | -             | -           | 6 006         | 6.7          | 216              | 5 682               | 108              |
| Income generation              | 4 753         | 87.7        | 206          | 3.8         | 214               | 3.9        | -                | -           | -             | -           | 5 423         | 6.0          | 68               | 5 105               | 250              |
| Domestic water                 | -             | -           | 1 196        | 13.3        | 567               | 6.3        | 6 962            | 77.3        | -             | -           | 9 005         | 10.0         | 560              | 8 166               | 280              |
| <b>Subtotal</b>                | <b>11 473</b> | <b>41.5</b> | <b>2 113</b> | <b>7.6</b>  | <b>1 379</b>      | <b>5.0</b> | <b>11 896</b>    | <b>43.0</b> | <b>-</b>      | <b>-</b>    | <b>27 657</b> | <b>30.6</b>  | <b>1 161</b>     | <b>25 699</b>       | <b>797</b>       |
| <b>Management<sup>b/</sup></b> |               |             |              |             |                   |            |                  |             |               |             |               |              |                  |                     |                  |
| Provincial PMOs                | 1 262         | 27.6        | -            | -           | -                 | -          | 3 291            | 71.9        | -             | -           | 4 578         | 5.1          | 154              | 4 398               | 25               |
| County PMOs                    | 2 650         | 30.3        | -            | -           | -                 | -          | 6 043            | 69.0        | -             | -           | 8 759         | 9.7          | 39               | 8 653               | 67               |
| <b>Subtotal</b>                | <b>3 911</b>  | <b>29.3</b> | -            | -           | -                 | -          | <b>9 334</b>     | <b>70.0</b> | <b>-</b>      | <b>-</b>    | <b>13 337</b> | <b>14.8</b>  | <b>194</b>       | <b>13 051</b>       | <b>92</b>        |
| <b>Total disbursement</b>      | <b>28 966</b> | <b>32.1</b> | <b>7 280</b> | <b>8.1</b>  | <b>4 420</b>      | <b>4.9</b> | <b>40 396</b>    | <b>44.7</b> | <b>7 119</b>  | <b>7.9</b>  | <b>90 303</b> | <b>100.0</b> | <b>2 346</b>     | <b>85 836</b>       | <b>2 122</b>     |

<sup>a</sup> Discrepancies in totals are due to rounding.

<sup>b</sup> Includes costs of ocean freight and local handling of WFP food.







## **E. Procurement, Disbursement, Accounts and Audit**

24. **Procurement.** The main items to be procured are vehicles, training and equipment. Each contract for the supply of vehicles and equipment estimated to cost over USD 50 000 equivalent will be awarded on the basis of local competitive bidding in accordance with procedures acceptable to IFAD. Contracts estimated to cost USD 50 000 equivalent or less may be awarded on the basis of local shopping procedures with bids invited from at least three reputable suppliers. Each contract for the supply of vehicles, equipment and training estimated to cost less than USD 20 000 equivalent may be awarded on the basis of evaluating and comparing bids invited from at least three suppliers, on terms and conditions satisfactory to the Fund. Each contract for the supply of equipment and training estimated to cost less than USD 5 000 equivalent may be awarded through direct contracting with the contractor or supplier on terms and conditions satisfactory to the Fund.

25. **Disbursement.** The IFAD loan will be disbursed over six years. Withdrawals from the loan account may be made against statements of expenditures (SOEs) in respect of those expenditures that IFAD will designate as eligible by notice to the borrower. The relevant documentation justifying these expenditures will be retained by the programme and made available for inspection by supervision missions and auditors. All other withdrawal from the loan account will be made on the basis of full supporting documentation. RCC loans to farmers will be partly financed with annual contributions towards the establishment of revolving funds in each county, according to the county workplan and budget. Monthly summaries of credit disbursed and recovered will be maintained on a gender-differentiated basis for review by supervision missions. A special account of USD 1.6 million for Ningxia and USD 1.8 million for Shanxi respectively will be opened on terms and conditions acceptable to IFAD.

26. **Accounts and audit.** The PMOs, assisted by the finance support unit, will maintain consolidated accounts. The financial reporting and accounting practices followed by the Finance Bureau are acceptable to IFAD. The accounting sections will be adequately staffed and fully capable of handling the accounting requirements of the programme. The state audit agency, or its authorized representative, the relevant provincial audit department, will be responsible for auditing financial statements relating to the programme in each province. The township, county and regional PMOs will maintain records of all expenditures on items purchased by the programme. The state audit agency will review the withdrawals from the programme account on the basis of SOEs and provide an opinion on whether such expenditures fully comply with expenditures eligible for IFAD disbursements. It will also review the management aspects of the credit operation, and comment on the adequacy of the accounting and internal control systems. The Government will furnish certified copies of the audit reports to IFAD and the cooperating institution not later than six months after the end of each financial year. The reply to the management letter of the auditors shall be submitted by the provincial PMO to IFAD within one month of receipt thereof. WFP also requires audits of programme expenditure, use of food aid, confirmation of workdays and rations. Both audits should be performed simultaneously.

## **F. Organization and Management**

27. **Beneficiary participation.** A VIG will be established in each village. It will be composed of elected members, but may also include the village leader, village accountant, a representative of the Women's Federation, and village agricultural and livestock technicians. The VIG will contain at least three women and should adequately represent the interests of the poor, especially those living in outlying small 'natural' villages. Each such natural village should be enabled to elect at least one member to the VIG. The VIG will organize the preparation of the VDP through a participatory process involving the entire village. The process will include: (a) mobilizing village households for specific activities, such as environmental and common investment, health and education (including women's literacy and prevention of drop-outs, especially of girls); (b) bringing together village members to discuss investment options; (c) formulating village development plans; (d) disseminating information



about programme activities to all households; (e) organizing labour to participate in the food-for-work (FFW) activities; (f) assisting in loan disbursements, supervision and collection; and (g) ensuring that activities are properly targeted and that progress is monitored by the beneficiaries. Participation will be enhanced through the introduction of PRA techniques. County and township officials will receive adequate training in participatory techniques to support the VIGs in their duties.

28. **Gender considerations.** The feminization of agriculture due to the high level of outmigration by men, and the intensification of farming activities and household chores require activities with a strong impact on women. Proportionately more women than men are illiterate, and most government services are provided by men. Thus every activity will have a specific focus on: (a) time-saving technologies in agriculture; (b) more extension and training services responsive to women; (c) empowerment of women through literacy and skills training; (d) promotion of high-value crops with low labour input and income-generating activities near or within the homestead; (e) better access to credit; (f) easy access to drinking water; and (g) special programmes for women's health supported by training village women to serve as focal points for women's health. Prevalence of disease will decrease through availability of better health services, training and improved domestic water supply. Education support will be provided to adults, predominately women, enabling them to enrol in functional literacy training and to acquire technical skills. Children will be encouraged and financially supported to continue their primary education. The various training programmes, together with the institutional approach of participatory VDPs, will lead to much greater awareness and assertiveness in all matters relating to the social and economic situation of the individual, the household and the community.

29. **Rural finance targeting.** RCCs will be responsible for providing financial services, using the proceeds of the IFAD loan to supplement the financial resource base of the system. The credit management structure will involve support and coordination of relevant organizations, including the PBC and the RCCUs at various levels. Prior to loan effectiveness, the apex PMOs will assist the Department of Finance (DOF), the PBC and apex RCCUs in preparing a detailed manual for credit policies and operational procedures of financial services and in preparing draft contracts for on-lending to county RCCUs and township RCCs. The operational manual and training modules will be uniform for the whole programme and build on those developed with German technical assistance in the Fund's Wulin Mountains Minority-Areas Development Project. RCCs will be responsible for the assessment and approval of credit applications, the disbursement of loans, follow-up and recovery, risk management, accounting and reporting, and supervising and monitoring of credit operations. County RCCUs will channel funds to RCCs, receive training from apex RCCU and PBC officials, organize and monitor training of RCC officers, supervise RCC credit operations, maintain and consolidate RCC reports and forward programme data to the county finance bureaux via the county PMO.

30. **Management.** The Ministry of Agriculture will be the lead programme agency, and the MOF will have overall responsibility for financial management at the national level. At regional or provincial level, the Department of Agriculture will assume primary responsibility for implementation and will guide and coordinate the work of all the technical agencies involved. The regional or provincial DOF will be responsible for financial management and supervision of programme funds and for ensuring repayment of the IFAD loan to the MOF. A management agreement will specify the role and responsibilities of each implementing agency, including the RCCs as financial intermediaries, and provide details on implementation procedures. All PMOs at the regional and county level have already been established as the coordinating arms of the respective PLGs. PLGs will be responsible for providing policy guidance, approving plans, receiving reports and commenting on these. The PMOs will remain small and operate as coordinators, leaving implementation to the technical agencies. There is already a gender focal point officer in all PMOs. Programme resources for all investment items and running costs will be allocated to associated agencies, including the Women's Federation, on a timely basis in accordance with the approved annual workplan and budget.



31. **Monitoring.** The regional/provincial PMO will prepare annual progress reports on the basis of county PMO reports, and provide gender-specific details. Supervision missions will focus on key indicators of (a) food, livestock and economic crop production; (b) household income or proxy indicators related to increased food self-sufficiency and/or discretionary expenditure; (c) graduation out of poverty; (d) income of women participating in supported activities; and (e) use of social infrastructure, notably primary schools and village and township health structures. Physical, environmental, financial, institutional and socio-economic aspects will be included in reports for IFAD and WFP. A specific credit programme management and information system will be established by the RCC system to monitor credit activities. It will also be responsive to the needs expressed by the DOF. Start-up workshops will be held at regional/provincial level and in each county. An annual management workshop in each county will review and derive lessons from the past year's activities and ensure that these lessons are reflected in annual workplans and budgets. Inter-county workshops, focusing on systems, gender aspects, participatory planning and monitoring, and financial services, will be organized annually to share issues of common interest and foster feedback.

32. **Impact assessment.** The baseline survey, the mid-term review (MTR) and the programme completion review (PCR) are the main instruments for impact assessment. The baseline survey, undertaken before the start-up of activities, will emphasize household food security by including anthropometric measurements. An MTR and PCR will be undertaken jointly by IFAD, WFP, the cooperating institution and the Government at the end of programme year (PY) 3 and PY 6 respectively. The reviews will assess the impact of activities on the living conditions of the target group and provide an opportunity to promote knowledge-sharing by stakeholders within and among projects.

### G. Economic Justification

33. **Benefits and beneficiaries.** In the context of a perennial food-deficit area, the programme is likely to have a major effect on household food security. The total annual increment in the output of grain and potatoes is estimated at 41 000 t and 215 000 t by PY 7. This converts to an average of 36 kg of grain and 160 kg of potatoes per person, lifting the programme area from bare food subsistence to near self-sufficiency. Substantial incremental outputs are expected from livestock developments and vegetable production with irrigation. This will contribute to more balanced diets, including more animal protein, but also higher quantities of fruits and vegetables. The 300 000 targeted households are likely to improve their economic and social living conditions dramatically. For example, a typical land-scarce household could control 0.1 ha of irrigated land instead of the present 0.04 ha and may have acquired newly improved dryland as well. A few additional animals could be kept in improved conditions in the homestead, with the herds on the rangeland benefiting from improved grazing conditions. The new plantations of perennial crops, mainly for ecological purposes, will gradually produce fruits or medicinal herbs, all in high demand nationally. More importantly, children in the programme area, including girls, will be able to complete primary education at rehabilitated local schools, and their mothers can acquire basic literacy and some technical skills, opening the path to income-generating activities. The health of all will improve with better quality water and a more accessible and responsive health services.

34. All 300 000 households may benefit from on-farm production development through crop and/or livestock training or on-farm demonstrations. These increased farming skills, combined with land improvement, will allow large numbers of beneficiaries to receive credit for investment and/or seasonal loans. The programme will support the creation of small enterprises and income-generating activities, using seasonal and medium-term credit and intensive training for potential entrepreneurs. The expected beneficiaries of social services will include about 31 000 trainees for literacy, 45 000 trainees for technical skills, 36 000 school drop-outs (mainly girls) and 260 000 women for perinatal care.



35. **Financial and economic analysis.** The data on crop farming and livestock can be combined to construct an average farm enterprise system. At full programme deployment, the net annual income per household will increase by more than 60%, from about USD 325 to 530. The economic rate of return (ERR) calculated for the whole programme area over a 20-year period is 19.2% per annum. The sensitivity test results demonstrate the robustness to exogenous variations in cost and/or benefit streams, while still yielding an ERR of 10.0% in the case of a 10% shortfall in benefits and a 10% increase in costs.

#### **H. Risks**

36. Risks are associated with peak climate events such as unusually concentrated rainfall resulting in flooding or the late onset of summer rains endangering the germination of crops. The programme will attenuate the impact of such risks by improving water management for irrigation to ensure a more steady supply of water during extended dry periods and by extending moisture management in dryland soils by appropriate land formation. It will also promote the use of plastic sheets on spring crops to make full use of the improved water availability and to lengthen the cropping season. Diversity of tree and shrub species in ecological planting will be maintained through numerous small village nurseries, with up-to-date technology made available through training and demonstration. No particular problems are expected with regard to the supply of fertilizers and other agrochemicals.

#### **I. Environmental Impact**

37. The programme area is a hilly to mountainous region where large-scale deforestation and irrational rangeland management have caused vegetative cover to deteriorate, provoking serious soil erosion. Large government-supported public and private tree-planting and desertification-control schemes are underway. Irrigation and land development are expected to improve the productivity of good cropping land, thus releasing marginal cropped land to ecologically and economically more sustainable use, for instance with perennial cash crops or permanent grasses for grazing. Programme design includes demonstrations of several modes of planting trees and shrubs along roadsides, canals and within cropping systems wherever practicable. The proposed sources for drinking water meet Chinese standards for potable water and will be of much higher quality and accessibility than the present sources, often local streams or stagnant pools. The introduction of a participatory rangeland management system will ensure the sustainability of rehabilitation efforts. The programme is therefore unlikely to have significant negative environmental effects and has accordingly been classified as Category B.

38. Consultations are going forward with the Global Environment Facility (GEF), Global Mechanism and Asian Development Bank with regard to the preparation of pilot activities aimed at reducing desertification and land degradation as incremental support to the programme. A People's Republic of China-GEF partnership on land degradation in dryland ecosystems is under preparation and the current programme may eventually be considered as part of the partnership action plan. An initial concept note for a GEF ecosystem management project in the programme area of Ningxia and Shanxi will be submitted to the partnership secretariat.

#### **J. Innovative Features**

39. During a preparatory phase, the programme area and target group were pre-identified using the VAM method, and PRA methodology was introduced through a training course for county and township PMOs. The target groups' active involvement will be guaranteed through further use of PRA methods for preparing VDPs and their implementation. Pilot village and township participatory planning exercises will be conducted prior to loan effectiveness to ensure a smooth start-up. The large-scale introduction of participatory rangeland-management methods will lead to the regeneration of badly degraded rangeland. Demonstrations of various techniques of on-farm and common tree and shrub planting will vigorously promote village or community environment conservation. Strengthened and refocused crop extension and animal health services will serve the poor and women more



effectively. Numerous small demonstrations of selected, recommended packages – many in remote natural villages – will be carried out on the fields of poor farmers, women in particular. The women's health programme will vigorously support the training of village focal points for women's health. This is a cost-effective way of creating outreach to women on perinatal health and reproductive-tract infections, which are reported to be widespread and serious, and generally go untreated until a very late stage. Programme design has been undertaken largely by Chinese resource persons, which favours efficiency and creates important potential for influencing policy.

### **PART III - LEGAL INSTRUMENTS AND AUTHORITY**

40. 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 programme loan agreement is attached as an annex.

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

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

### **PART IV - RECOMMENDATION**

43. 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 nine hundred and fifty thousand Special Drawing Rights (SDR 21 950 000) to mature on or prior to 1 December 2042 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.

Lennart Båge  
President



## SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED PROGRAMME LOAN AGREEMENT

(Loan negotiations concluded on 29 November 2002)

1. **Programme development accounts.** Each DOF will cause the relevant regional/provincial PMO to open and thereafter maintain, in a bank satisfactory to IFAD, a separate account denominated in CNY at each of the provincial, county and township levels for programme operations. Each PMO director will be fully authorized to operate the relevant programme account.
2. **Availability and channelling of loan proceeds.** The Government of the People's Republic of China (the Government) will make the proceeds of the loan available to each DOF, which will bear the foreign exchange risk. Each DOF will transfer the loan proceeds allocated to the financial services component to the county RCCUs in each province in accordance with the subsidiary loan agreement. The DOF will transfer the proceeds of the loan not allocated to the financial services component to the provincial, county and township programme accounts on terms and conditions agreed between the Government and IFAD to carry out the programme. The DOF will make available to the Women's Federation in Shanxi an amount equivalent to USD 2 260 000 in the aggregate from the proceeds of the loan, and to the Women's Federation in Ningxia Hui Autonomous Region (Ningxia) an amount equivalent to USD 3 400 000 in the aggregate from the proceeds of the loan, on terms and conditions agreed between the Government and IFAD, to carry out certain programme activities. Each provincial programme account will maintain at all times a revolving fund in an amount sufficient to cover three months of programme implementation, in accordance with the annual work plans and budgets (AWP/Bs).
3. **Availability of additional resources.** The Government will ensure that each province and county makes available counterpart funds from their respective resources in accordance with the AWP/Bs, as follows: (a) in Ningxia, the province will make available 70% and each county will make available 30% of counterpart funds for programme operations in each county; and (b) in Shanxi, the province will make available 50%, and each prefecture and county will make available 20% and 30% respectively, of counterpart funds for programme operations in each county.
4. **Monitoring and evaluation.** Each regional/provincial PMO will prepare semi-annual and annual progress reports on the basis of county PMO reports, including gender-specific details, to be submitted to IFAD and WFP within ten weeks of the end of the reporting period. The progress reports will include physical, environmental, financial, institutional, socio-economic and particularly gender-specific aspects, and will also provide special sections referring to beneficiary self-monitoring, the use of work and training days, quality assessment of infrastructure, and women's participation in work and training days. The supervision mission and the mid-term review will review programme progress and provide implementation support on issues raised. Key indicators will focus on: (a) food, livestock and economic crop production; (b) household income and proxy indicators related to increased food self-sufficiency and discretionary expenditures; (c) graduation out of poverty; (d) income of women participating in supported activities; and (e) use of social infrastructure, notably primary schools and village and township health structures. Monitoring will be directly linked to the regular national reporting system, which is an integral part of PMOs at all administrative levels.
5. **Gender focus.** The Government will ensure that women participate in all programme activities and that they benefit equitably from programme outputs.
6. **Credit information management.** A specific credit programme management and information system will be established by the RCCs to monitor credit activities and respond to needs expressed by the DOF.



7. **Impact assessment.** Within six months of effectiveness of the loan agreement, each regional/provincial PMO will have conducted the baseline survey, which will emphasize household food security through the inclusion of anthropometric measurements, and will have submitted a summary thereof to IFAD.
8. **Counterpart funds.** The Government will ensure that each AWP/B clearly reflects the source and use of counterpart funds.
9. **Conditions precedent to withdrawal of certain loan proceeds.** No withdrawal will be made in respect of expenditures under the rural financial services component until the financial services manual and the subsidiary loan agreement will have each been approved by IFAD in draft; and a copy of each of the financial services manuals and the signed subsidiary loan agreement, substantially in the form so approved and certified as true by the Ministry of Agriculture and the PBC, will have been delivered to IFAD.
10. **Other covenants.** The Government will ensure that:
- (a) where programme activities affect the supply or quality of available land, land reallocation will be carried out as part of the VDP through a participatory process involving the whole village through the VIG. State policies allowing for 30-year land leases will be taken into account when reallocating land;
  - (b) all planting material provided under the programme will be of certified quality;
  - (c) special attention will be given to educating farmers (men and women) in the safe use, handling and storage of agrochemicals so as to minimize the toxic effects of such chemicals. When recommending essential chemicals, technical staff will choose the least hazardous effective chemical. In general, integrated pest management principles will prevail;
  - (d) all infrastructure construction, rehabilitation and maintenance work supported under the programme will follow relevant national standards and comply with environmental legislation;
  - (e) food distributed to beneficiaries will meet WFP quality standards;
  - (f) operational costs and financing of technical services facilities will be continued and end-of-programme standards maintained;
  - (g) The Women's Federation will enjoy full managerial autonomy within the parameters of the programme documents and the AWP/Bs, and will receive funds necessary to organize micro-initiative funding;
  - (h) ownership of the township training facilities will be devolved to the Women's Federation, which will subsequently make these training facilities and related equipment available to other project implementing agencies;
  - (i) the construction or rehabilitation of the township extension units will be preceded by a policy review, needs assessment and inventory, and integrated premises will be proposed whenever possible to provide more efficient use of funds for sites, buildings and services, and to ensure the provision of optimal services to farmers;





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- (j) agricultural support services at all levels will have a target ratio of 50% women staff members;
- (k) field demonstrations will be conducted on the plots of poorer farmers, to whom demonstration inputs will be supplied with a 50% subsidy. Such farmers will keep the produce of the demonstration in return for providing a training ground for neighbours;
- (l) to service the needs of small and isolated natural villages, demonstrations will be conducted away from the administrative centres of villages. In Ningxia, not less than 50% of demonstrations funded by the programme will be held in natural villages. In Shanxi, 15% of demonstrations will be conducted away from the administrative centres of villages;
- (m) resources will be made available to RCCs in line with the seasonal requirements of the credit business, as expressed in the AWP/Bs;
- (n) loan funds for RCCs will be recorded and kept separate from other funds until the overall financial situation of RCCs has been fully strengthened. This requirement will apply throughout the programme implementation period and until the DOFs have been repaid in full;
- (o) RCCs are offered the opportunity to acquire incremental equipment and to train their field staff in credit methods. These items will be provided on a non-reimbursable basis;
- (p) before renovation or construction of primary school infrastructure takes place, a parents' committee will be formed to supply unskilled labour for rehabilitation work and for subsequent upkeep and maintenance of the facility; and
- (q) water users' committees will be formed at the village level, and detailed planning for drinking water schemes will be undertaken before starting construction.

**11. Conditions precedent to effectiveness of the programme loan agreement:**

- (a) the special accounts will have been duly opened by the relevant DOF;
- (b) each regional/provincial and county PMO will have duly opened its respective programme account;
- (c) the draft programme management agreement (PMA) will have been approved by IFAD, and a copy of the signed PMA will have been delivered to IFAD;
- (d) the Government will have submitted to IFAD the draft financial services manual and the draft subsidiary loan agreement for approval;
- (e) each provincial/regional PMO will have submitted to IFAD and WFP its respective draft AWP/B for the first programme year, and IFAD shall have approved each such draft AWP/B;
- (f) the Government and IFAD will have agreed on the terms and conditions of the transfer of loan proceeds not allocated to the financial services component;



ANNEX

- (g) the loan agreement will have been duly signed, and the signature and performance thereof by the Government shall have been duly authorized and ratified by all necessary administrative and governmental action; and
- (h) a favourable legal opinion, issued by the Department of Treaty and Law of the Ministry of Foreign Affairs or other legal counsel approved by IFAD, in form and substance acceptable to IFAD, will have been delivered by the Government to IFAD.

## COUNTRY DATA

## CHINA

|  |                            |   |                 |
|--|----------------------------|---|-----------------|
| <b>Land area (km<sup>2</sup> thousand) 2000 1/</b>                       | <b>9 327</b>               | <b>GNP per capita (USD) 2000 1/</b>                             | <b>840</b>      |
| <b>Total population (million) 2000 1/</b>                                | <b>1 261.1</b>             | <b>GNP per capita growth (annual %) 2000 1/</b>                 | <b>6.1 a/</b>   |
| <b>Population density (people per km<sup>2</sup>) 2000 1/</b>            | <b>135</b>                 | <b>Inflation, consumer prices (annual %) 2000 1/</b>            | <b>0.3</b>      |
| <b>Local currency</b>  | <b>Yuan Renminbi (CNY)</b> | <b>Exchange rate: USD 1 =</b>                                   | <b>CNY 8.26</b> |
| <b>Social Indicators</b>   |                            | <b>Economic Indicators</b>                                      |                 |
| Population (average annual population growth rate) 1980-99 2/            | 1.3                        | GDP (USD million) 2000 1/                                       | 1 079 954       |
| Crude birth rate (per thousand people) 2000 1/                           | 16 a/                      | Average annual rate of growth of GDP 2/                         |                 |
| Crude death rate (per thousand people) 2000 1/                           | 7 a/                       | 1980-90   | 10.1            |
| Infant mortality rate (per thousand live births) 2000 1/                 | 30 a/                      | 1990-99   | 10.7            |
| Life expectancy at birth (years) 2000 1/                                 | 70 a/                      | Sectoral distribution of GDP, 2000 1/                           |                 |
| Number of rural poor (million) (approximate) 1/                          | 39.3                       | % agriculture   | 16              |
| Poor as % of total rural population 2/                                   | 5                          | % industry  | 49              |
| Total labour force (million) 2000 1/                                     | 759.1                      | % manufacturing   | 38              |
| Female labour force as % of total, 2000 1/                               | 45                         | % services  | 34              |
| <b>Education</b>   |                            | Consumption, 2000 1/  |                 |
| School enrolment, primary (% gross) 2000 1/ group)                       | 123 a/                     | General government final consumption expenditure (as % of GDP)  | 11              |
| Adult literacy rate (% age 15 and above) 2000 1/                         | 16                         | Household final consumption expenditure, etc. (as % of GDP)     | 49              |
| <b>Nutrition</b>   |                            | Gross domestic savings (as % of GDP)                            |                 |
| Daily calorie supply per capita, 1997 3/                                 | 2 897                      | 40  |                 |
| Malnutrition prevalence, height for age (% of children under 5) 2000 1/  | 16 a/                      | <b>Balance of Payments (USD million)</b>                        |                 |
| Malnutrition prevalence, weight for age (% of children under 5) 2000 1/  | 9 a/                       | Merchandise exports, 2000 1/                                    | 249 212         |
| <b>Health</b>  |                            | Merchandise imports, 2000 1/                                    | 225 097         |
| Health expenditure, total (as % of GDP) 2000 1/                          | 4.5 a/                     | Balance of merchandise trade                                    | 24 115          |
| Physicians (per thousand people) 1999 1/                                 | 1.4                        | Current account balances (USD million)                          |                 |
| Population using improved water sources (%) 1999 4/                      | 75                         | before official transfers, 1999 1/                              | 10 723          |
| Population with access to essential drugs (%) 1999 4/                    | 85                         | after official transfers, 1999 1/                               | 15 667          |
| Population using adequate sanitation facilities (%) 1999 4/              | 38                         | Foreign direct investment, net 1999 1/                          | 36 978          |
| <b>Agriculture and Food</b>  |                            | <b>Government Finance</b>                                       |                 |
| Food imports (% of merchandise imports) 1999 1/                          | 4                          | Overall budget deficit (including grants) (as % of GDP) 1999 1/ | -2.2 a/         |
| Fertilizer consumption (hundreds of grams per ha of arable land) 1998 1/ | 2 826                      | Total expenditure (% of GDP) 1999 1/                            | 9.3 a/          |
| Food production index (1989-91=100) 2000 1/                              | 171.9                      | Total external debt (USD million) 1999 1/                       | 154 223         |
| Cereal yield (kg per ha) 2000 1/   | 4.735                      | Present value of debt (as % of GNP) 1999 1/                     | 14              |
| <b>Land Use</b>  |                            | Total debt service (% of exports of goods and services) 1999 1/ | 9.0             |
| Arable land as % of land area, 1998 1/                                   | 13.3                       | Lending interest rate (%), 2000 1/                              | 5.9             |
| Forest area (km <sup>2</sup> thousand) 2000 1/                           | 1.635                      | Deposit interest rate (%), 2000 1/                              | 2.3             |
| Forest area as % of total land area, 2000 1/                             | 17.5                       |   |                 |
| Irrigated land as % of cropland, 1998 1/                                 | 38.8                       |   |                 |

A/Data are for years or periods other than those specified

1/ World Bank, *World Development Indicators* database

2/ World Bank, *World Development Indicators*, 2001

3/ UNDP, *Human Development Report*, 2000

4/ UNDP, *Human Development Report*, 2001

## PREVIOUS IFAD FINANCING TO 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 Project                                | IFAD                   | UNOPS                   | HC            | 22 Apr 81      | 20 Jul 81          | 31 Dec 88            | L - I - 62 - CH    | SDR      | 28 700 000                  | 100%                                   |
| Hebei Agricultural Development Project  | IFAD                   | World Bank:<br>IBRD     | I             | 15 Sep 82      | 14 Jan 83          | 31 Dec 88            | L - I - 107 - CH   | SDR      | 22 900 000                  | 100%                                   |
| Rural Credit Project  | IFAD                   | World Bank:<br>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 Project                              | IFAD                   | World Bank:<br>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 Project                                  | 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 Project                                | 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 Project  | 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 Project                     | IFAD                   | UNOPS                   | HC            | 15 Sep 93      | 10 Dec 93          | 31 Dec 00            | L - I - 335 - CN   | SDR      | 18 400 000                  | 98.6%                                  |
| Qinghai/Hainan Prefecture Agricultural Development Project                        | IFAD                   | UNOPS                   | HC            | 05 Dec 94      | 08 Jun 95          | 30 Jun 01            | L - I - 364 - CN   | SDR      | 13 500 000                  | 96.9%                                  |
| Jiangxi/Ganzhou Integrated Agricultural Development Project                       | IFAD                   | UNOPS                   | HC            | 06 Dec 95      | 10 May 96          | 30 Jun 01            | L - I - 395 - CN   | SDR      | 15 950 000                  | 87.8%                                  |
| Northeast Sichuan and Qinghai/Haidong Integrated Agricultural Development Project | IFAD                   | UNOPS                   | HC            | 11 Sep 96      | 14 May 97          | 31 Dec 02            | L - I - 424 - CN   | SDR      | 19 100 000                  | 93.0%                                  |
| Southwest Anhui Integrated Agricultural Development Project                       | IFAD                   | UNOPS                   | HC            | 11 Sep 97      | 12 Dec 97          | 30 Jun 03            | L - I - 451 - CN   | SDR      | 19 100 000                  | 76.0%                                  |
| Wulin Mountains Minority-Areas Development Project                                | IFAD                   | UNOPS                   | HC            | 10 Sep 98      | 21 Apr 99          | 31 Dec 04            | L - I - 483 - CN   | SDR      | 21 100 000                  | 27.0%                                  |
| Qinling Mountain Area Poverty-Alleviation Project                                 | IFAD                   | UNOPS                   | HC            | 08 Dec 99      | 15 Aug 00          | 31 Mar 08            | L - I - 517 - CN   | SDR      | 21 000 000                  | 4.0%                                   |
| West Guangxi Poverty-Alleviation Project  | IFAD                   | UNOPS                   | HC            | 07-Dec-00      | 21 Mar 02          | 30 Sep 08            | L I 552 CN         | SDR      | 23 800 000                  |  |





## COMPONENTS AND IMPLEMENTATION ARRANGEMENTS

### Programme Description

1. The programme's goal is to reduce sustainably the poverty of about 300 000 households living in 126 townships, spread over 12 counties in Ningxia Hui Autonomous Region and Shanxi Province. This requires improved impact of productivity gains, income growth and social services. Grain availability per capita should increase by 36 kg, and income by about USD 62, while preventable diseases and the number of school drop-outs will decrease. Microenterprises will be started up, supported with skills training and appropriate credit packages. The economic and social development objectives require a multisectoral approach, combining in a coherent and integrated fashion investments in both physical and human resources with emphasis on labour productivity and implementation. Therefore, a management agreement will specify the role and responsibilities of each technical agency and provide details on implementation procedures. The PLGs and PMOs will guide, coordinate and facilitate the work of the technical implementing agencies. The programme activities, implemented by the respective agencies, will have four major components: (a) land-based activities; (b) financial services; (c) social development; and (d) management.

### Implementation Arrangements

2. **Institutional framework.** The administrative system comprises a multi-tier structure from the central government, through region/province, prefecture, county and township, to the administrative village level. Local officials at each level have considerable autonomy in decision-making and genuine responsibility for ensuring that the planned work is actually carried out. This arrangement is highly successful in achieving physical development with externally financed projects as reflected in IFAD and WFP experience in China. Government officials at township level and above are 'state cadres' paid by the Government. The village cadres include the administrative village leader, an elected official, the administrative village accountant, and the natural village leaders, one in each natural village. This group forms the village committee, the leading body of the administrative village. The village cadres are not paid by the state, but usually receive an allowance from taxes collected in the village. Few village cadres are women except for the representatives of the Women's Federation, who are present in every village and are responsible for mobilizing women, protecting children and promoting family-planning policies.

### Land-Based Activities

3. **Technical support services.** Technical support for agriculture is provided at the regional level through the Regional Agricultural and Animal Husbandry Office (comprising the Department of Agriculture, the Department of Cash Crops and the Department of Animal Husbandry) and the Forestry Administration. The Department of Water Conservancy, the Rural Enterprise Bureau and the Meteorological Bureau are also providing assistance to the farming community. At the county level, agriculture, cash crops and animal husbandry take on separate identities. The regional universities and the Academy of Agricultural Science provide training opportunities for regional, prefecture and county officials. They also undertake adaptive research and field experimentation, some of which is contracted out to lower-level organizations. For all projects, planning, design and implementation are monitored by the environmental protection bureaux at different administrative levels and follow the agricultural, forestry, land and water resources laws, and the natural reserves regulation stipulations, including the new regulations concerning the cutting and removal of trees.



4. **Extension systems.** The Agricultural Bureau, the only organization concerned with crop development support at the county level, is mainly responsible for implementing policies relayed from upper levels related to agricultural and rural development. Four formerly separate units (for agro-technical extension, crop protection, soil and fertilizer, and cash crops) have recently been merged to form an integrated Agro-Technical Extension Centre (ATEC), without changing their functions in many participating counties, especially in Ningxia. The seed company, agricultural schools and seed farms have remained outside this system and continue to function as previously. A rural management and administration station is established under the Agricultural Bureau to manage rural properties and monitor the progress of rural development. Also, the Agricultural and Animal Husbandry Bureaux were merged to form an Agricultural and Animal Husbandry Bureau in some counties. An integrated agricultural technical extension station is established in each township; the technicians at the township level carry out specific experiments and demonstrations and conduct technical extension in cooperation with upper-level organizations for crops and rural development. Large-scale demonstrations are the main tool of technical extension in most counties. Demonstrations, however, tend to be concentrated in towns, along highways and in central villages. Frequent dialogue with farmers still occurs in many villages and in township markets where farmers go to the local ATEC for input supplies and advice. In most of the participating townships of the Ningxia programme area there is a 'crops hospital', which provides technical consultation and supplies agricultural production materials such as fertilizers and chemicals.

5. **Water engineering.** The water conservancy bureaux (WCBs) at the province, prefecture and county level are responsible for planning, design, construction, management and operation of major irrigation schemes, including on-farm development works and drinking-water supply. The county WCBs have good experience in management and operation of existing schemes, but less experience in the design of small schemes to be implemented simultaneously over a short time period. Regional and prefecture WCBs have trained staff available to make up the requirement. Engineering fees have been specified for all engineering work at a rate of about 7% of total material cost, excluding food rations. These fees will cover all WCB costs related to studies, site supervision, beneficiary training for scheme installation, running and management. They will also enable the PMOs at county and regional level to recruit outside engineering consultants to validate WCB technical proposals, detailed designs and estimated construction costs, in particular for the larger schemes.

6. **Irrigation and dryland development,** a priority expressed during the PRA, provides an excellent way for farm households to increase their food production. Opportunities for irrigation are limited by the availability of suitable land and water. Because of the late onset and general unreliability of the rainy season, successful irrigation must be based on using water carried over from the previous year's rainy season. Many older schemes are not functioning well because of faulty design and/or construction, making maintenance almost impossible. The main system failure is massive seepage, which reduces efficiency of water use to a very low percentage. A priority, therefore, is to upgrade old systems through the provision of hard canal lining. The water saved will enable most systems to be expanded well beyond the current command area. Another priority is to construct incremental storage devices, in particular individual 50-m<sup>3</sup> tanks to capture rain. Although expensive, these tanks provide water in adequate quantities through the early part of the crop growing cycle. This has dramatic effects on yields and may also create an opportunity for additional fodder crops. Other interventions concern about 30 small pumping stations and the occasional construction of check dams and drainage ditches. In addition, dryland development will include land levelling of 22 500 mu, about 44 000 mu of terracing and smaller quantities of site-specific soil conservation works.

7. During and/or following construction of communal schemes, VIGs will organize farmers in water users' groups, consisting of all beneficiary farmers. If any scheme touches territories in more



than one administrative village, the township WCB-station will offer its usual management support to the overall scheme committee. The group(s) will be trained in all aspects of irrigation water management on and off the field, including control of water to individual fields or sections, and operation and maintenance (O&M) procedures, for example for simple construction and repair of canals, pumps, reservoirs and other structures. In villages with drinking-water development, training will include both topics. Water-management charges will be levied to cover operational and maintenance costs, excluding voluntary labour.

8. **Livestock.** Livestock is the second most important activity in all areas. Main species are goats (cashmere and other), sheep and cattle. Horses and donkeys occur in substantial numbers in Ningxia. The management systems are based on the seasonal exploitation of vast rangeland resources and of agricultural crop residues. Rangeland is badly degraded by overgrazing, leading to impoverished flora. Rodents present an additional menace in many rangeland areas of Ningxia. Programme elements include the rehabilitation through community-managed grazing of vast tracts of rangelands that previously would have been re-seeded, and the introduction of artificial grassland and annual or perennial fodder crops on farmland previously used for marginal cereal production. Support will also be provided to upgrade the livestock services. The artificial insemination units will be strengthened to enable the gradual introduction of proven new blood lines. In all the above, training will be offered to beneficiaries through an upgraded extension service. Relevant livestock staff at county and township will also receive training.

9. **Economic crops.** Although presently low, the contribution of 'economic' or perennial cash crops to the household income of farmers in the programme area is potentially quite high. The market prospects for fruits, berries, spices and herbs are good. This component is closely related to the developments envisaged on annual crop land, which would enable farmers to restore their most unproductive land to a more rational use with pluri-annual and perennial crops. More than 90 000 mu of privately owned plots will be established making use of programme-supported training and, usually, credit. The PRA exercises conducted to date have shown that items most wanted by beneficiaries are generally in line with climatic conditions in the counties.

10. **Environmental tree planting.** The programme will implement elements of village or community forestry. Using large-scale demonstrations, it will encourage individual households to plant trees and shrubs as part of their farming systems. It will also promote the establishment of various types of plantations on common or public land. The result will be to increase available resources on the farm, to enrich the landscape, and to restore and improve ecological balance. Because of the need to generate seedlings in large quantities and quickly, the technical bureaux will establish nurseries. However, these will be privatized as quickly as possible to act as village nurseries; and if this cannot be achieved, they will be closed before the programme closing date. To ensure that farmers are fully conversant with the new management techniques (e.g. the new planting materials, proper planting methods and subsequent pruning and fertilization) the programme will provide training to county and township staff and to farmers. Planting will be arranged by village through the VIG. The trees will then normally be assigned to individual households in accordance with their proportional contributions to the establishment, but communal management will be acceptable if the village decides to do so.

### Financial Services

11. The **RCCs**, compared with other credit institutions, have the most extensive network at the grass-roots level. Their main sources of funds are savings and deposits by rural households and township enterprises, and loans from the PBC and other RCCs, with the RCCUs acting as clearing houses. Yet, the RCCs' liquidity is low. In the programme counties, most townships have an RCC. In Shanxi, however, where townships are small, many RCCs serve several townships. Although no formal village outlets or agents work on a commission basis at the village level, grass-roots services of the RCCs are maintained with the assistance of village leaders. An RCCU in each county provides



management, coordination and clearing services to its member RCCs. In Ningxia, RCCUs with management and supervision responsibility also exist at regional level. In Shanxi, RCCUs have been set up at prefecture level, but they appear to have only supervision responsibilities. PBC support and supervision is focused on all RCCUs, irrespective of level.

12. **Eligible borrowers** will be first-time borrowers, i.e. borrowers who have not received loans from the RCCs in the three preceding years. A growing number of clients will be among the economically active poor, including women, but who presently have little or no access to formal financial resources. Functional literacy and skills training will be associated to facilitate access to credit. The type of credit available under the programme will be short, medium and long term, up to five years for individuals. Groups may obtain larger loans if conditions so warrant. As all loans are likely to remain within the published ceilings in the system, no physical collateral will be required. The borrowers' contribution will generally be in kind and consist of their labour and skills. The loan size will depend upon the financing needs of the income-generating project. The RCCs will be requested to consider flexible (i.e. more frequent) loan-recovery schedules that suit borrowers. The interest charged will be in line with that practised by the RCCs and may exceed the usual interest rate to cover extra costs and the establishment of a risk fund.

### Social Development

13. **Primary education.** The programme will support primary school facilities by repairing, renovating or building about 550 schools of various sizes. Most of these will form 'incomplete' school and teaching posts in remote natural villages to enable children to attend primary grades 1 through 3 in their village of residence. Teachers will acquire skills in multi-grade teaching, which will be the norm in the outposts. To reduce non-enrolment and drop-outs, particularly among girls, the programme will provide funding of school costs for between 200 and 1 000 pupils annually in each county. The Women's Federation, which has acquired extensive experience with programmes for school drop-outs, will manage these funds in close collaboration with the village committees. Subsidies will be consigned to the school, not the parents.

14. **Health.** The Programme will improve the quality of health services, especially at the village level, and facilitate accessibility for poor households by: (a) providing additional training to village doctors and village nurse-midwives in aspects particularly relevant for villages, and supplying them with a basic technical kit; (b) training a knowledgeable women in every village to act as a focal point for women's health; (c) supporting training for township doctors to improve their capabilities especially in gynaecological, obstetric and paediatric disease diagnosis and dispatching, and in administering vaccination and epidemic-control programmes; (d) providing resources to each health facility to run substantial campaigns on health, sanitation and nutrition awareness in the villages; and (e) providing village clinics and township hospitals with relevant additional equipment. In addition, the programme will provide incentives to pregnant women in the form of transportation costs and food to attend prenatal check-ups in nearby township maternity facilities.

15. **Women's development and income-generation.** Two distinct training programmes will be offered, each at two levels: basic and refresher. The first programme concerns functional literacy skills. This training will take place in a social context and will be based on the practical aspects of the day-to-day social and economic life of the target population in order to impart functional literacy skills, including information on legal and administrative matters. The basic cycle will consist of 50-70 training days. The refresher course will cover a further 20 to 30 training days about one year later. The education bureaux will identify experienced primary school teachers in the villages, who will undergo specific training, including refresher courses, where they will be able to exchange their experiences as teachers of adults. The second programme will deal with technical and managerial skills, covering the needs of candidates for income-generating activities. This programme will be aimed at (semi-) literate people, and will simultaneously sharpen literacy and math skills. The





duration of training is expected to vary considerably with the required skill, so budget provisions represent averages only. All training will be supported by food-for-training (FFT) rations for beneficiaries and cash incentives for trainers; other financial resources will be allocated to the production and distribution of training materials. The Women's Federation will be entrusted with implementation.

16. **Women's Federation.** Created in 1949, the Women's Federation is the primary organization mandated to assist women in China. A Federation representative sits on every village committee, as well as on those at all higher administrative levels. The Women's Federation has coordinated many practical courses for rural women, including agricultural technology. It will be strengthened with equipment and with training facilities constructed in the townships. Incremental operations costs, including running costs for the vehicles allocated to the Federation, will be covered through specific annual allocations to its relevant budgets. It will also manage a special 'micro-initiatives' fund, which will build upon the experience of Women's Federations in the programme counties with income-generating activities for women, based on closely monitored small loans and training support.

17. **Drinking water** is in short supply throughout the programme area. Women usually have to walk long distances to find water, and then it is frequently unsuitable for human consumption. The programme will support about 61 000 households with individual drinking-water tanks to capture run-off during the rainy season; it will also finance village supply systems and community tank schemes. These will provide water to common faucets and plastic standpipes in the community. Beneficiaries will receive training in water management. Committees will be established with full representation of women, and water charges will be levied appropriate to the needs of each common scheme. Before construction, full detailed planning is required for each site, and the contribution by the community, through the provision of labour and/or materials, will have to be agreed. The programme will assist WCBs to establish suitable quality-monitoring programmes, particularly for tank water. In this regard, education of the beneficiaries in organoleptic testing will be important. Estimated costs include 'engineering fees' to defray WCB costs in respect of site investigations, engineering studies, on-site supervision and beneficiary training.

## Management

18. **Project/programme management offices (PMOs)**, staffed by personnel from existing units and operating from existing premises, have already been established at all levels. Staffing will be kept to the minimum compatible with efficient discharge of the PMO tasks, which are: (a) facilitating the work of the implementing technical agencies by providing them with the necessary funding for training, equipment and operating costs on a timely basis; and (b) monitoring programme implementation and reporting. PMOs will recruit not more than one senior staff member from each implementation bureau. To ensure that the additional workload created by programme implementation will be handled efficiently, the programme will provide funds for start-up and management workshops, and for monitoring and evaluation (M&E) and PRA methodology, implementation and analysis training for regional and county-level PMOs. Computer and credit-management training will also be offered to key staff. Mobility and office operations will be facilitated through the provision of vehicles, office equipment and coverage of the associated running costs. Additional funds are allocated in the budget of the regional PMO to finance tracer investigations, especially in relation to M&E, and to search for innovative opportunities for management or beneficiary activities. The efficient operation of county and township PMOs is essential for the overall performance of the programme. Ongoing training workshops on a variety of technical and administrative topics will be held throughout the life of the programme. Training will also be provided for villagers and trainers for VIGs. Study tours to other IFAD/WFP projects or to relevant local sites will be arranged both for PMO staff and beneficiaries of VIGs.



**LOGICAL FRAMEWORK**

| <b>Narrative Summary</b>  | <b>Performance Indicators</b>  | <b>Means of Verification</b>   | <b>Important Assumption</b>  |
|---|--|--|--|
| <b>PROGRAMME GOAL</b>   |  |  | <b>Goal to Supergoal</b>   |
| 1 Ecologically sustainable and equitable poverty reduction achieved in the hill zones of Ningxia and Shanxi | 1 Population below official poverty lines reduced by 75% by 2010   | 1 Leading Group on Poverty periodical reports  | 1 Other ongoing programmes continued   |
| <b>PROGRAMME PURPOSE</b>  |  |  | <b>Purpose to Goal</b>   |
| 1 Achieve total factor productivity and income growth and increase impact of social services                | 1.1 Per capita grain availability increased by 32 kg before 2010<br>1.2 Per capita income increased by CNY 300, expressed in 2001 values<br>1.3 Marginal cropland converted into perennial crops and/or grassland<br>1.4 Incidence of preventable disease reduced<br>1.5 Numbers of school drop-outs reduced by 50%, mostly girls<br>1.6 Enterprise start-ups, in particular by women  | 1.1 Ministry of Agriculture (MOA) reports and evaluation surveys<br>1.2 Poverty PLG reports and evaluation surveys<br>1.3 MOA reports and evaluation surveys<br>1.4 Ministry of Health reports<br>1.5 Education Bureau reports<br>1.6 RCCU reports             | 1.1.1 Prices and demand remain elastic<br>1.1.2 No major droughts<br>1.2 No major retrenchment in the economy of 'urban' China<br>1.3 Crop support and irrigation substantially increase crop output<br>1.4 Costs of social services change in line with income levels |
| <b>PROGRAMME OUTPUTS</b>  |  |  | <b>Outputs to Purpose</b>  |
| 1.1 Responsive farmer extension services provided; farmers training programme designed and implemented      | 1.1.1 1 790 mu of crop experiments<br>7 140 mu rangeland experiments<br>1.1.2 97 000 on-farm crop and fodder demonstrations, notably on poor household land<br>1.1.3 1.3 million farmer training days held for all crops and livestock<br>1.1.4 21 ATECs built and equipped; system methodologies improved   | 1.1.1 MOA periodic reports<br>1.2.1 MOA periodic reports<br>1.3.1 MOA periodic reports<br>1.4.1 MOA periodic reports   | 1.1.2 New technology accepted by farmers   |
| 1.2 Input supply strengthened   | 1.2 Support for microenterprises producing virus-free seed potatoes  | 1.2 MOA periodic reports   |  |
| 2 Land and land use improved  | 2.1 208 000 mu of irrigation schemes upgraded or built<br>2.2 74 000 mu of land improved by various soil-management techniques<br>2.3 170 000 mu planted with economic crops<br>2.4 34 000 mu of agro forestry and crop-land conversion demonstrations<br>2.5 65 000 mu ecological protection planted<br>2.6 210 000 mu of natural grassland rehabilitated<br>2.7 61 000 mu of farmyard fodder production<br>2.8 0.3 million mu of degraded forest regenerated through closure | 2.1 WCB periodic reports<br>2.2 MOA periodic reports<br>2.3 MOA and Forestry Department (ForD) periodic reports<br>2.4 ForD periodic reports<br>2.5 ForD periodic reports<br>2.6 MOA periodic reports<br>2.7 MOA periodic reports<br>2.8 ForD periodic reports |  |
| 3 Poverty and gender sensitive rural financial services provided by RCCs                                    | 3.1 Short-term loans given to resource-poor households for seasonal agriculture trebled<br>3.2 Medium-term loans given to resource-poor households for investment in income-generating activities quadrupled<br>3.3 All RCC staff trained  | 3.1 RCCU periodic reports<br>3.2 RCCU periodic reports<br>3.3 RCCU periodic reports  | 3 Achieved operational spreads on IFAD resources attractive for RCCs   |



INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

APPENDIX IV

| Activities  | Inputs, including Food Rations   | Means of Verification  | Important Assumptions   |
|---|--|--|---|
| 4.1 Social service facilities upgraded  | 4.1.1 547 village schools constructed/upgraded<br>4.1.2 3 400 primary teachers' skills upgraded<br>4.1.3 86 000 pupil-years of 'drop-outs' presence in primary schools<br>4.1.4 3 700 staff-time training for village doctors<br>4.1.5 900 staff-time training for village midwives<br>4.1.6 1 100 staff-time training for women health focal points | 4.1.1 Education Bureau reports<br>4.1.2 Education Bureau reports<br>4.1.3 Education Bureau reports<br>4.1.4 Ministry of Health (MoH) reports<br>4.1.5 MoH reports      |   |
| 4.2 Skills imparted for income-generating activities  | 4.2.1 31 000 illiterates trained<br>4.2.2 45 000 semi-literates given skills for income-generating activities  | 4.2.1 Education Bureau reports<br>4.2.2 Women's Federation periodic reports  | 4.2.2 Skill trainers found  |
| 5 Domestic water supplies constructed or rehabilitated  | 5.1 60 000+ beneficiary households served by new domestic water supplies   | 5 WCB periodic reports   |   |
| 6 Participatory and gender sensitive village development plans (VDPs) established and operational                       | 6.1 overall VDPs drafted in each administrative village<br>6.2 VDPs effectively taken forward to establish higher-level plan in annual programmes<br>6.3 women representation not less than two out of every five in all committees and PMOs   | 6.1 Environmentally Sensitive Poverty Alleviation Programme in Ningxia and Shanxi (ESPAP) periodic reports<br>6.2 ESPAP periodic reports<br>6.3 ESPAP periodic reports | 6.1 PRA efforts continued<br>6.2 Women's Federation staff in responsible posts in PMOs and VIGs                     |
| Activities  | Inputs, including Food Rations   | Means of Verification  | Important Assumptions   |
| 1.1 Construct/rehabilitate agricultural extension stations and animal husbandry stations; provide equipment and support | 1.1 Building materials, equipment and labour (USD 1.0 million)   | 1.1 Programme M&E system   | 1.1 Counterpart funds available on time   |
| 1.2 Train staff for crops and livestock   | 1.2 Training and training materials (USD 0.9 million)  | 1.2 Programme M&E system   |   |
| 1.3 Train farmers for crops and livestock   | 1.3 Food-for-training (FFT) and materials (USD 0.4 million)  | 1.3 Programme M&E system<br>Beneficiary surveys  | 1.3 Appropriate training targeted on the resource-poor  |
| 1.4 Conduct experiments and on-farm demonstrations  | 1.4.1 Material inputs (USD 5.8 million)<br>1.4.2 Voluntary labour (USD 3.5 Million)  | 1.4 Programme M&E system<br>Beneficiary surveys  | 1.4 Experiments generate new technology in later years  |
| 2.1 Construct, rehabilitate irrigation canals, construct individual irrigation tanks                                    | 2.1 Materials, skilled, unskilled labour, design and engineering supervision, training, Food-for-work (FFW) (USD 5.0 million)  | 2.1 Programme M&E system   | 2.1.1 Counterpart funds and food rations available on time<br>2.1.1 Water users' committees established and trained |
| 2.2 Construct terraces and level soil   | 2.2 Materials, skilled, unskilled labour, supervision, training FFW (USD 5.0 million)  | 2.2 Programme M&E system   | 2.2 Counterpart funds and food rations available on time  |
| 2.3 Promote economic crops  | 2.3 Village mobilization (p.m.)  | 2.3 Programme M&E system   |   |
| 2.4 Promote land conversion   | 2.4 Village mobilization and demonstrations (USD 3.9 million)  | 2.4 Programme M&E system   |   |
| 2.5 Plant ecological protection   | 2.5 Materials, equipment, labour, FFW, FFT (USD 3.4 million)   | 2.5 Programme M&E system   |   |
| 2.6 Improve rangeland   | 2.6 Materials, equipment, labour, FFW, FFT (USD 2.0 million)   | 2.6 Programme M&E system   |   |
| 2.7 Promote fodder production   | 2.7 Materials, equipment, labour, FFW, FFT (USD 2.7 million)   | 2.7 Programme M&E system   |   |
| 2.8 Close degraded forest   | 2.8 Forest guards (USD 0.7 million)  | 2.8 Programme M&E system   | 2.8 Successful beneficiary training   |
| 3.1 Establish revolving fund within RCC-system  | 3.1 Revolving fund credit line (USD 5.1 million)   | 3.1 Programme M&E system   |   |
| 3.2 Assess, disburse, recover loans   | 3.2 Work with beneficiaries (p.m)  | 3.2 Programme M&E system   |   |
| 3.3 Purchase equipment  | 3.3 Equipment (USD 0.6 million)  | 3.3 Programme M&E system   |   |
| 3.4 Train staff and beneficiaries   | 3.4 Materials and other costs (USD 0.4 million)  | 3.4 Programme M&E system   |   |
| 3.5 Obtain beneficiary contribution   | 3.5 Voluntary labour (p.m)   | 3.5 Programme M&E system   |   |



## INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

## APPENDIX IV

| Activities  | Inputs, including Food Rations                                 | Means of Verification     | Important Assumptions                                |
|---|--|---------------------------|--|
| 4.1 Upgrade health facilities   | 4.1 Building materials, equipment and labour (USD 2.6 million) | 4.1 Programme M&E system  | 4.1 Counterpart funds available                      |
| 4.2 Train health workers at village and township levels               | 4.2 Training and training materials (USD 1.7 million)          | 4.2 Programme M&E system  |  |
| 4.3 Run village health campaign                                       | 4.3 FFT and materials (USD 1.3 million)                        | 4.3 Programme M&E system  |  |
| 4.4 Run perinatal campaign  | 4.4 Travel costs and FFT (USD 1.3 million)                     | 4.4 Programme M&E system  |  |
| 4.5 Build/rehabilitate primary school                                 | 4.5 Building materials, equipment and labour (USD 1.7 million) | 4.5 Programme M&E system  |  |
| 4.6 Support drop-outs   | 4.6 Subsidies (USD 1.3 million)                                | 4.6 Programme M&E system  |  |
| 4.7 Train teachers  | 4.7 Training and training materials, FFT (USD 0.8 million)     | 4.7 Programme M&E system  |  |
| 4.8 Equip Women's Federation (WF) and build township training centres | 4.8 Building materials, equipment and labour (USD 0.8 million) | 4.8 Programme M&E system  |  |
| 4.9 Train literacy trainers   | 4.9 Training and training materials (USD 0.2 million)          | 4.9 Programme M&E system  |  |
| 4.10 Run literacy training  | 4.10 Training and training materials (USD 1.1 million)         | 4.10 Programme M&E system |  |
| 4.11 Run skills training  | 4.11 Training and training materials (USD 2.1 million)         | 4.11 Programme M&E system | 4.11 Recurrent funding of Women's Federation assured |
| 4.12 Fund micro-initiatives   | 4.12 FFT and fund (USD 1.7 million)                            | 4.12 Programme M&E system | 4.12 Recurrent funding of Women's Federation assured |
| 5.1 Build village and private domestic water supplies                 | 5.1 Building materials, equipment and labour (USD 2.1 million) | 5.1 Programme M&E system  |  |
| 6.1 Train Programme management staff                                  | 6.1 Training and training materials (USD 2.8 million)          | 6.1 Programme M&E system  | 6.1 Counterpart funds available on time              |
| 6.2 Purchase equipment  | 6.2 Materials inputs (USD 1.7 million)                         | 6.2 Programme M&E system  | 6.2 Counterpart funds available on time              |
| 6.3 Transport and handle WFP food                                     | 6.3 Handling charges (USD 2.8 million)                         | 6.3 Programme M&E system  | 6.3 Counterpart funds available on time              |

Note: Costs listed above do not include recurrent charges for PMOs or Women's Federation.

## COSTS AND FINANCING

### Expenditure Accounts by Financiers (USD '000)

|                            | IFAD   |       | WFP    |      | Government (Food) |      | Government (Net) |       | Taxes  |      | Beneficiaries |       | Total  |       | For.  | Local         | Duties and |
|----------------------------|--------|-------|--------|------|-------------------|------|------------------|-------|--------|------|---------------|-------|--------|-------|-------|---------------|------------|
|                            | Amount | %     | Amount | %    | Amount            | %    | Amount           | %     | Amount | %    | Amount        | %     | Amount | %     | Exch. | (Excl. Taxes) | Taxes      |
|                            |        |       |        |      |                   |      |                  |       |        |      |               |       |        |       |       |               |            |
| Buildings                  | -      | -     | -      | -    | -                 | -    | 2 458            | 95.0  | 129    | 5.0  | -             | -     | 2 588  | 2.9   | 259   | 2 200         | 129        |
| Other construction         | -      | -     | -      | -    | -                 | -    | 14 150           | 95.0  | 745    | 5.0  | -             | -     | 14 895 | 16.5  | 1 489 | 12 661        | 745        |
| Engineering fees           | -      | -     | -      | -    | -                 | -    | 1 430            | 100.0 | -      | -    | -             | -     | 1 430  | 1.6   | -     | 1 430         | -          |
| Studies/investigations     | 2 520  | 100.0 | -      | -    | -                 | -    | -                | -     | -      | -    | -             | -     | 2 520  | 2.8   | -     | 2 520         | -          |
| Vehicles                   | 2 506  | 95.0  | -      | -    | -                 | -    | -                | -     | 132    | 5.0  | -             | -     | 2 638  | 2.9   | 135   | 2 371         | 132        |
| Medical supplies           | 510    | 23.2  | -      | -    | -                 | -    | 1 578            | 71.8  | 110    | 5.0  | -             | -     | 2 198  | 2.4   | 220   | 1 868         | 110        |
| Technical supplies         | 1 697  | 95.0  | -      | -    | -                 | -    | -                | -     | 89     | 5.0  | -             | -     | 1 786  | 2.0   | 181   | 1 516         | 89         |
| Demonstration inputs       | 3 413  | 47.5  | -      | -    | -                 | -    | -                | -     | 359    | 5.0  | 3 413         | 47.5  | 7 186  | 8.0   | -     | 6 827         | 359        |
| Other farm inputs          | -      | -     | -      | -    | -                 | -    | 5 812            | 95.0  | 306    | 5.0  | -             | -     | 6 117  | 6.8   | -     | 5 812         | 306        |
| Training materials         | 1 641  | 99.8  | -      | -    | -                 | -    | -                | -     | 4      | 0.2  | -             | -     | 1 645  | 1.8   | -     | 1 641         | 4          |
| Staff training             | 3 253  | 60.3  | -      | -    | -                 | -    | 2 135            | 39.6  | 3      | 0.0  | -             | -     | 5 390  | 6.0   | -     | 5 387         | 3          |
| Beneficiary training       | 4 703  | 96.7  | -      | -    | -                 | -    | -                | -     | 162    | 3.3  | -             | -     | 4 866  | 5.4   | -     | 4 703         | 162        |
| Beneficiary training (FFT) | -      | -     | 1 343  | 53.8 | 1 152             | 46.2 | -                | -     | -0     | -0.0 | -             | -     | 2 494  | 2.8   | -     | 2 494         | -          |
| VIG training               | 716    | 100.0 | -      | -    | -                 | -    | -                | -     | -      | -    | -             | -     | 716    | 0.8   | -     | 716           | -          |
| School drop-outs           | 1 350  | 100.0 | -      | -    | -                 | -    | -                | -     | -      | -    | -             | -     | 1 350  | 1.5   | -     | 1 350         | -          |
| Unskilled labour (cash)    | -      | -     | -      | -    | -                 | -    | 450              | 100.0 | -      | -    | -             | -     | 450    | 0.5   | -     | 450           | -          |
| Unskilled labour (FFW)     | -      | -     | 5 937  | 64.5 | 3 268             | 35.5 | -                | -     | -0     | -0.0 | -             | -     | 9 206  | 10.2  | -     | 9 206         | -          |
| Skilled labour             | -      | -     | -      | -    | -                 | -    | 1 783            | 100.0 | -      | -    | -             | -     | 1 783  | 2.0   | -     | 1 783         | -          |
| Family labour              | -      | -     | -      | -    | -                 | -    | -                | -     | -      | -    | 3 706         | 100.0 | 3 706  | 4.1   | -     | 3 706         | -          |
| RCC rev. fund              | 5 085  | 100.0 | -      | -    | -                 | -    | -                | -     | -      | -    | -             | -     | 5 085  | 5.6   | -     | 5 085         | -          |
| RCC credit training        | 426    | 95.0  | -      | -    | -                 | -    | -                | -     | 22     | 5.0  | -             | -     | 449    | 0.5   | -     | 426           | 22         |
| Building WF                | 582    | 95.0  | -      | -    | -                 | -    | -                | -     | 31     | 5.0  | -             | -     | 612    | 0.7   | 61    | 520           | 31         |
| WF operation cost          | 565    | 95.0  | -      | -    | -                 | -    | -                | -     | 30     | 5.0  | -             | -     | 595    | 0.7   | -     | 565           | 30         |
| Food Handling              | -      | -     | -      | -    | -                 | -    | 2 805            | 100.0 | -      | -    | -             | -     | 2 805  | 3.1   | -     | 2 805         | -          |
| Incremental O&M            | -      | -     | -      | -    | -                 | -    | 7 795            | 100.0 | -      | -    | -             | -     | 7 795  | 8.6   | -     | 7 795         | -          |
| Total Programme Cost       | 28 966 | 32.1  | 7 280  | 8.1  | 4 420             | 4.9  | 40 396           | 44.7  | 2 122  | 2.3  | 7 119         | 7.9   | 90 303 | 100.0 | 2 346 | 85 836        | 2 122      |

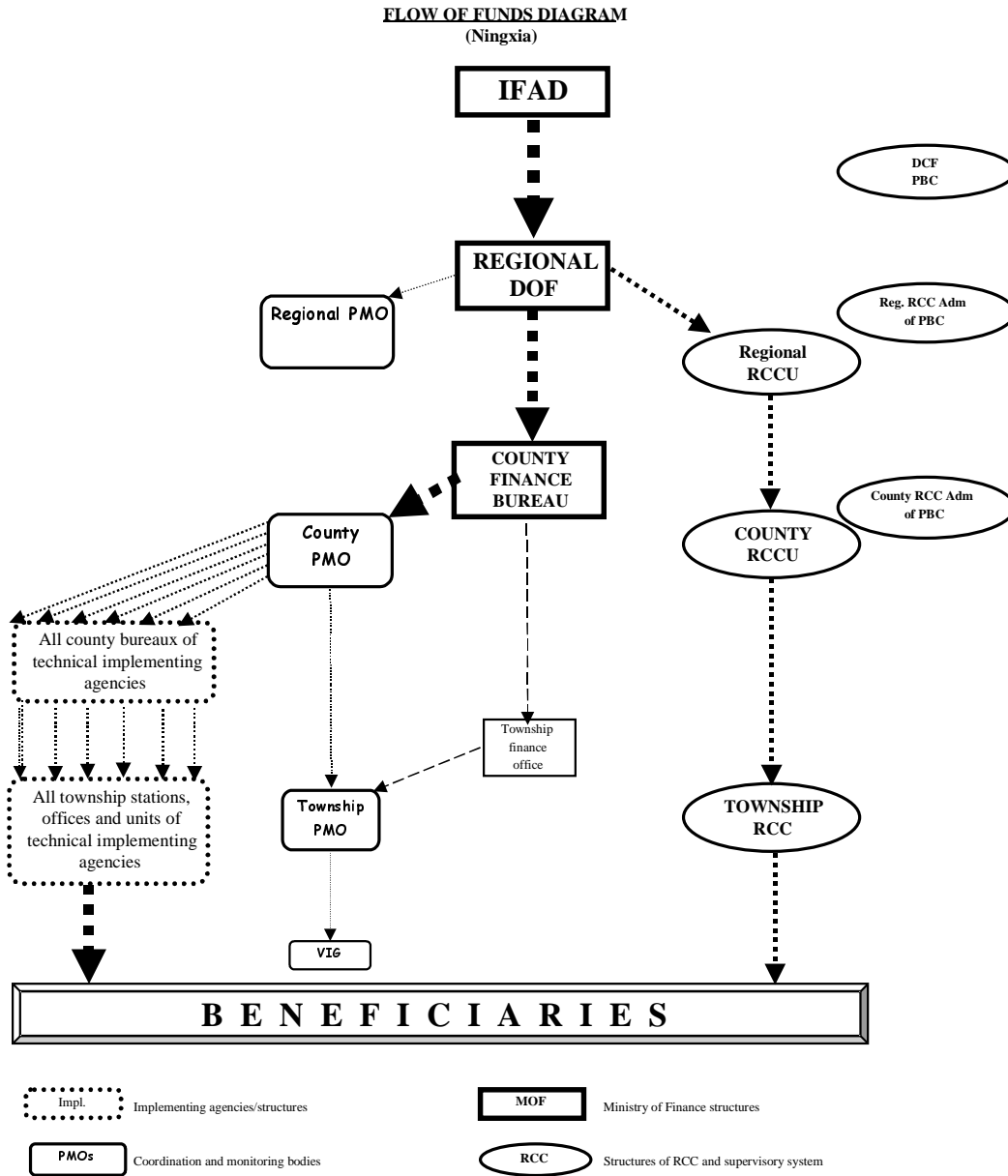


**Expenditure Accounts by Components  
(USD '000)**

|                               | Land-based activities |               |              |              |               |              | Social development |              |              |              | Management   |              | Total         |
|-------------------------------|-----------------------|---------------|--------------|--------------|---------------|--------------|--------------------|--------------|--------------|--------------|--------------|--------------|---------------|
|                               | Crop                  |               | Dryland      | Rangeland    | Environmental | Financial    | Health             | Education    | Income       | Domestic     | Provincial   | County       |               |
|                               | development           | Irrigation    | improvement  | Livestock    | tree planting | services     |                    |              | Generation   | Water        | PMOs         | PMOs         |               |
| <b>Investment Costs</b>       |                       |               |              |              |               |              |                    |              |              |              |              |              |               |
| Buildings                     | 260                   | -             | -            | -            | -             | -            | 562                | 1 690        | -            | -            | -            | 76           | 2 588         |
| Other construction            | -                     | 8 097         | 1 199        | -            | -             | -            | -                  | -            | -            | 5 598        | -            | -            | 14 895        |
| Engineering fees              | -                     | 818           | -            | -            | -             | -            | -                  | -            | -            | 612          | -            | -            | 1 430         |
| Studies/investigations        | -                     | -             | -            | 1 542        | 415           | -            | -                  | -            | -            | -            | 563          | -            | 2 520         |
| Vehicles                      | 123                   | -             | -            | 438          | -             | 367          | -                  | -            | 432          | -            | 338          | 939          | 2 638         |
| Technical supplies            | 99                    | -             | -            | 66           | -             | 186          | 420                | 469          | 65           | -            | 166          | 316          | 1 786         |
| Medical supplies              | -                     | -             | -            | -            | -             | -            | 2 198              | -            | -            | -            | -            | -            | 2 198         |
| Demonstration inputs          | 4 903                 | -             | -            | 634          | 1 649         | -            | -                  | -            | -            | -            | -            | -            | 7 186         |
| Other farm inputs             | 460                   | -             | -            | 1 726        | 3 931         | -            | -                  | -            | -            | -            | -            | -            | 6 117         |
| Training materials            | 370                   | -             | -            | -            | -             | 76           | 804                | 362          | -            | -            | -            | 33           | 1 645         |
| Staff training                | 692                   | -             | -            | 243          | 45            | -            | 1 918              | 889          | 54           | -            | 367          | 1 182        | 5 390         |
| Beneficiary training          | -                     | -             | -            | 104          | 350           | -            | 861                | 305          | 3 246        | -            | -            | -            | 4 866         |
| Beneficiary training(FFT)     | 453                   | -             | -            | 164          | 178           | -            | 461                | 819          | 419          | -            | -            | -            | 2 494         |
| VIG training                  | -                     | -             | -            | -            | -             | -            | -                  | -            | -            | -            | -            | 716          | 716           |
| School drop-outs              | -                     | -             | -            | -            | -             | -            | -                  | 1 350        | -            | -            | -            | -            | 1 350         |
| Unskilled labour (cash)       | -                     | -             | -            | 335          | 115           | -            | -                  | -            | -            | -            | -            | -            | 450           |
| Unskilled labour (FFW)        | -                     | 2 415         | 3 753        | 213          | 1 033         | -            | -                  | 29           | -            | 1 763        | -            | -            | 9 206         |
| Skilled labour                | -                     | 485           | -            | -            | 172           | -            | -                  | 94           | -            | 1 032        | -            | -            | 1 783         |
| Family labour                 | 3 100                 | -             | -            | 96           | 509           | -            | -                  | -            | -            | -            | -            | -            | 3 706         |
| RCC revolving fund            | -                     | -             | -            | -            | -             | 5 085        | -                  | -            | -            | -            | -            | -            | 5 085         |
| RCC credit training           | -                     | -             | -            | -            | -             | 449          | -                  | -            | -            | -            | -            | -            | 449           |
| Building WF                   | -                     | -             | -            | -            | -             | -            | -                  | -            | 612          | -            | -            | -            | 612           |
| WF operation cost             | -                     | -             | -            | -            | -             | -            | -                  | -            | 595          | -            | -            | -            | 595           |
| Food handling                 | -                     | -             | -            | -            | -             | -            | -                  | -            | -            | -            | 1 455        | 1 350        | 2 805         |
| <b>Total Investment Costs</b> | <b>10 461</b>         | <b>11 816</b> | <b>4 952</b> | <b>5 560</b> | <b>8 399</b>  | <b>6 163</b> | <b>7 223</b>       | <b>6 006</b> | <b>5 423</b> | <b>9 005</b> | <b>2 889</b> | <b>4 612</b> | <b>82 508</b> |
| <b>Recurrent Costs</b>        | -                     | -             | -            | -            | -             | -            | -                  | -            | -            | -            | -            | -            | -             |
| Incremental O&M               | 526                   | -             | -            | 1 432        | -             | -            | -                  | -            | -            | -            | 1 689        | 4 148        | 7 795         |
| <b>Total Recurrent Costs</b>  | <b>526</b>            | -             | -            | <b>1 432</b> | -             | -            | -                  | -            | -            | -            | <b>1 689</b> | <b>4 148</b> | <b>7 795</b>  |
| <b>Total Programme Costs</b>  | <b>10 987</b>         | <b>11 816</b> | <b>4 952</b> | <b>6 993</b> | <b>8 399</b>  | <b>6 163</b> | <b>7 223</b>       | <b>6 006</b> | <b>5 423</b> | <b>9 005</b> | <b>4 578</b> | <b>8 759</b> | <b>90 303</b> |
|                               | -                     | -             | -            | -            | -             | -            | -                  | -            | -            | -            | -            | -            | -             |
| Taxes                         | 292                   | 405           | 60           | 143          | 279           | 54           | 159                | 108          | 250          | 280          | 25           | 67           | 2 122         |
| Foreign Exchange              | 36                    | 810           | 120          | 7            | -             | 19           | 318                | 216          | 68           | 560          | 154          | 39           | 2 346         |



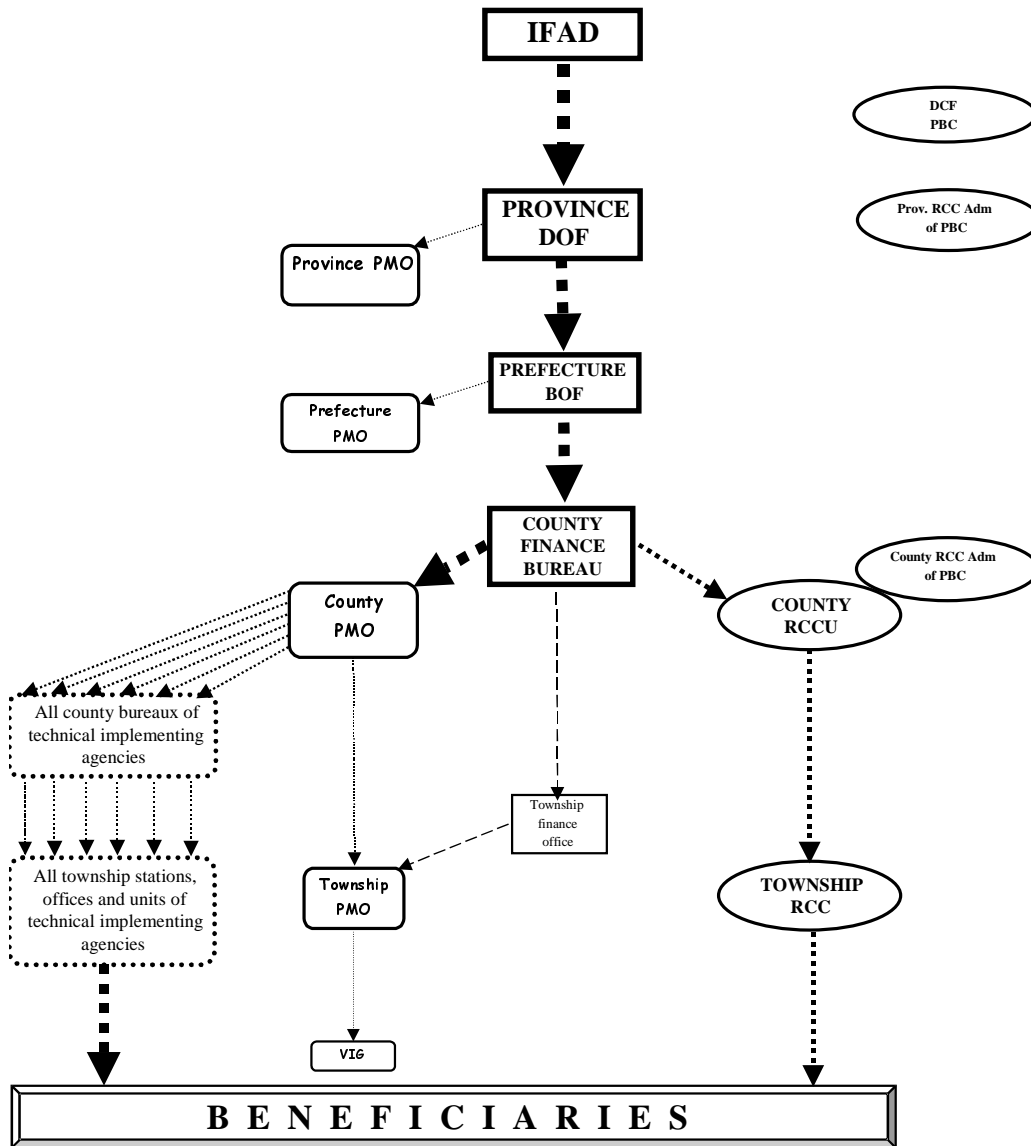
## ORGANIZATION AND MANAGEMENT





APPENDIX VI

FLOW OF FUNDS DIAGRAM  
(Shanxi)



Impl. Implementing agencies/structures  
 PMOs Coordination and monitoring bodies

MOF Ministry of Finance structures  
 RCC Structures of RCC and supervisory system



## FINANCIAL AND ECONOMIC ANALYSIS

1. **The financial analysis** is based on a series of crop models that are combined into food-crop and livestock models. The data of these models have been combined to construct a 'whole farm' development model. The assumptions are that the household will (a) modernize its annual crops in line with the average model and (b) agree to intensive management of a small fattening operation. Table 1 shows that the change in the economic performance of farming will be substantial at full deployment of activities. Net income will increase by about 133% from USD 223 to USD 521 in Ningxia and by about 215% from USD 165 to USD 520 in Shanxi a result of 125 and 105% increases in farm-labour productivity respectively.

**Table 1. Key Indicators on Whole Farm Development  
(CNY)**

| NINGXIA              | Without Programme |            |            | With Programme |            |            | Difference (%) |
|----------------------|-------------------|------------|------------|----------------|------------|------------|----------------|
|                      | Annual Crops      | Live-stock | Whole Farm | Annual Crops   | Live-stock | Whole Farm |                |
| Gross output         | 2 797             | -          | 2 797      | 5 256          | 3 256      | 8 512      | 204            |
| Purchased inputs     | 953               | -          | 953        | 1 882          | 2 325      | 4 207      | 314            |
| Income before labour | 1 844             | -          | 1 844      | 3 374          | 931        | 4 305      | 133            |
| Return per day       | 7.0               | -          | 7.0        | 11.1           | 26.6       | 15.8       | 115            |
| <b>SHANXI</b>        |                   |            |            |                |            |            |                |
| Gross output         | 1 894             | -          | 1 894      | 3 397          | 3 690      | 7 087      | 274            |
| Purchased inputs     | 532               | -          | 532        | 1 339          | 1 458      | 2 797      | 426            |
| Income before labour | 1 362             | -          | 1 362      | 2 058          | 2 232      | 4 290      | 215            |
| Return per day       | 6.9               | -          | 6.9        | 9.3            | 12.4       | 14.2       | 106            |

2. The economic analysis at the overall level has been undertaken on the basis of an implementation schedule for activities over a six-year period. Household labour has been costed at a uniform CNY 8 per day which is about equal to the minimum wage rate available with government public work programmes but also to what farmers appear to be paying among themselves for various kinds of menial work if food is taken into account. An extension of Costab beyond the programme term of six years shows that the annual recurrent costs will be about CNY 19.2 million. This includes a provision for the replacement of equipment such as computers and vehicles in accordance with estimated useful lives. The ERR in the baseline configuration works out to 19.2% per annum. Sensitivity test results are given in Table 2 which demonstrates the robustness to exogenous variations in cost and/or benefit streams and still yields an ERR of 10.0% in the case of a 10% shortfall in benefits and 10% increase in costs at the same time.

**Table 2. Sensitivity of the EIRR**

| Costs    | Benefits |       |       |
|----------|----------|-------|-------|
|          | Baseline | - 10% | - 20% |
| Baseline | 19.2     | 14.5  | 8.9   |
| + 10%    | 14.9     | 10.0  | 3.8   |
| + 20%    | 10.9     | 5.5   | - 1.9 |