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Enabling poor rural people
to overcome poverty

President's report

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

Sichuan Post-Earthquake Agricultural Rehabilitation Project

Executive Board — Ninety-sixth Session
Rome, 29-30 April 2009

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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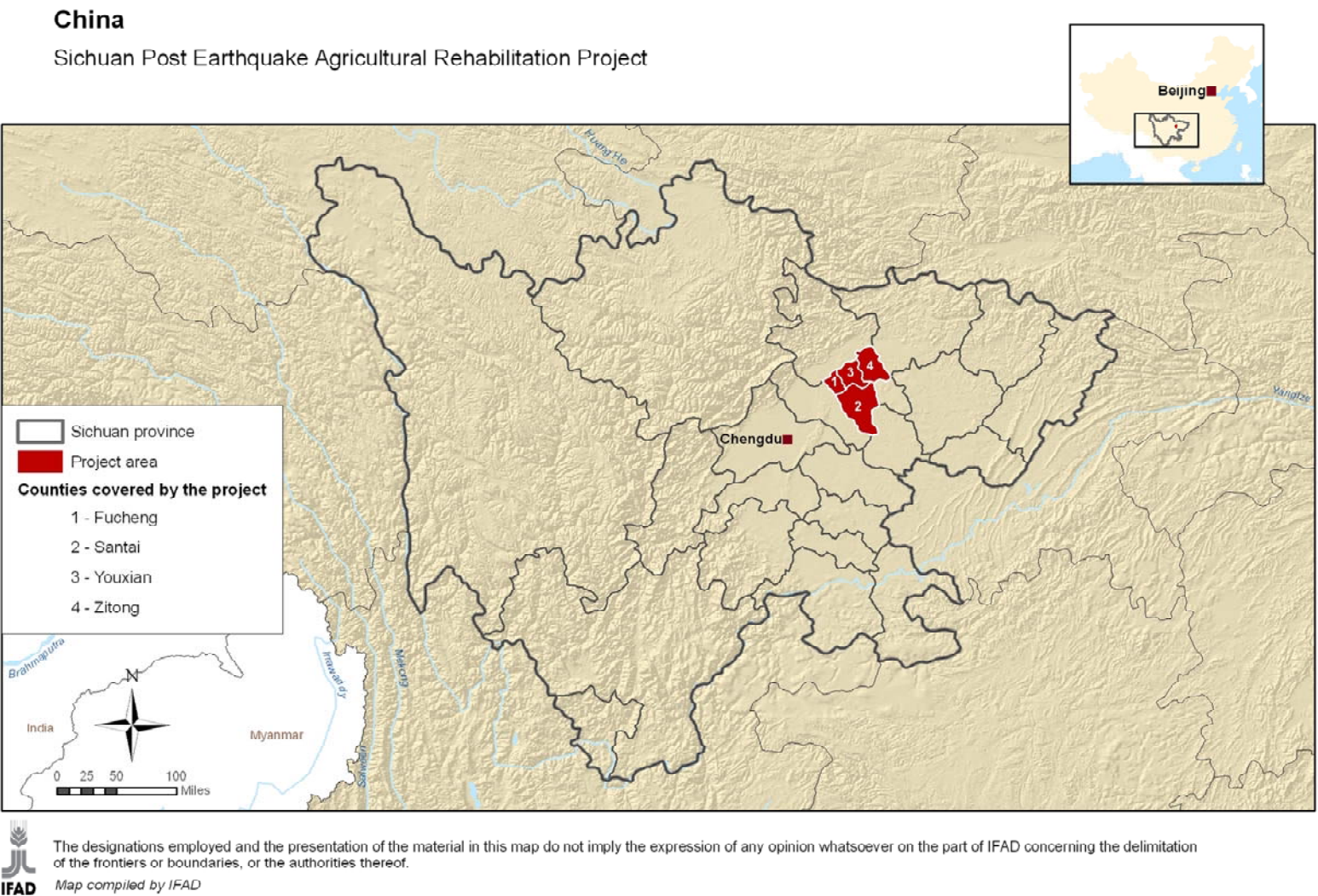
Abbreviations and acronyms

M&E	monitoring and evaluation
PMOs	project management offices

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan and grant to the People's Republic of China for the Sichuan Post-Earthquake Agricultural Rehabilitation Project, as contained in paragraph 36.

Map of the project area



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

People's Republic of China

Sichuan Post-Earthquake Agricultural Rehabilitation Project

Financing summary

Initiating institution:	IFAD
Borrower:	People's Republic of China
Executing agency:	Government of Sichuan Province
Total project cost:	US\$77.02 million
Amount of IFAD loan:	SDR 19.40 million (equivalent to approximately US\$28.97 million)
Amount of IFAD grant:	SDR 1 million (equivalent to approximately US\$1.50 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\$46.55 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Proposed loan and grant to the People's Republic of China for the Sichuan Post-Earthquake Agricultural Rehabilitation Project

I. The project

A. Main development opportunity addressed by the project

1. On 12 May 2008, a strong earthquake struck large parts of Sichuan Province, destroying many of the rural development and poverty reduction gains made in the past years. The project will be part of the Government-led National Reconstruction Programme, which aims to re-establish the rural population's physical assets and ensure a rapid and well-balanced recovery of rural living conditions and the agricultural sector. The project will provide opportunities for vulnerable households to access development opportunities and prevent them from slipping into, or deeper into, poverty and destitution.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide to the People's Republic of China a loan in the amount of SDR 19.40 million (equivalent to approximately US\$28.97 million), on intermediate terms, and a grant in the amount of SDR 1 million (equivalent to approximately US\$1.50 million) to help finance the Sichuan Post-Earthquake Agricultural Rehabilitation Project. 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 US\$92.75 million over the 2007-2009 allocation cycle. This project will be financed with the funds remaining from the current PBAS allocation, amounting to US\$30.47 million, as agreed with the Ministry of Finance.

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. IFAD financing will be made available through the Ministry of Finance to the Department of Finance of Sichuan Province without any charges. The Department will channel funds through a special account and a grant bank account, respectively to the project accounts maintained by project management offices at the prefecture and county levels in accordance with IFAD procedures and based on approved annual workplans and budgets.

Supervision arrangements

6. The project will be supervised directly by IFAD.

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

7. An amount of up to US\$7.0 million will be made available from the loan account under retroactive financing arrangements with respect to eligible expenditures incurred from 20 February 2009 to finance biogas construction, procurement and monitoring and evaluation (M&E), and technical training. This constitutes an exception to section 4.10 of the General Conditions.

Governance

8. The following planned measures are intended to enhance the governance aspects of the IFAD financing: an independent auditor, acceptable to the Fund, will be responsible for auditing the project accounts; and procurement will follow IFAD's Procurement Guidelines.

C. Target group and participation

Target group

9. The earthquake caused the large-scale destruction of the rural population's physical assets. People's houses were severely damaged or entirely destroyed by the shockwaves. People who were poor before the earthquake were hit the worst, since their houses were less solid than those of wealthier households. In light of the vast devastation, a distinction cannot be made between poor and not poor. All people who lost their assets have become vulnerable to poverty and destitution. The project will support these vulnerable households on a priority basis.

Targeting approach

10. Project targeting follows a two-tier approach: (i) geographical targeting will be applied to channel resources to the affected villages by following the Government of China's plan for rural housing reconstruction; and (ii) within villages, the most affected households will be identified and served on a priority basis, again consistent with the Government's rural housing reconstruction plan.

Participation

11. The functions of village committees will be enhanced by a focal point for targeting. This person will be mandated to identify two particular vulnerable groups – poor households and woman-headed households – and to ensure that these groups can access government support.

D. Development objectives

Key project objectives

12. The project aims to contribute to re-establish the essential living conditions for rural households affected by the Sichuan earthquake, and will complement the Government's reconstruction programme. It will provide vulnerable households with access to environmentally friendly rural energy, through the widespread reconstruction of household-based biogas systems; enhance access to services; and rehabilitate and develop crop and livestock production and related income-generating activities.

Policy and institutional objectives

13. The project will strengthen public and beneficiary-led support services in order to make investments in biogas systems sustainable. It will assist farmers' cooperatives to provide better services to farmers for agricultural production and marketing.

IFAD policy and strategy alignment

14. The project is in line with IFAD's Strategic Framework as it intervenes directly at the household level and reaches its target group in the most efficient way for the re-establishment of basic assets. It complies with the IFAD Policy on Crisis Prevention and Recovery in that it will be fully integrated into the National Reconstruction Programme and executed by the relevant national executing agencies. It responds clearly to priority needs in a post-emergency context and provides a durable platform for re-establishing the livelihoods of vulnerable rural people.

E. Harmonization and alignment

Alignment with national priorities

15. The Government approved the National Reconstruction Programme to restore normal life and production over the next three years in the areas devastated by the May 2008 earthquake. The programme was designed as the basis for reconstruction and

for accelerating economic and social development. The project is an integrated part of this programme and associated plans.

Harmonization with development partners

16. The central government has accepted the assistance of the World Bank, the Asian Development Bank, the European Investment Bank, Agence Française de Développement and IFAD. The World Bank will invest in urban infrastructure and healthcare; the Asian Development Bank in rural roads; the European Investment Bank in reservoirs and environmental projects; Agence Française de Développement in urban roads and biogas systems; and IFAD in biogas systems. The Government has diligently planned foreign investments to obtain complementarities and avoid geographical overlap.

F. Components and expenditure categories

Main components

17. The project will have two components: sustainable rural livelihoods and project management. The livelihoods component will include the construction of biogas systems, renovation of toilets, provision of kitchen stoves and building of pigsties. It will establish biogas service stations, and train service staff, village technicians and beneficiaries to ensure maintenance and safety of the biogas systems. The project will support crop and livestock services by channelling existing government resources and services towards the beneficiaries. It will provide staff and beneficiary training, carry out demonstrations and strengthen self-governed cooperatives. The cooperatives will receive basic office equipment and training. The project management component will finance management, coordination, and M&E activities. It will be handled by project management offices (PMOs) at provincial, prefecture and county levels. Village committees will assist in the identification of eligible recipients and the implementation of project activities.

Expenditure categories

18. There are ten expenditure categories overall, of which IFAD financing is being provided to the following three: beneficiary training; biogas constructions and M&E; and procurement management.

G. Management, implementation responsibilities and partnerships

Key implementing partners

19. The Department of Finance, the Development and Reform Commission and relevant Bureaux of Finance of Sichuan province will assume overall implementation responsibility, under the guidance of the provincial Post-Earthquake Rehabilitation Commission. PMOs will be formed within rural energy bureaux under the Department of Agriculture or its bureaux. Post-disaster rehabilitation financial coordination groups will be established at each level to oversee implementation.

Implementation responsibilities

20. The PMO will coordinate annual programming and budgeting, and facilitate the timely flow of financial resources. Specialized implementing agencies will carry out activities in line with the approved annual workplan and budget.

Role of technical assistance

21. The project requires little technical assistance. Reputable and qualified national consultants and institutions will provide implementation support.

Status of key implementation agreements

22. A project implementation manual will be prepared by the borrower to specify the roles and responsibilities of each executing and technical agency.

Key financing partners and amounts committed

23. The total project cost will be US\$77.02 million over two years. The sources of financing will be IFAD (39.5 per cent) and the Government (60.5 per cent).

H. Benefits and economic and financial justification

Main categories of benefits generated

24. The project has the potential to reach 64,200 individual participants, half of whom are expected to be women. Approximately 53,500 households will benefit directly from the project's support for biogas system construction, better sanitation, kitchen stoves and pigsties. All participants will benefit directly from the crop and livestock support activities. Women in particular will benefit from (i) the introduction of biogas systems, which will ease their workloads by obviating the need for fuelwood collection; and (ii) better hygienic conditions, which will improve the overall health situation and therefore reduce women's burden of caring for sick household members. Women will also be empowered economically and socially by engaging in remunerative pig breeding and marketing. Revenues from crop production will increase as input costs decrease with diminished use of synthetic fertilizers. The strengthening of self-governed cooperatives will allow beneficiaries to exercise more self-determination in production and marketing. The global environment will benefit from lower methane emissions. Finally, the revival of the village economy will help absorb returning migrant workers.

Economic and financial viability

25. Financial models confirm that all project activities will be financially attractive to project participants. The project has 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. Key elements of the project's knowledge management strategy include: (i) an M&E framework and management information system to provide an analysis of progress achieved; (ii) implementation of a results and impact management system; (iii) routine conduct of planning and review meetings and "lessons learned" workshops at various levels; (iv) use of mass media (television, newsletters) and existing sector reports to share knowledge, experience, innovative initiatives and successes; and (v) a workshop at project completion to consolidate "lessons learned".

Development innovations that the project will promote

27. The project is expected to be innovative in: (i) promoting rural renewable energy to improve living conditions in a post-crisis situation; (ii) forging a sustainable link between agricultural production and rural energy; and (iii) establishing a village-based service support system and fostering self-governed cooperative development.

Scaling-up approach

28. Project experience will be analysed and documented to create a platform for similar or improved post-crisis reconstruction efforts in China or elsewhere. The project will direct main initial investments towards addressing immediate basic needs, while also triggering an expansion of biogas systems, interlinked with pig and crop production systems, in the province.

J. Main risks

Main risks and mitigation measures

29. The project faces five main risks related to the (i) incorporation of IFAD financing into government reconstruction plans; (ii) targeting of vulnerable people and attention to gender; (iii) natural calamities; (iv) safety; and (v) reduced farm revenues due to oversupply of pigs in local markets.
30. The mitigation measures include a full synchronization of the project with the rural housing reconstruction plan. Both China and IFAD have adopted a fast-track approach for the design and approval of this project. Similarly, a retroactive financing of eligible project activities is proposed to ensure that funds will be made

available as early as possible. Targeting will be ensured by the Government's policy of providing each affected household with a new or refurbished house, together with a biogas and sanitation system. Selection of beneficiaries will be coordinated by the village committees. Biogas systems favour gender mainstreaming as women benefit in terms of reduced workloads, better income opportunities and improved household sanitation. Safety of the biogas systems will be monitored by the PMOs, while village-based service networks will be assisted in applying quality standards. Investments in physical assets and in human capital, such as the provision of technical training and the strengthening of cooperatives, will increase people's resilience to the effects of natural disasters. The potential downturn of market prices for pigs due to an increased supply in local markets will be mitigated through capacity-building and strengthening of cooperatives in agricultural production and marketing.

Environmental classification

31. Pursuant to IFAD's environmental assessment procedures, the project 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, project activities are expected to generate a positive environmental impact.

K. Sustainability

32. Project support will be incorporated into the National Reconstruction Programme and into the local government's overall provincial investment programme. This will be the main assurance for continuity and sustainability of project investments. At beneficiary level, the biogas systems will trigger further investments in crop and livestock production. Related public and village-based support services will ensure up-to-date support to the sector.

II. Legal instruments and authority

33. A project financing agreement between the People's Republic of China and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. Important assurances included in the negotiated agreement are attached as an annex.
34. The People's Republic of China is empowered under its laws to borrow from IFAD.
35. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD.

III. Recommendation

36. I recommend that the Executive Board approve the proposed financing 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 nineteen million four hundred thousand special drawing rights (SDR 19,400,000) to mature on or prior to 15 June 2029 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 herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the People's Republic of China in various currencies in an amount equivalent to one million special drawing rights (SDR 1,000,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Important assurances included in the negotiated project financing agreement

(Negotiations concluded on 23 April 2009)

Gender focus

1. The Government of the People's Republic of China (the Government) will ensure that gender sensitivity be maintained through project activities by ensuring equal access to support and services for women.

Pest management

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

Insurance of project personnel

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

Repayment of loan

4. The Government will be entirely responsible for the repayment of the loan and ensures that no repayment of the loan will be made by implementing agencies, households and beneficiaries.

Use of project vehicles and other equipment

5. The Government will ensure that all vehicles and other equipment procured under the project are allocated to the respective implementing partners as foreseen in the annual work plans and budgets (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 project 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, the Government will, through the department of finance of the Sichuan province, cause the provincial PMO to establish and thereafter maintain in the prefecture and county PMO, 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 project.

Suspension

8. (a) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan and grant account if:
 - (i) The Lead Subsidiary Agreement or any provision thereof, has been violated or has 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 project.
 - (ii) IFAD has determined that the material benefits of the project 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 project financing 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 project.
 - (v) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the project 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 project 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 project.
- (b) Notwithstanding the above, if the audit required by the project financing 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 and/or grant account.

Conditions precedent to withdrawal

9. (a) No withdrawals will be made until the project implementation manual has been approved by IFAD in draft; a copy of the project implementation manual as adopted by the Ministry of Finance (lead project 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 project year and the procurement plan have been approved by IFAD.
- (c) No withdrawal will be made until a copy of the Lead Subsidiary 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 has been duly authorized or ratified by all necessary, administrative and governmental action; and all conditions precedent to the effectiveness of the Lead Subsidiary Agreement have been fulfilled.

Conditions precedent to effectiveness

10. The project financing agreement will become effective subject to the fulfilment of the following conditions precedent:
- (a) The PMOs have been duly established and composed;
 - (b) The Special Account and grant bank account have been duly opened and the authorized signatories have been submitted to IFAD;
 - (c) The project financing agreement has been duly signed, and the signature and performance thereof by the Government has been duly authorized and ratified by all necessary administrative and governmental action; and

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 post crisis and recovery

Policy on Targeting

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

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
Project Objectives			
Rural livelihoods in the project area recovered and improved, through reconstructing the basis for ecological-sound agricultural production and enhancing the access to services	<ul style="list-style-type: none"> - 60 per cent HHs with improvement in HH asset ownership index compared to baseline (RIMS) - 50 per cent reduction in child malnutrition rate compared to baseline, by gender (RIMS) 	<ul style="list-style-type: none"> - RIMS/Household surveys at baseline and completion. - Sectoral children's nutrition status statistics. 	<ul style="list-style-type: none"> - Reconstruction of the earthquake-hit areas leads to higher household asset ownership and reduced child malnutrition.
Outcomes by Components/Subcomponents			
<p>1. Rural biogas reconstruction: Rural households' access to environmental-friendly renewable energy recovered and developed, through reconstruction of household-based biogas systems</p>	<ul style="list-style-type: none"> - 85 per cent of devastated household-based biogas systems reconstructed; - 95 per cent of project-built biogas systems operational at completion of project; - 99 per cent of planned village biogas service stations built and operational; - 95 per cent of trained beneficiaries is aware of the knowledge on operation, maintenance and safety use of biogas systems. 	<ul style="list-style-type: none"> - RIMS/Household survey - Project M&E report - Sectoral report 	<ul style="list-style-type: none"> - Support to the reconstruction of rural household-based biogas systems carried out effectively; - Knowledge on the operation, maintenance and safety use of biogas systems absorbed by farmers.
<p>2. Crop and livestock support: Crops and livestock production in the project counties rehabilitated and developed, through strengthened technical services</p>	<ul style="list-style-type: none"> - 70 per cent of the project-trained farmers adopting recommended technologies, by gender and by sector; - 60 per cent of SPEAR-supported cooperatives providing farming and marketing services; - 70 per cent of participating households reporting crop and livestock production recovered or increased, by sector. 	<ul style="list-style-type: none"> - RIMS/Household survey - Project M&E report - Sectoral report - Project progress report 	<ul style="list-style-type: none"> - Recommended technologies effective in increasing crops and livestock production; - New technologies adopted by farmers.
<p>3. Project management Project activities effectively implemented, and efficient M&E system established</p>	<ul style="list-style-type: none"> - 100 per cent of IFAD loan/grant disbursed 	<ul style="list-style-type: none"> - Project progress and M&E reports; - Project audit report. 	<ul style="list-style-type: none"> - Adequate PMOs' capability in project coordination and management.

