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Enabling poor rural people
to overcome poverty

President's report

Proposed loan to the People's Republic of China for the

Dabieshan Area Poverty Reduction Programme

Executive Board — Ninety-fifth Session
Rome, 15-17 December 2008

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to the People's Republic of China for the Dabieshan Area Poverty Reduction Programme, as contained in paragraph 35.

China

Dabieshan Area Poverty Reduction Programme



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

Map compiled by IFAD

People's Republic of China

Dabieshan Area Poverty Reduction Programme

Loan summary

Initiating institution:	IFAD
Borrower:	People's Republic of China
Executing agency:	Government of Henan Province
Total programme cost:	US\$70.8 million
Amount of IFAD loan:	SDR 21,438,000 (equivalent to approximately US\$31.9 million)
Terms of IFAD loan:	20 years, including a grace period of 5 years, with an interest rate of one half of the reference interest rate per annum as determined by the Fund annually
Contribution of borrower:	US\$38.9 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Proposed loan to the People's Republic of China for the Dabieshan Area Poverty Reduction Programme

I. The programme

A. Main development opportunity addressed by the programme

1. The People's Republic of China has an impressive record of strong and sustained economic growth and is experiencing an unprecedented decline in poverty. However, inequalities have been rising and rural poverty persists in disadvantaged areas of the western provinces. So far, area-based government and donor programmes have failed to eradicate the remaining rural poverty, which suggests that new approaches are required. In line with the most recent country strategic opportunities paper (COSOP), IFAD intends to re-emphasize its catalytic role and to pilot innovative approaches for poverty reduction in selected sectors, such as marketing through private cooperative development, and improved targeting and participatory approaches for pro-poor planning and implementation at the village level. By programme end, innovative modules that have demonstrated a sustainable poverty impact will provide the Government with the means for further scaling up.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide a loan to the People's Republic of China in the amount of SDR 21,438,000 (equivalent to approximately US\$31.9 million) on intermediate terms to help finance the Dabieshan Area Poverty Reduction Programme. The loan will have a term of 20 years, including a grace period of five years, with an interest rate of one half of the reference interest rate per annum as determined by the Fund annually.

Relationship to the IFAD performance-based allocation system (PBAS)

3. The allocation defined for China under the PBAS is about US\$92 million for 2007-2009. This programme is the second within the current PBAS cycle and, in agreement with the Ministry of Finance, the loan amount has been set at US\$31.9 million.

Country debt burden and absorptive capacity of the State

4. China's capacity to service external debt is very good. Total external debt averaged 14.2 per cent of gross national income in 2005 and the debt service ratio fell from 9.3 in 2000 to 3.1 in 2005. Repayment performance has been excellent.

Flow of funds

5. The loan proceeds will be transferred through the Ministry of Finance without additional charges to the Department of Finance of Henan Province. Funds will be made available to the finance bureaux at each administrative level. In accordance with the approved annual workplans and budgets, the finance bureaux will transfer the required resources to each implementing agency.

Supervision arrangements

6. The programme will be supervised directly by IFAD.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

7. No exceptions are foreseen.

Governance

8. IFAD resources have been managed with due diligence and no additional measures are required. The Henan Audit Department will be responsible for auditing the programme accounts. Procurement will follow the IFAD Procurement Guidelines.

C. Target group and participation

Target group

9. The programme will target poor and very poor households and will also include the lower layer of vulnerable and low-income households, which risk slipping back into poverty. Poor women will receive particular attention. The great majority of target group members are farming households and have little access to the technology, know-how and credit that could assist them in specializing or diversifying production into higher-value crops. These households live in deep poverty and have little or no cash income. Although their capacity to invest is very limited, their behaviour is risk-adverse. The programme has the potential to reach about 77,000 households residing in 720 villages across eight counties.

Targeting approach

10. Uneven levels of poverty across counties, townships and villages, and dynamic out-migration patterns require a fine-tuned targeting approach. This approach, which is in accordance with the IFAD Policy on Targeting, entails three steps: (i) geographical targeting to select the intervention area based on poverty incidence; (ii) household-level targeting to identify households living below the official poverty and low-income line. These households will be identified through participatory selection techniques to achieve the maximum social acceptance of targeting and to diminish the risk of not reaching poor and low-income households; and (iii) application of a programme design approach adapted to the capacities and coping strategies of poor households and to improve gradually their productivity. Targets have been set for each module in terms of reaching out to poor households and poor women.

Participation

11. Village-level activities will be decided on and implemented following highly decentralized participatory approaches, with full inclusion of poor households and women. A village implementation group will be established in each programme village to link communities with the programme.

D. Development objectives

Key programme objectives

12. The purpose of the programme is for the innovative and diversified development modules to lead to increased income and reduced poverty for farm households in a sustainable and gender-equitable way in eight poverty-stricken counties of Xinyang Prefecture, Henan Province.

Policy and institutional objectives

13. The programme aims to strengthen agricultural support services so that poor people have better access to knowledge and as a result are capable of adopting improved technology. The ongoing development of private farmer cooperatives will be enhanced through the inclusion of the poor in order to enhance their capabilities to access input and remunerative output markets. In this way, the programme responds directly to the recently issued government regulation on farmer cooperatives.

IFAD policy and strategy alignment

14. The programme complies with the strategic objectives of the IFAD Strategic Framework 2007-2010 in that it promotes poor people's access to improved agricultural technology and transparent and competitive markets. The programme furthers the thrusts of the COSOP by focusing on innovations and access to information and knowledge, remunerative and quality premium markets, technology and services. The programme's targeting approach embraces the main elements of the IFAD Policy on Targeting: geographical and household-specific targeting, underpinned by demand-driven design and supported by capacity- and institution-building.

E. Harmonization and alignment

Alignment with national priorities

15. The Government's Development-Oriented Poverty Reduction Programme for Rural China for 2001-2010 aims to reduce poverty by promoting ecologically sound agricultural development; strengthening marketing and financial services for the poor; encouraging private entrepreneurs and farmers' organizations; and developing off-farm economic activities. The country's eleventh five-year plan promotes rural productivity as a means of raising farmers' living standards and fosters grass-roots decision-making. The policy on constructing the "new socialist countryside" re-emphasizes the above objectives and provides extra political push and financing for rural issues.

Harmonization with development partners

16. The experiences of a number of donor-funded projects under way in Henan have been taken into account in programme formulation. Currently, the World Bank is preparing a Sustainable Development in Poor Rural Communities Project, which will cover ten counties outside the IFAD-supported prefecture. The setting up of a small coordination office in the provincial capital will facilitate exchange of experience between the two operations.

F. Components and expenditure categories

Main components

17. The programme has three components: (i) the **agricultural development and market access** component will link poor men and women with sustainable production technologies, know-how, investment support, information and markets. It supports: the production of trees for economic purposes, medicinal plants and other cash crops; pig- and poultry-raising; and fish pond farming and rice-fish systems. The technical envoy system will transfer technology and knowledge. The market access module will support and strengthen farmers' associations and cooperatives to improve poor people's capacity to access to input and output markets and processing facilities, market information and services; (ii) the **strategic support to the very poor** component will improve access by the very poor to community infrastructure and services, and increase their integration into agricultural production and markets. A village development fund will improve access to services. Very vulnerable women will be offered training in basic and specialized skills, targeted at on-farm activities and off-farm employment; and (iii) the **programme management and village participatory planning** component provides support for programme management offices (PMOs) at the prefecture, county and township level and village implementation groups in each programme village. These groups act as the interface between the programme and the community for targeting, planning, implementation and monitoring.

Expenditure categories

18. There are four main expenditure categories: (i) vehicles, equipment and materials (1 per cent); (ii) training, workshops, technical assistance and studies (4 per cent); (iii) rural development modules (86 per cent); and (iv) recurrent costs (9 per cent).

G. Management, implementation responsibilities and partnerships

Key implementing partners

19. The Ministry of Finance has overall responsibility for the programme and will ensure that the programme is implemented through the Department of Finance of the Henan province at the provincial level and the Bureau of Finance at prefecture and county levels. Technical implementation will be the responsibility of the line departments, the Women's Federation and the Agricultural Development and Poverty Alleviation Office. The Department of Finance and its branches will handle financial management.

Implementation responsibilities

20. The PMOs will coordinate annual programming and budgeting and ensure the timely flow of financial resources. Implementing agencies will carry out activities in accordance with the approved annual workplan and budget.

Role of technical assistance

21. Reputable, qualified national consultants and institutions will provide implementation support. In exceptional cases, international expertise will be used.

Status of key implementation agreements

22. Subsidiary agreements will be concluded between the programme parties to outline financial and technical commitments. A programme implementation manual will specify roles and responsibilities.

Key financing partners and amounts committed

23. The total programme cost is US\$70.8 million over six years. The sources of financing are the Government of China (55 per cent) and IFAD (45 per cent).

H. Benefits and economic and financial justification

Main categories of benefits generated

24. The programme is expected to increase the incomes of poor households substantially as a result of an elevated rate of adoption of highly productive agriculture, livestock, aquaculture modules. The technical envoy system will enhance poor people's access to knowledge and technology and their capacity to engage in profitable and commercially oriented production. The support to cooperative development will generate access to lucrative input and output markets. The village development fund will improve the condition of community infrastructure in very poor villages. Women who decide to migrate to cities will be provided with the required technical and literacy skills to find remunerative jobs. Institutional benefits include the piloting of the technical envoy system in Henan, the establishment of village implementation groups and the strengthening of farmer cooperatives.

Economic and financial viability

25. Financial models confirm that all modules will be financially attractive to programme participants. All programme modules have the capacity to generate an economic rate of return well above the assumed cost of capital.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

26. Annual joint IFAD-Government reviews will assess programme impact and will shape programming in the following year. The programme's monitoring and evaluation framework will yield lessons that will be shared through knowledge-networking activities in areas relevant to the programme, such as the effectiveness of enhanced targeting approaches for poverty reduction and partnerships with farmers' cooperatives. Lessons will be made available throughout the country programme by means of various communication tools. The China subsite of the Electronic

Knowledge Networking for Rural Development in Asia/Pacific Region (ENRAP) will serve as a critical information forum in this regard.

Development innovations that the programme will promote

27. The programme incorporates a number of innovative features: (i) the modular approach, which provides implementers with the required flexibility to respond to changing conditions swiftly, while maintaining the rigour required by supervision; (ii) the piloting of the technical envoy system as a poverty reduction tool to transfer technology and know-how to poor groups; (iii) support for integrating the poor into emerging farmers' associations and cooperatives in China; and (iii) a strengthened decentralized development approach through self-managed village development funds.

Scaling-up approach

28. The modular approach constitutes the key element of the scaling-up approach. A module provides the flexibility to test and adjust a set of activities to local conditions and needs. All modules include an innovative poverty reduction element, which will be attractive to the Government and other donors for scaling up.

J. Main risks

Main risks and mitigation measures

29. The programme faces the following main risks: (i) targeting failure; (ii) production failure; (iii) force majeure such as floods; (iv) weak governance in farmer cooperatives; and (v) limited employment opportunities. The planned mitigation measures include intensive coaching of the poorest groups, the village implementation groups and PMO staff in participatory planning. Low entry thresholds for participation will motivate the poor to join the modules. Intensive training of technical envoys and linking them with knowledge centres should reduce the risk of production failure. The effects of force majeure can be mitigated through adapted production techniques, e.g. the use of water-tolerant species. Good governance of cooperatives will be fostered through capacity-building and exposure to best international practice. The type of skills training provided under the programme will respond to the demands of the employment market.

Environmental classification

30. Pursuant to IFAD's environmental assessment procedures, the programme has been classified as a Category B operation in that it is not likely to have any significant negative impact on the environment. In fact, the programme activities are expected to have a positive environmental impact.

K. Sustainability

31. Strong support for the programme by the Government will enhance country ownership. Strengthening the capacity of grass-roots institutions such as farmer cooperatives and support services has proved a very effective means of ensuring sustainability. The targeted communities will have a high level of ownership thanks to participatory planning and management processes. Demand for agricultural products is strong and on the increase, with production already profitable at current prices. All activities are designed to be environmentally sustainable. The technical envoy and other support services will be partially self-remunerated through performance-based profit-sharing mechanisms; the Government has ensured additional funding.

II. Legal instruments and authority

32. A programme loan agreement between the People's Republic of China and IFAD will constitute the legal instrument for extending the proposed loan to the borrower. Important assurances included in the negotiated agreement are attached as an annex.

33. The People's Republic of China is empowered under its laws to borrow from IFAD.
34. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

III. Recommendation

35. 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 four hundred thirty eight thousand special drawing rights (SDR 21,438,000) to mature on or prior to 15 December 2028 and to bear an interest rate of one half of the reference interest rate per annum as determined by the Fund annually, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

Lennart Båge
President

Important assurances included in the negotiated programme loan agreement

(Negotiations concluded on 15 December 2008)

Gender focus

1. The programme strategy is to ensure gender-equitable participation in activities by the following approach:
 - (a) In each module, quantitative targets for women's participation will be determined, while implementation modalities will take into account the potential and constraints faced by women in taking part in activities. For the programme as a whole, women will represent at least 50 per cent of all beneficiaries;
 - (b) The programme includes a capacity building for poor women module which will promote income generating activities, training and social and economical empowerment;
 - (c) Village participatory planning approaches will ensure that programme priorities will reflect the interests and demands from women as well as from men.

Pest management

2. The Government of the People's Republic of China (the Government) will comply with the International Code of Conduct on the Distribution and Use of Pesticides and ensure that pesticides procured under the programme do not include any pesticides classified as extremely hazardous or highly hazardous by the World Health Organization.

Insurance of programme personnel

3. The Government will insure programme personnel against health and accident risks to the extent consistent with its customary practice in respect of its national civil service.

Counterpart funds

4. The Government will ensure that each participating prefecture, county and township provides adequate counterpart funds and that each annual work plan and budget (AWPB) clearly reflects the source and use of such funds.

Use of programme vehicles and other equipment

5. The Government will ensure that all vehicles and other equipment procured under the programme are allocated to the respective implementing partners as foreseen in the AWPBs.

Fraud and corruption

6. The Government will promptly bring to the attention of IFAD any allegations or concerns of fraud and/or corruption in relation to the implementation of the programme of which it has knowledge or becomes aware.

Monitoring

7. As soon as practicable but in no event later than three months after the effective date of the programme loan agreement, the Government will, through the department of finance of the Henan province of the Government, cause the provincial programme coordination office to establish and thereafter maintain in the prefecture programme management office and county programme management offices an appropriate information management system in accordance with IFAD's guide for project monitoring and evaluation, and any other related guidelines that may be provided by IFAD, to enable it to continuously monitor and to report the implementation progress of the programme.

Evaluations

8. The Government and each programme party will facilitate all evaluations and reviews of the programme that IFAD may carry out during the programme implementation period.

Suspension

9. (a) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account if:
 - (i) Any of the subsidiary agreements or any provision thereof, have been violated or have been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such violation or waiver, suspension, termination, amendment or other modification has had, or is likely to have, a material adverse effect on any portion of the programme.
 - (ii) IFAD has determined that the material benefits of the programme are not adequately reaching the target group, or are benefiting persons outside the target group to the detriment of target group members.
 - (iii) In consultation with the Government, a repeal, invalidation, suspension, amendment or other change to any national law may result in detriment of any of the terms and conditions of the programme loan agreement.
 - (iv) The AWPB and/or the procurement plan or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the programme.
 - (v) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the programme have come to the attention of IFAD and the Government has failed to investigate the matter fully and promptly to the satisfaction of IFAD, or thereafter, based on the conclusions of the aforesaid investigation and any other information to it, IFAD, in consultation with the Government, determines that such practices have occurred, and the Government has failed to take timely and appropriate action to remedy the matter to the satisfaction of IFAD.
 - (vi) The programme implementation manual, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the programme.
- (b) Notwithstanding the above, if the audit required by the programme loan agreement has not been satisfactorily concluded within twelve months of the financial reporting date set forth therein, IFAD will suspend the right of the Government to request withdrawals from the loan account.

Conditions precedent to withdrawal

10. (a) No withdrawals will be made until the programme implementation manual has been approved by IFAD in draft; a copy of the programme implementation manual as adopted by the Ministry of Finance (the lead programme agency or LPA) substantially in the form so approved and certified as true and complete by a competent officer of the LPA, has been delivered to IFAD.
- (b) No withdrawals will be made until the draft AWPB for the first programme year and the procurement plan have been approved by IFAD.

Conditions precedent to effectiveness

11. The programme loan agreement will become effective subject to the fulfilment of the following conditions precedent:
 - (a) The PMOs have been duly established and composed;
 - (b) The Government has made the budgetary planning of counterpart funds for the first programme year;
 - (c) The Special account has been duly opened and the authorized signatories have been submitted to IFAD;
 - (d) A copy of the lead subsidiary loan agreement, in form and substance acceptable to IFAD and certified as true and complete by a competent officer of the Government, has been delivered to IFAD; the signature and performance thereof by the Government have been duly authorized or ratified by all necessary, administrative and governmental action; and all conditions precedent to the effectiveness of the lead subsidiary loan agreement have been fulfilled;
 - (e) The programme loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action; and
 - (f) A legal opinion, issued by the Department of Treaty and Law of the Ministry of Foreign Affairs of the Government, or other duly authorized legal counsel, in substance acceptable to IFAD, has been delivered by the Government to IFAD.

Key reference documents

The Development-oriented Poverty Reduction Program for Rural China, 2001, White Paper. The State Council of the People's Republic of China.
11th Five-Year Plan for the National Economy and Social Development

IFAD reference documents

Project design document and key files
China COSOP
Policy on Targeting
Learning Note on Rural Finance
Learning Note on Sustainability
Policy on Rural Finance
Administrative Procedures for Environmental Assessment
Prerequisites of Gender-Sensitive Design
Private-Sector Partnership and Development Strategy

Logical framework *(excerpt; for details, please refer to the final design report)*

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
Programme Goal			
Innovative approaches to poverty reduction are successfully piloted in the programme area	<ul style="list-style-type: none"> - Successful innovative poverty reduction approaches adopted by Government and other donors at a larger scale 	<ul style="list-style-type: none"> - Government plans and policy for poverty reduction. 	<ul style="list-style-type: none"> - Continued policy support for poverty reduction.
Programme Purpose			
Innovative and diversified development modules lead to increased income and reduced poverty among poor farm households in the programme area	<ul style="list-style-type: none"> - XX% HHs with improvement in HH asset ownership index compared to baseline (RIMS) - XX% reduction in child malnutrition rate compared to baseline, by gender (RIMS) - XX% reduction of poverty and low income household incidence, by category 	<ul style="list-style-type: none"> - HH surveys at benchmark, mid-term and completion. - PAO poverty statistics. - Sectoral children's nutrition status statistics. 	<ul style="list-style-type: none"> - Continued policies for poverty reduction. - Increased income of poor households leads to higher asset ownership and reduced child malnutrition.
Outcomes by Module			
1. Technical envoy (Module 1): Poor farmers adopt successfully a diverse range of technologies and increase their knowledge, through a demand driven and pro-poor extension service	<ul style="list-style-type: none"> - At least XX% of participating households adopting recommended technology - At least XX% of participating households reporting production/yield increase 	<ul style="list-style-type: none"> - Benchmark and RIMS survey - Programme M&E report - Agricultural report 	<ul style="list-style-type: none"> - Recommended technologies are effective in increasing production/yield - New technologies adopted by farmers.
3. Pig and poultry (module 4&5): Increased productivity and income of poor farmers adopting enhanced pig, poultry and small livestock production technologies	<ul style="list-style-type: none"> - At least XX% of participating households adopting recommended technologies in livestock production - At least XX% of participating households reporting at least 30% of income increase due to livestock development 	<ul style="list-style-type: none"> - Benchmark and RIMS survey - Programme M&E report - Livestock report - Programme progress report 	<ul style="list-style-type: none"> - Recommended technologies are effective in livestock production - New technologies adopted by farmers.
5. Market Access (Module 8): Farmer associations and cooperatives are strengthened to provide a market access and other services to poor farm households	<ul style="list-style-type: none"> - At least XX% of eligible target membership market their products through the associations/coops by more than 50% - At least XX% of supported associations/coops operational after 3 years, by sector. 	<ul style="list-style-type: none"> - Benchmark and RIMS survey - Programme M&E data - Sectoral report 	<ul style="list-style-type: none"> - Continued support policy for farmer associations/coops. - Service function of associations/coops recognized by farmers.
6. Village development fund (module 9): Improved community infrastructure and strengthened community capacity to plan and manage community development projects through participatory approach	<ul style="list-style-type: none"> - At least XX% of VDFs implemented as compared to design target - XX% of villages selected for VDF activity prepare VIPs with participatory approach - XX% of programme infrastructure operational after 3 years, by type 	<ul style="list-style-type: none"> - Programme assessment report - Sectoral report - Programme M&E data 	<ul style="list-style-type: none"> - Continued PA policy for IVAP - County governments are supportive of decentralising funds management to VIGs - Village Committees are supportive of the process

