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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

Guangxi Integrated Agricultural Development Project

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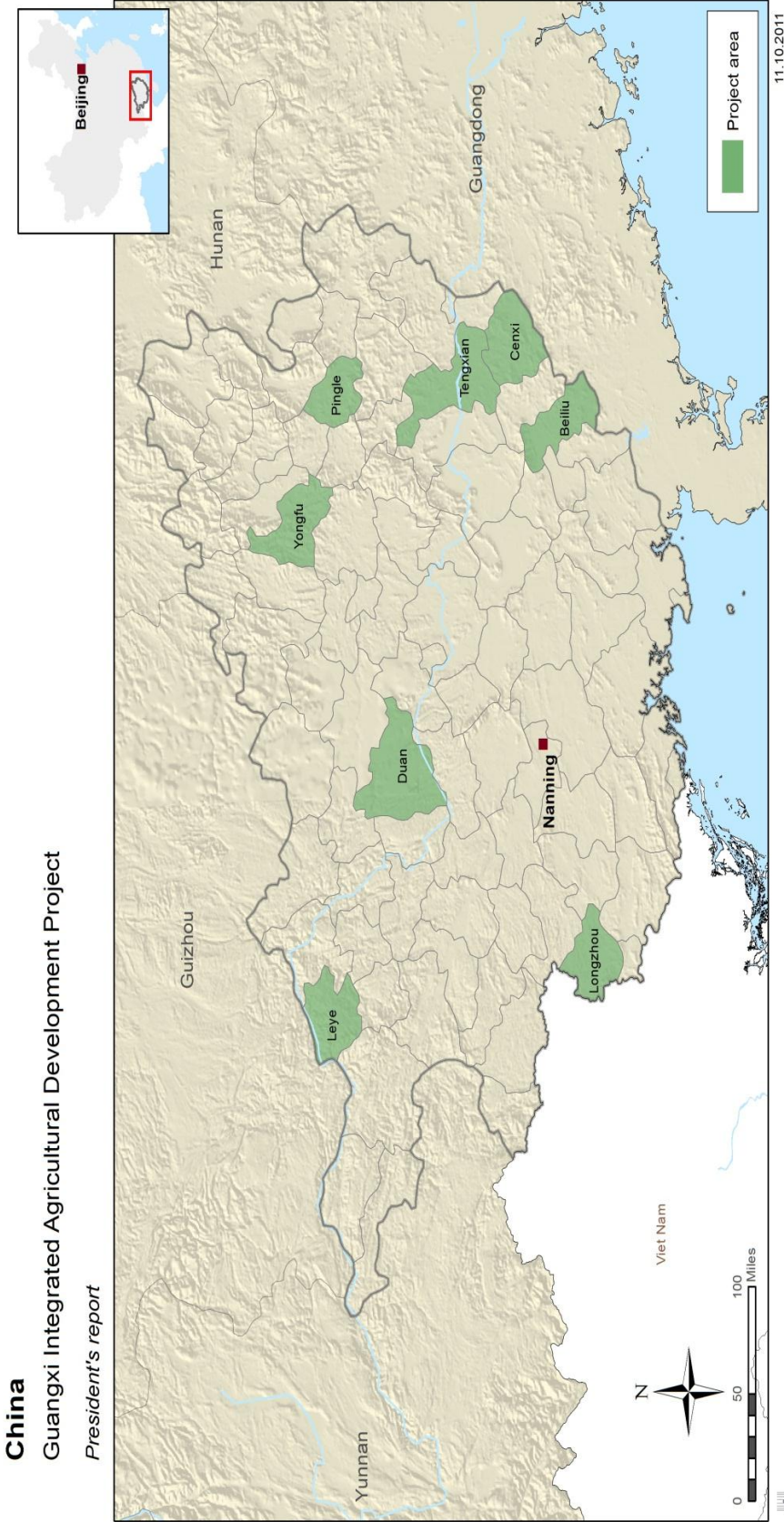
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Abbreviations and acronyms

| | |
|-------|---|
| AWPB | annual workplan and budget |
| BOA | Bureau of Agriculture |
| BOF | Bureau of Finance |
| CPMO | county project management office |
| DA | designated account |
| DOF | Department of Finance |
| FYP | Five-Year Plan |
| GIADP | Guangxi Integrated Agricultural Development Project |
| GZAR | Guangxi Zhuang Autonomous Region |
| IA | implementing agency |
| M&E | monitoring and evaluation |
| PMO | project management office |
| PPMO | provincial project management office |
| RMB | Chinese yuan |
| TPMO | township project management office |
| VIG | village implementing group |
| WGPAP | West Guangxi Poverty Alleviation Project |

Map of the project area



China
Guangxi Integrated Agricultural Development Project
President's 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.

Map compiled by IFAD



People's Republic of China

Guangxi Integrated Agricultural Development Project

Financing summary

| | |
|---------------------------------------|---|
| Initiating institution: | IFAD |
| Borrower: | People's Republic of China |
| Executing agency: | Ministry of Finance |
| Total project cost: | Approximately US\$96.83 million |
| Amount of IFAD loan: | SDR 29.65 million (equivalent to approximately US\$47.0 million) |
| Terms of IFAD loan: | 18 years, including a grace period of 5 years, with an interest rate equal to the reference interest rate per annum as determined by the Fund semi-annually |
| Contribution of borrower: | Approximately US\$46.4 million |
| Contribution of beneficiaries: | Approximately US\$3.4 million |
| Appraising institution: | IFAD |
| Cooperating institution: | Directly supervised by IFAD |

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 Guangxi Integrated Agricultural Development Project, as contained in paragraph 52.

Proposed loan to the People's Republic of China for the Guangxi Integrated Agricultural Development Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. **Macroeconomic performance.** Since the start of far-reaching economic reforms in the late 1970s, China's population, estimated at 1,341 million people in 2010, witnessed unparalleled economic growth. Some 10 per cent annual real growth of GDP was recorded continuously for more than 10 years up to 2007, and about a 9 per cent increase of GDP was achieved in 2009 and 2010, even against the backdrop of the worldwide financial crisis and soaring food prices. With this rapid economic development and a declining population growth rate, per capita GDP rose from 381 Chinese yuan (RMB) in 1978 to RMB 29,700 in 2010, equivalent to about US\$4,500; the gross national income (GNI) (nominal, Atlas method) per capita in 2009 was estimated at US\$3,650. A significant shift in the composition of GDP also took place, with agriculture losing share, mostly in favour of industry and services. The average per capita income for the rural population rose from RMB 686 in 1990 to RMB 5,919 in 2010. A large part of the growth in rural income in recent years is the result of wages from off-farm activities, although the ability to access off-farm opportunities varies from province to province.
2. Disparities between provinces and between urban and rural areas have been widening over the last decades. Economic growth has been far more rapid in eastern than in western provinces. The per capita disposable income of the urban population, which reached RMB 19,109 in 2010, is more than three times that of the rural population. This widening disparity is recognized by the Government, leading to a range of policy responses, including the abolition of agricultural taxes and a freeing-up of labour migration. Since 2000, the Government has also tried to attract investment in the western provinces. However, poor human resources and physical infrastructure make the process of development there difficult and slow.
3. **Agriculture and rural development.** The share of the rural population in total population has decreased over the last decades, from about 80 per cent in 1980 to 50-55 per cent at present. Some 40 per cent of the total employment in China occurs in rural areas, mainly in farming, forestry, animal husbandry and fishing. The total cultivated area in 2009 was about 122 million hectares (ha), about 0.1 ha per capita overall. About 49 per cent of the total farmland was effectively irrigated. The proportion of total arable area planted with food crops experienced a rapid decline, although this slowed down in the last ten years, accompanied by diversification into other, more profitable cash crops. However, the fall was more than compensated for by yield increases, recording an increase in overall per capita food production from 319 kg in 1978 to 398 kg in 2009. Combined with a steady decline in per capita grain consumption in urban areas, this means that the Government has been able to consistently meet its food security goal. Livestock-raising and aquaculture also experienced rapid development in the same period. Overall, meat production rose from 9 kg/person in 1978 to 57 kg in 2009, while fishery products increased from 5 kg/person to 38 kg.

4. **Poverty reduction.** Poverty in China remains primarily a rural phenomenon. Poorer households tend to derive a larger share of their income from agricultural activities, which often show low levels of productivity and net profits. Thus labour migration has become an integral part of the coping strategies of poor rural households, with the encouragement of the Government through improved legislation on residency, social benefits and stricter labour contracting regulations. In 2010, for example, migrant workers numbered some 242 million. This outmigration of rural male labour has sharply increased the feminization of rural labour and agriculture. The main causes of poverty include: frequent natural calamities, increasingly caused by extreme weather conditions; remoteness and poor infrastructure and facilities; limited natural resources and asset base; lack of skills; and limited access to inputs, markets and productive assets.
5. China is widely recognized for its achievements in reducing poverty. Broad-based economic growth, coupled with well-funded poverty reduction programmes, has successfully reduced rural poverty. Using the poverty line of RMB 1,274 per capita, the poor rural population declined from 250 million in 1978 to 27 million in 2010, representing a drop in prevalence from 31 to 4 per cent. Thus, China has exceeded the Millennium Development Goal of halving the proportion of the population with incomes below a dollar a day by 2015. However, the distribution of poverty between and within provinces varies widely. An increasing share of the remaining poor rural people is concentrated in the western provinces. Poverty reduction in these areas is more challenging, owing to poor resources and adverse conditions.
6. The Guangxi Zhuang Autonomous Region (GZAR) is located in western China. It has an estimated population of 50 million, of which ethnic minorities account for 38 per cent. Some 61 per cent of the population resided in rural areas in 2009, seven percentage points higher than the national average. GZAR is one of the poorest provinces in China. The average annual per capita income of the rural population was about RMB 3,980 in 2009, 77 per cent of the national average. Rural poverty incidence was 4.6 per cent in 2009. Key constraints on rural development include poor rural infrastructure and services. These result in low resilience to climate-related calamities and limited commercialization of agriculture. The drought of 2009/2010 caused some 600,000 rural inhabitants to fall back into poverty.

B. Rationale and alignment with government priorities and RB-COSOP

7. China's Twelfth Five-Year Plan for National Economic and Social Development (2011-2015) (12th FYP) aims to harmonize growth by enabling poor areas and populations to benefit from the country's economic growth and social development. And its 10-year Rural Poverty Alleviation and Development programme (2011-2020) recognizes rural poverty as a long-term challenge, persisting especially in the poor western provinces, border areas, ethnic minority areas and the former revolutionary bases, which are mostly remote and mountainous. The programme aims to eliminate absolute poverty and substantially reduce relative poverty by 2020. The Government aim under both endeavours is to reduce poverty by improving infrastructure, pursuing green agriculture, strengthening marketing and financial services for poor people, encouraging private entrepreneurs and farmers' organizations, developing off-farm economic activities and supporting controlled migration.
8. IFAD's 2011-2015 results-based country strategic opportunities programme (RB-COSOP) for China is fully aligned with the Government's 12th FYP and 10-year Rural Poverty Alleviation and Development programme. Its three strategic objectives are: (i) poor rural people in targeted areas sustainably use enhanced productive natural and economic assets and improved technology and advisory services in a changing environment and market conditions; (ii) poor rural people and their

organizations are enabled to take advantage of improved market access and financial services for increased income generation and enhanced resilience to risks; and (iii) enhanced South-South cooperation and knowledge management provide opportunities for sharing knowledge generated through innovation and for the scaling up of good practices in rural development.

9. The Guangxi Integrated Agricultural Development Project (GIADP) is the first intervention under IFAD's 2011-2015 China RB-COSOP. IFAD project involvement will: (i) provide poor rural people with productive assets; (ii) develop commercial agriculture; (iii) support farmers' cooperatives; and (iv) improve rural habitats. These will be in the form of pilot activities. Results will be scaled up by the Government, IFAD and others. Thus the underlying rationale of GIADP is to facilitate Government investments in the remote mountainous and hilly rural areas of GZAR, populated by smallholder farmers and ethnic minorities. It adds value to Government programmes by developing innovative and effective strategies that can be scaled up.
10. **Links with complementary projects.** GIADP will establish links with relevant Government and donor-funded interventions to complement them, maximize synergies, avoid duplication of efforts and share lessons. The most relevant projects include: (i) the national T-bond biogas development programme, initiated in 2003, which covers all counties in GZAR; and (ii) the Demonstration County of Agricultural Extension Service Reform, launched by the Ministry of Agriculture in 2009, which introduces the participatory extension approach into the agricultural extension system, while improving township extension stations.
11. **Integration within the IFAD country programme.** The design of GIADP takes into account experience from IFAD projects in China, mainly in modular approaches, participatory planning, targeting, gender mainstreaming, monitoring and evaluation (M&E) and management and coordination of implementation. In particular, it explores innovative approaches in: (i) inclusive targeting; (ii) flexible implementation; and (iii) value chain financing. The provincial project management office (PMO) and one county covered by GIADP executed the IFAD-funded West Guangxi Poverty Alleviation Project (WGPAP) from 2002 to 2008. That project's effectiveness was evaluated as highly satisfactory at completion – the result of a high quality at entry, satisfactory implementation and management, and strong government support. The experiences of WGPAP will facilitate implementation of GIADP.

II. Project description

A. Project area and target group

12. A total of 623 administrative villages in 44 townships of eight counties of GZAR have been identified for the project area, covering a total population of about 1.92 million. Data indicate that the 44 selected townships recorded an average poverty incidence of 6.5 per cent in 2009, which was 3.8 percentage points higher than the national average. Farmers' annual per capita income was about RMB 2,686, which amounted to 68 per cent of GZAR's average and 53 per cent of the national average. The vulnerable population, with an annual per capita income of from RMB 1,196 to RMB 3,000, represented some 53 per cent of the total population. Many could fall back into poverty in the face of calamity. The main causes of poverty in the target area include: limited resources, poor infrastructure, the low capacity of farmers and frequent natural calamities – mainly flooding and drought.
13. Project support will focus on poor and vulnerable households, representing about 60 per cent of the total, while better-off households will not be excluded. Households will be identified through participatory "perceived wealth-ranking" methods, which show how local people assess poverty and its causes.

B. Project development objective

14. The project goal is rural development and poverty reduction in the targeted areas through scaling up of innovative approaches. Its specific objective is to increase the revenues of rural men and women through improved agricultural production.

C. Components/outcomes

15. GIADP has four components: (i) community infrastructure development; (ii) agricultural production and marketing support; (iii) rural environment improvement; and (iv) project management.
16. **Community infrastructure development.** This component aims to develop community infrastructure to strengthen the resilience of targeted communities, improve their access to markets, information and technical services, and develop commercial agriculture. Project interventions include: (i) lining of existing tertiary and secondary irrigation earthen canals; (ii) construction of safe drinking water supply facilities; and (iii) paving of existing village roads with concrete. Training of beneficiaries for the operation and maintenance of project-built civil works will also be supported. The county Bureau of Water Resources and Transportation will implement the component. Detailed design of each activity, by site, will be conducted by local engineers. Environmentally friendly practices and techniques will be adopted, while operation and maintenance mechanisms for civil works will be established to ensure sustainability.
17. **Agricultural production and marketing support.** This component aims to improve access by poor people to services, develop niche crops and livestock, and enhance the value chain of major commodities. It includes five modules:¹ annual and perennial cash crop production (two modules); livestock development; improvement of township agricultural stations (including a complementary package for institutional support); and support to farmers' cooperatives (including a complementary package for value chain enhancement).
18. Annual/perennial cash crop production (modules 1 and 2) aims to diversify agricultural production. Each module will include provision of planting materials and inputs for field demonstrations and scaling-up, plus training. A total of 13 annual and 24 perennial crop modules are projected. They will be implemented by the county Bureau of Agriculture (BOA). Livestock development (module 3) will support diversification of incomes through improved livestock production. Project support will include provision of improved animal sheds, breeding stock, feed and training. A total of 320 modules are projected, implemented by the county Bureau of Livestock.
19. Improvement of township agricultural stations (module 4) aims to strengthen grass-roots agricultural extension services. It will support 18 project townships in improving their existing agricultural stations. The county BOA will implement the module under the supervision of the county PMO. Module activities will be strengthened by an institutional support package, which will include the building of five technical training centres, provision of equipment and furniture, training of staff and crop experiments.
20. Support to farmers' cooperatives (module 5) will strengthen existing cooperatives, or develop new ones. Beneficiary cooperatives should, inter alia, accept cooperative principles and values, be legally registered, and be committed to involving poor people as members. The module will be implemented by the county BOA. In addition, the project will provide a value chain enhancement package to those cooperatives and rural enterprises in need of it. Project support will include provision of facilities for processing, storage or packaging and the building of some

¹ A module is a small-scale set of interrelated activities aimed at achieving a specific objective that can be implemented independently of other modules and replicated.

local markets. Requests for support will be approved on the strength of a business plan demonstrating that the return on the investment will be at least 20 per cent. The county BOA will implement the package.

21. **Rural environment improvement.** This component aims to improve the rural community environment. It covers two modules: biogas system construction and village sanitation improvement. Biogas system construction (module 6) will reduce the dependence of rural households on firewood and will introduce environmentally friendly practices of waste management. Module activities include construction of biogas digesters, renovation of kitchens, toilets and animal sheds, and training. The county Rural Energy Office will implement the module. Village sanitation improvement (module 7) aims to pilot an innovative approach to improving the sanitary conditions of rural habitats. Its main activities, to be implemented by the county BOA, include sewer construction, installation of septic tanks, garbage collection, construction of drainage ditches, upgrading village tracks, and training.
22. **Project management.** This includes the establishment and operation of PMOs within existing local government structures at provincial, county and township levels. No new structures will be created. Project support will include provision of vehicles, equipment, capacity-building, M&E and knowledge management support. Recurrent costs for all PMOs will be provided through counterpart funds. Village implementing groups (VIGs) will also be supported in carrying out their responsibilities under the project.

III. Project implementation

A. Approach

23. The project will be implemented over five years. Its approach will adapt the successful practices of IFAD projects in China, particularly WGPAP. PMOs at all levels will be responsible for planning, coordinating, monitoring and reporting project activities. Implementation will remain with designated implementing agencies (IAs) at the county level to ensure coordination with government activities in the area. Annual workplans and budgets (AWPBs), developed through participatory approaches, will be the basis for implementation. VIGs will be established to ensure appropriate targeting, participatory planning, implementation, monitoring and sustainable maintenance of village-based physical project outputs.
24. The project's targeting strategy incorporates the following elements: (i) eligible counties and townships were identified through a participatory poverty analysis during design; (ii) priority will be given to poor and vulnerable groups, who will be identified through participatory perceived wealth-ranking conducted by VIGs; and (iii) inclusive targeting for community-level activities will be combined with focused targeting for production activities to ensure that benefits accrue to poor households.
25. **Gender mainstreaming** will be achieved by ensuring women's participation and benefits during project implementation. Project design is tailored to the capability of women to benefit from their increased role in household businesses. Women's involvement in project planning and management will be facilitated by recruiting a sufficient proportion of women into management units. All PMOs will appoint a gender focal point to promote women's participation and to work closely with the All China Women's Federations (ACWFs). In addition, gender awareness training will be provided to staff at all levels.

B. Organizational framework

26. **Ministry of Finance.** As the authorized representative of the borrower of the IFAD loan, the Ministry of Finance will receive loan proceeds through a designated account and pass them on to the Department of Finance (DOF) of GZAR.

27. **Project leading groups.** Project leading groups (PLGs) will be established at province and county levels to provide overall guidance and coordination of project implementation. Each PLG will be led by a senior official and composed of representatives from DOF/Bureau of Finance (BOF), the Development and Reform Commission and key line agencies, including the Department/Bureau of Agriculture, Poverty Alleviation Office, Department/Bureau of Water Resources, Department/Bureau of Transportation and the ACWFs.
28. **Department/Bureau of Finance.** The primary responsibilities of DOF/BOFs are to: (i) operate project accounts; (ii) administer and oversee the use of project resources, including the IFAD loan and counterpart funds; (iii) ensure the effective flow of funds; and (iv) reimburse eligible expenditures on time.
29. **Project management offices.** PMOs will be established at provincial (PPMO), county (CPMO) and township (TPMO) levels. These are dedicated structures within the existing DOAs/BOAs. The PPMO and CPMOs will be staffed with qualified, full-time staff, at a minimum composed of a director, a deputy director, an accountant, a cashier, a planning officer, an M&E officer, and a knowledge management and gender coordinator. The PPMO will be responsible for coordinating implementation across the eight counties. Its responsibilities include: consolidation of AWPBs; overseeing implementation; consolidation of statements of expenditures and the preparation of withdrawal applications; procurement; reporting; and organizing baseline and Result and Impact Management System (RIMS) surveys. CPMOs will be responsible for coordinating implementation at the county level. Using existing facilities and staff on a part-time basis, TPMOs will be established to: provide support to the CPMO and IAs as required; oversee VIGs; identify eligible villages; review village implementation plans; and consolidate M&E data.
30. **Village implementing groups.** A VIG will be set up in each administrative village. It will be headed by the head of the village committee and composed of 10-14 people, including all village committee members and 5-7 farmers' representatives from diverse household categories. Farmers' representatives will be elected by farmers and will constitute no less than 50 per cent of the total membership of the VIG. Of the farmers' representatives, women will represent no less than 50 per cent, and two thirds will be from poor and vulnerable households. The VIGs will be responsible for: annual participatory perceived well-being ranking of households; identifying project modules and activities prioritized by eligible groups through participatory approaches; monitoring project implementation and collecting M&E data; and organizing the operation and maintenance of supported community infrastructure.

C. Planning, monitoring and evaluation, and learning and knowledge management

31. **Planning.** GIADP will follow the current practice of IFAD-funded projects in China in relying on AWPBs as a planning tool. Their preparation will be demand-driven and participatory and will involve VIGs and IAs. They will describe the financial and physical progress made, planned project activities, the procurement plan for at least 18 months, and the implementation schedule by semester. The PPMO will consolidate the AWPB and submit it to IFAD for approval. The first AWPB will be submitted before project start-up. From the second year on, the PPMO will submit consolidated AWPBs to IFAD for its comments before 31 October of each year.
32. **Monitoring and evaluation.** GIADP will establish a suitable M&E system in which the M&E officers of the PPMO and CPMOs will be responsible for M&E of project implementation and for sharing lessons learned with all stakeholders. M&E experts will be mobilized to provide training to M&E officers. Results will be used as guidance in developing the next AWPB and in adjusting the project logical framework (log frame).

33. **Knowledge management.** The project knowledge management strategy will build on the experiences of IFAD projects in China. The PPMO and CPMOs will be responsible for capturing and documenting lessons learned and organizing regular workshops to disseminate these for scaling up.

D. Financial management, procurement and governance

34. **Financial management.** The financial reporting and accounting practices of the Government are acceptable to IFAD. The borrower, through the DOF of GZAR, will open and maintain a designated account (DA), denominated in United States dollars, in a bank acceptable to IFAD, through which all IFAD funding will be channelled. An initial deposit, approximately equal to eligible expenditures over the first annual workplan and budget, will be deposited into the DA once the loan is signed and disbursement conditions are met. All subsequent replenishments of the DA will be in line with approved expenditures. Project accounts denominated in RMB will be opened and maintained by the PPMO, county BOFs and CPMOs. Most loan funds will flow from the DA to the project accounts held by BOFs and then to those held by CPMOs. A part of the loan will flow from the DA to the PPMO project account.
35. **Retroactive financing.** As an exception to the General Conditions for Agricultural Development Financing, provision is made for retroactive financing of up to SDR 630,000 to prefinance start-up activities from the date of the memorandum of understanding entered into by the design completion mission and the Government and up to the date of entry into force of the IFAD loan. Eligible expenditures include: purchase of equipment, excluding vehicles; establishment of an M&E system; training and workshops; exposure visits; field surveys; and seasonal crop demonstrations.
36. **Procurement.** Project procurement shall be subject to national procedures to the extent that they are consistent with the provisions of the IFAD Project Procurement Guidelines, as they may be amended from time to time. To the extent possible, goods, civil works and consulting services financed by IFAD shall be bulked into sizeable bids so as to permit optimal use of competitive bidding. All procurements will be documented for post review by IFAD and for audit purposes. Goods to be procured include vehicles, equipment and furniture. A procurement plan will be agreed on, and it is proposed that vehicles be procured through local competitive bidding (LCB), while other goods be procured through local shopping (LS). Civil works may be procured through LCB or LS, depending on the value. Technical services, training, workshops and studies will be procured through LS. The facilities for value chain enhancement will be procured through LCB or LS. Community participation in procurement may apply for some modules or activities.
37. **Audit.** In line with article IX, section 9.03 of the General Conditions for Agricultural Development Financing of IFAD and the IFAD Guidelines on Project Audits, the Department of Audit of GZAR, which is an independent body under the National Audit Office, will audit the project. It will review withdrawals from all project accounts on the basis of SOEs and consolidated financial statements and will issue an independent opinion on their eligibility. It will also review the efficiency of the flow of IFAD funds and of counterpart financing. IFAD, as part of its supervisory functions, may engage independent auditors to audit project accounts and/or conduct visits, inspections and enquiries in accordance with section 10.03 of the General Conditions, to verify adherence to acceptable standards.

E. Supervision

38. In order to facilitate the project's implementation and ensure the achievement of its objectives, IFAD and the Government will perform regular reviews. Annual supervision missions sent by IFAD, and to the extent possible jointly with the Government, will review: implementation progress and performance; fiduciary aspects; results and impact; and sustainability. The first supervision mission will

focus on: adherence to the project strategies and institutional performance, including implementation arrangements, targeting and appropriateness of procurement; functioning of the M&E system; and financial management. It will include a team leader/institutional expert, a rural engineer, an agriculturalist, a cooperative and marketing expert, and a social scientist.

IV. Project costs, financing, benefits

A. Project costs

39. The total project cost, including contingencies, is estimated at US\$96.8 million (RMB 624.5 million). Physical and price contingencies amount to US\$8.2 million (RMB 52.9 million) and account for 10 per cent of the total project cost. Cost estimates include all applicable taxes estimated at US\$2.7 million (RMB 25.4 million) or 4 per cent of the total project cost (table 1). Project resources are allocated to counties based on the following considerations: conformity with the Government development plan and priorities for related sectors; size of the poor and vulnerable population in the project area; and an optimal potential for piloting innovative poverty reduction approaches. The resulting allocation of IFAD loan proceeds is as follows: Longzhou (7 per cent), Leye (6 per cent), Duan (7 per cent), Beliu (11 per cent), Cenxi (17 per cent), Tengxian (19 per cent), Yongfu (15 per cent) and Pingle (18 per cent).

Table 1: Components Project Cost Summary

| | (CNY '000) | | | (USD '000) | | | % | % Total |
|---|----------------|------------|----------------|---------------|------------|---------------|----------|------------|
| | Local | Foreign | Total | Local | Foreign | Total | Foreign | Base |
| | | | | | | | Exchange | Costs |
| 1. Community Infrastructure Development | 330 743 | - | 330 743 | 51 278 | - | 51 278 | - | 58 |
| 2. Agricultural Production & Marketing | 165 138 | - | 165 138 | 25 603 | - | 25 603 | - | 29 |
| 3. Rural Environment Improvement | 24 713 | - | 24 713 | 3 832 | - | 3 832 | - | 4 |
| 4. County Project Management | 40 160 | - | 40 160 | 6 226 | - | 6 226 | - | 7 |
| 5. Provincial PMO | 10 280 | 800 | 11 080 | 1 594 | 124 | 1 718 | 7 | 2 |
| Total BASELINE COSTS | 571 035 | 800 | 571 835 | 88 533 | 124 | 88 657 | - | 100 |
| Physical Contingencies | 25 773 | 40 | 25 813 | 3 996 | 6 | 4 002 | - | 5 |
| Price Contingencies | 27 061 | 52 | 27 113 | 4 196 | 8 | 4 204 | - | 5 |
| Total PROJECT COSTS | 623 869 | 892 | 624 761 | 96 724 | 138 | 96 862 | - | 109 |

B. Project financing

40. The project will be jointly financed by IFAD and the Government, including beneficiary contributions, at an approximate ratio of 1:1. However, there are variations between components and the activities within components. The Government and IFAD will jointly cover project investment costs, including all module implementation costs, vehicles, equipment, materials, workshops, training and technical assistance. Government will finance all recurrent costs (table 2).

Table 2: Components by Financiers (USD'000)

| | GoC | | IFAD | | Beneficiaries | | Total | | For. Exch. | Local (Excl. Taxes) | Duties & Taxes |
|---|---------------|-------------|---------------|-------------|---------------|------------|---------------|--------------|------------|---------------------|----------------|
| | Amount | % | Amount | % | Amount | % | Amount | % | | | |
| 1. Community Infrastructure Development | 31 540 | 56.2 | 21 245 | 37.9 | 3 324 | 5.9 | 56 109 | 57.9 | - | 54 019 | 2 089 |
| 2. Agricultural Production & Marketing | 7 831 | 28.1 | 20 046 | 71.9 | - | - | 27 877 | 28.8 | - | 27 674 | 202 |
| 3. Rural Environment Improvement | 1 177 | 27.2 | 3 023 | 70.0 | 119 | 2.8 | 4 318 | 4.5 | - | 4 132 | 186 |
| 4. County Project Management | 4 894 | 73.1 | 1 796 | 26.9 | - | - | 6 690 | 6.9 | - | 6 502 | 188 |
| 5. Provincial PMO | 979 | 52.4 | 890 | 47.6 | - | - | 1 869 | 1.9 | 138 | 1 694 | 36 |
| Total PROJECT COSTS | 46 420 | 47.9 | 47 000 | 48.5 | 3 442 | 3.6 | 96 862 | 100.0 | 138 | 94 022 | 2 702 |

C. Summary benefit and economic analysis

41. **Beneficiaries and benefits.** Some 227,000 households will benefit directly, of which more than 50 per cent belong to the poor and vulnerable population, and more than 50 per cent of the beneficiaries will be women. Immediate project benefits will be increased revenue and food security from the incremental production of about 157,000 metric tons of food grains, fruits and vegetables, root crops, sugarcane and tea. These increases are achieved through the demonstration and scaling up of niche and cash crops and livestock production, improved access

to information and markets, better conditions for technical training and extension, and enhanced effectiveness of technical services. Rural women and ethnic minorities in the project area will be empowered economically and socially.

42. **Economic analysis.** Economic viability of the project has been measured using three indicators: economic internal rate of return (EIRR), net present value (NPV) and benefit-cost ratio (BCR). The overall project EIRR is about 20 per cent over a 25-year period. At a discount rate of 12 per cent, the benefits and costs yield a BCR of 1.2 and a NPV of RMB 1,320. Sensitivity analysis indicates that even when costs increase by 10 per cent and benefits decline by 10 per cent, the NPV is RMB 475 million, the BCR remains at 1.2 at a 12 per cent discount rate and the EIRR is 15 per cent. This indicates the robustness of the project. In view of the above, it is proposed to vary the grace period for the repayment of the loan on ordinary terms to five years. The NPV of the loan will be maintained in accordance with section IV, 32(f) of the Lending Policies and Criteria. Summary results are presented in table 3.

Table 3
Sensitivity analysis of NPV, BCR and IRR of GIADP

| Project performance indicators | Discount rate % | NPV (RMB million) | | | | |
|--------------------------------|--|---------------------------|--------------------|-----|----------------------|------|
| | | Base case | Costs increased by | | Benefits declined by | |
| | | | 10% | 20% | 10% | 20% |
| NPV | 12 % | 1319 | 654 | -13 | 522 | -277 |
| | | Benefit-cost ratio | | | | |
| BCR | 12 % | 1.2 | 1.09 | 1.0 | 1.08 | 0.96 |
| IRR | EIRR of benefits and costs streams (%) at varying scenarios | | | | | |
| | - | 20 | 15 | 12 | 15 | 10 |

D. Sustainability

43. Overall sustainability of GIADP is rated high, taking into account two built-in success factors: the existence of the Government programme that GIADP will complement, and the seamless integration of the PMOs into local government structures. PMO experience with the successful implementation of the IFAD-assisted WGPAP will facilitate GIADP implementation. In addition, clear sustainability strategies and approaches designed into the project include: (i) all civil works will be handed over to governmental agencies or local communities for operation and maintenance; (ii) the crop and livestock development modules are highly appreciated by farmers, thus guaranteeing their scaling up; (iii) supported cooperatives will operate under normal market conditions and will draw on services from existing public and private operators.

E. Risk identification and mitigation

44. Project design is based on the demands of potential beneficiaries and following a participatory poverty analysis. The activities are in line with Government policies and strategies for poverty reduction and rural development. Risks to the project will thus be due to the rapidly changing economic environment, climate change, natural disasters and the results-oriented processes of implementation. These risks will be mitigated by the demand-driven nature and modular approach of the project, which will ensure continuous adjustments in order to address problems. Government programmes and institutions will also step in to mitigate relevant risks if they appear. PMOs will play an important role in monitoring risks and in ensuring that those jeopardizing project success are addressed appropriately.

V. Corporate considerations

A. Compliance with IFAD policies

45. The design of GIADP is in line with IFAD's policies. Specifically: (i) gender mainstreaming strategies have been designed in compliance with IFAD's gender sensitive policy; (ii) a poverty focus, particularly the criteria for selection of beneficiary villages and households, is built in, in line with IFAD's targeting policy; (iii) participatory approaches to project planning are designed in conformity with IFAD policies; (iv) the strategy for scaling up positive project results is designed following IFAD's scaling-up policy; (v) climate-related risks are analysed and measures to mitigate potential negative impacts of climate change are designed according to IFAD's climate change policy; and (vi) potential negative environmental impacts are analysed and measures are designed to mitigate such impacts, in line with IFAD's environmental policy.

B. Alignment and harmonization

46. GIADP is aligned with the Government's 12th FYP, and the 10-year Rural Poverty Alleviation and Development programme, which are both in harmony with the IFAD Strategic Framework 2011-2015. The project will contribute to these two major Government endeavours in reducing rural poverty and promoting agricultural development. It will use local procurement and financial management procedures to the extent that they are in line with IFAD's own, in addition to using existing implementing units within provincial governments.

C. Innovations and scaling up

47. The project knowledge management strategy will build on the experiences of previous and ongoing IFAD projects in China. The PPMO and CPMOs will be responsible for capturing and documenting lessons, and will organize regular workshops to disseminate best practices and innovations for scaling up. Plans for scaling up within the project area will be incorporated into project AWPBs. Development partners (Government and others) will be encouraged to incorporate the scaling up of best practices and innovations into their own development plans. Ambitions of project partners regarding innovations will be screened systematically and periodically reassessed. Particular attention will be paid to the identification of local sources of innovation and their mobilization.

D. Policy engagement

48. Through GIADP, IFAD will seek to build consultative frameworks with selected institutions having suitable mandates, in order to identify relevant topics and policy advisory actions for research and study. The key issues to be considered are: (i) roots and tubers crop research and development for food security; (ii) natural resource management within the context of climate change and natural disasters; (iii) gender mainstreaming in development programmes and policy dialogue; (iv) support for the decentralization agenda towards farmers' organizations or cooperatives; and (v) pursuit of innovation and scaling up of best practices. IFAD will collaborate with central and provincial government analysis of related policies by providing discussion inputs and by assisting in setting up discussion forums and South-South cooperation seminars – with the clear understanding that policy-making is an exclusively national responsibility.

VI. Legal instruments and authority

49. 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. A copy of the negotiated financing agreement will be tabled at the session.
50. The People's Republic of China is empowered under its laws to receive financing from IFAD.

51. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

VII. Recommendation

52. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall make a loan on ordinary terms to the People's Republic of China in an amount equivalent to twenty nine million six hundred and fifty thousand special drawing rights (SDR 29,650,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement:

"Guangxi Integrated Agricultural Development Project (GIADP)"

(Negotiations concluded on 25 November 2011)

Loan Number: _____

Project Title: Guangxi Integrated Agricultural Development Project (the "Project")

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

and

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

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions"), are annexed to this Agreement, and all provisions thereof shall apply to this Agreement, (except for Section 4.08 (a) (i) in respect of the provision identified in Schedule 2, paragraph 2). For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

4. The amount of the Loan is twenty nine million six hundred and fifty thousand Special Drawing Rights (29 650 000 SDR).
5. The Loan is granted on ordinary terms and shall have a maturity period of eighteen (18) years, including a grace period of five (5) years.
6. The Loan Service Payment Currency shall be the currency of the United States of America.
7. The first day of the applicable Fiscal Year shall be 1 January.
8. Payments of principal and interest shall be payable on each 15 May and 15 November.

9. There shall be a Designated Account denominated in US dollars opened and maintained by the Department of Finance (DOF) of the Guangxi Zhuang Autonomous Region (GZAR) in a Bank acceptable to the Fund through which the loan proceeds shall be channelled. DOF shall be responsible for the Designated Account.
10. The Borrower shall cause the government of GZAR to provide counterpart financing for the Project in the amount of approximately USD 46.4 million.

Section C

11. The Lead Project Agency shall be the GZAR through the Provincial level Project Leading Group for the overall coordination and supervision of the Project, the Department of Agriculture (DOA) for the daily implementation of Project activities with the support of the Department of Finance (DOF) and other relevant entities.
12. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

13. The following are designated as additional conditions precedent to withdrawal:
- (a) The Provincial Project Management Office (PPMO) and at least one Country Project Management Office (CPMO) shall have been duly established and composed in accordance with Schedule 1, Section II and the respective Project staff shall have been selected;
 - (b) The Borrower through GZAR shall have caused the PPMO to submit to the Fund an official document confirming the availability of adequate counterpart funds for the first Project Year;
 - (c) The Designated Account shall have been duly opened and the authorized signatories have been submitted to the Fund.
14. The following is designated as an additional condition for suspension:
- (a) The Project Implementation Manual (PIM), or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project.
15. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

Ministry of Finance
No. 3 Nansanxiang, Sanlihe, Xicheng District
Beijing 100820
People's Republic of China

Facsimile Number: +86 10 68551125

For the Fund:

International Fund for Agricultural development
Via Paolo di Dono, 44
00142 Rome, Italy

This Agreement, dated [_____], has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

PEOPLE'S REPUBLIC OF CHINA

[Name of Authorized Representative]
[Title]

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall benefit men and women from rural households, with a focus on poor and vulnerable households in the following eight counties of the Guangxi Zhuang Autonomous Region: Longzhou, Leye, Duan, Beiliu, Cenxi, Tengxian, Yougfu and Pingle (the "Project Area").
2. *Goal.* The goal of the Project is rural development and poverty reduction in the Project Area through scaling up of innovative approaches.
3. *Objectives.* The objectives are to increase the revenues of rural men and women from agricultural production in the Project Area. Specific objectives include (i) scaling-up innovative approaches for rural enhancement, (ii) improved access of poor men and women to community assets, markets, information and technology, (iii) improved household asset ownership, and (iv) socially and economically empowered women and ethnic minorities.
4. *Components.* The Project shall consist of the following Components: (a) community infrastructure development, (b) agricultural production and marketing support, (c) rural environment improvement, and (d) Project management.

Component A - Community infrastructure development. The component will be achieved through the following activities: (i) improvement of irrigation facilities, (ii) construction of community facilities of safe water drinking supply, and (iii) paving of existing village roads.

Intervention 1: Improvement of irrigation facilities. The goal of this intervention is to support irrigation canal lining to improve farmland productivity, especially the lining of lateral canals connecting with the fields of farmer households. This intervention includes beneficiary training for the application of water-saving irrigation techniques and the sustainable operation and maintenance of the works.

Intervention 2: Construction of community facilities of safe drinking water supply. The goal of this intervention is to improve the access of the rural poor to the sources of safe drinking water through building collective drinking water supply systems in villages which currently have difficult access to safe drinking water. This intervention includes trainings to the water users' groups and beneficiaries in order to ensure sustainability.

Intervention 3: Paving of existing village roads. The goal of this intervention is to improve the access of the rural poor to markets, information and technical services through the pavement of existing earthen roads of bad conditions with concrete, which connect administrative villages or natural villages to the outside road network.

Component B - Agricultural production and marketing support. The objective of this component is to increase rural households' cash incomes through improved access to services and development of crops and livestock. The activities under this component will be achieved through five modules, an institutional support package and a value chain enhancement package.

Module 1 and 2: Annual/Perennial cash crops production. The goal of these modules is to increase the cash income of farmers by developing niche and cash crops to diversify agricultural activities in the Project Area. These modules include activities such as the provision of planting materials and inputs for field demonstrations and scaling-up, and training.

Module 3: Livestock development. The goal of this module is to extend the income sources of rural poor women and men through the demonstration and development of animal production for which there is a strong market demand in the country. Activities under this module include the improvement of animal-sheds, breeding stock, feedstuff, and beneficiary training.

Module 4: Improvement of township agricultural station. The aim of this module is to improve the access of rural women and men to improved technologies and techniques through the improvement of the grassroots agricultural extension services network and by enhancing the capacity and effectiveness of service delivery.

Module 5: Support of farmer cooperatives. The aim of this module is to assist the rural poor and vulnerable households, especially women, entering the value chain of major commodities with remunerative markets. This module will support eligible cooperatives under the activities foreseen to strengthen the inclusion of poor households and women so as to increase their access to new techniques and know-how, improved marketing linkages and trade promotion, and by provision of office equipment.

Institutional Support Package. The objective of this package is to improve the effectiveness of grassroots extension networks and increase the access of the rural poor to new crop varieties, updated improved technologies, and improved technical services. This package includes updated trainings for technical staff at county, township and village levels and crop experiments on new technologies and varieties. It will provide support to improve the service conditions and capacity of five Project counties through the building of technical training centres and the provision of essential equipment and furniture.

Value Chain Enhancement Package. The goal of this package is to help supported cooperatives, rural micro and small enterprises and individual smallholders move up the value chain and therefore access opportunities for better profit margins. This package will include the provision of value-adding facilities, which serve as improving production quality, processing or semi-processing, storage or packaging and the building of local markets in selected township centres to help incorporate the farm-gate market into the trade arena, especially to connect to the county-level terminal markets.

Component C - Rural environment improvement. The objective of this component is to improve the rural community environment through the development of alternative clean energy and the piloting of villages sanitation improvement approaches through the following two modules:

Module 6: Biogas system. The goal of this module is improve the rural environment and sanitation by reducing the dependence of rural households on firewood for cooking and introducing environmentally-friendly practices of animal and human waste management. This module will include the construction of a household-based biogas digester, renovation of the household's kitchen, toilet and animal-shed, and beneficiary training on the operation and maintenance of the biogas system.

Module 7: Village sanitation improvement. The aim of this module is to pilot an innovative approach to improve the sanitary conditions of rural habitats. The module will include sewer construction, installation of wastewater septic tanks, separate garbage collection, construction of drainage ditches, upgrading the village tracks, and beneficiary training.

Component D - Project management. This component includes the establishment and operations of Project Management Offices (PMOs) at provincial, county and township levels.

II. Implementation Arrangements

A. Organization and Management

1. *Lead Project Agency (LPA)*

The GZAR, through the Project Leading Groups (PLGs) for the overall coordination and supervision of the Project, the DOA for the daily implementation of Project activities, with the support of DOF and other relevant entities, shall have the overall responsibility for implementation of the Project. The DOF, DOA and PPMO shall be responsible for the opening and management of the Project accounts, the administration of the Project resources including the Loan and the counterpart funds, the review and approval of the financing needs for Project implementation, overseeing the use of Project resources, ensuring the effective flow of funds for Project implementation, training to the financial officers of the PMOs in terms of financial management, the preparation of Withdrawal Applications (WAs) and reimbursement of eligible Project expenditures.

2. *Project Leading Groups (PLGs)*

2.1. *Establishment.* Project leading groups at GZAR and County levels shall be established by the GZAR and County governments.

2.2. *Composition.* Each PLG will be led by a senior official of government of the same level and composed of representatives from local Department/Bureau of Finance (DOF/BOF), Development and Reform Commission (DRC), and key line agencies including the Department/Bureau of Agriculture (DOA/BOA), Poverty Alleviation Office (PAO), Department/Bureau of Water Resources (DOWR/BOWR), Department/Bureau of Transportation (DOT/BOT), and All China Women's Federation (ACWF).

2.3. *Responsibilities.* PLGs shall provide overall guidance and coordination for Project implementation. Their responsibilities shall include: (i) overall supervision of the PMO's operations, (ii) coordination of counterpart funds for carrying out the Project, (iii) review and approval of Project Annual Work Plans and Budgets (AWPBs) and reports, (iv) coordination of implementing agencies in Project implementation and reporting.

3. *Provincial Project Management Office (PPMO)*

3.1. *Establishment.* A Provincial Project Management Office shall be established by the GZAR. The PPMO shall be located within the DOA.

3.2. *Composition.* The PPMO shall be composed of a director, a deputy director, an accountant, a cashier, a planning officer, a Monitoring and Evaluation (M&E) officer, a knowledge management and gender coordinator. Qualified staff shall be selected according to the Borrower's applicable procedures.

3.3. *Responsibilities.* The PPMO shall be responsible for coordinating Project implementation across the eight counties of the Project Area. Its responsibilities will include: (i) consolidation of AWPBs, (ii) establishment of Project M&E system, (iii) monitoring and supervision of Project implementation, (iv) provision of appropriate training to CPMOs and Implementing Agencies (IAs), (v) consolidation of Statements of Expenditures (SOEs), financial statements, and the preparation of WAs, (vi) procurement under the Project, and (vii) Project reporting.

4. *County Project Management Offices (CPMOs)*

4.1. *Establishment.* Eight County Project Management Offices in the Project Area shall be established by each respective County government through an official document and shall be located within the BOA of each County.

4.2. *Composition.* The CPMOs shall be composed of a director, a deputy director, an accountant, a cashier, a planning officer, a M&E officer, and a knowledge management and gender coordinator. Qualified staff shall be selected according to the Borrower's applicable procedures.

4.3. *Responsibilities.* The CPMOs shall be responsible for coordinating Project implementation at county level. Their responsibilities will include: (i) development of AWPBs through participatory approaches, (ii) monitoring and supervision of Project implementation, (iii) facilitation of the establishment of the Village Implementing Groups (VIGs), (iv) provision of appropriate training to IAs, Township PMOs (TPMOs) and VIGs in terms of Project implementation, (v) preparation of SOEs, financial statements and claim documents, (vi) transfer of Project funds to IAs on time, (vii) organizing of Project procurement, and (viii) Project reporting.

5. *Township Project Management Offices (TPMOs)*

5.1. *Establishment.* Township Project Management Offices shall be established by the Township governments through an official document, in each township of the Project Area utilising the existing local government facilities.

5.2. *Composition.* The local government shall assign qualified staff to the TPMOs on a part-time basis.

5.3. *Responsibilities.* TPMOs will provide support to the CPMO and IAs for implementation of Project activities at village level on an as-required basis. Their responsibilities will include: (i) oversee the works of VIGs, (ii) identify eligible villages that could participate in Project activities, (iii) facilitate village-level participatory planning activities to determine what activities will be implemented in the villages, (iv) review village implementation work plans, (v) coordinate the township technical stations/centres in Project implementation, (vi) consolidate the M&E data collected by VIGs and submit to CPMOs, (vii) facilitate the liaison with target villages.

6. *Village Implementing Groups (VIGs)*

6.1. *Establishment.* A Village Implementing Group shall be established by the local authorities with the support of the CPMOs in each selected administrative villages.

6.2. *Composition.* The VIG will be chaired by the Head of the village committee and composed of 10-14 people, including all the village committee members and 5-7 farmer representatives from different household categories of well-being. Farmer representatives will be no less than 50% of total members of the VIG. Of the farmer representatives, women will be no less than 50% and at least two thirds are from the poor and vulnerable well-being categories.

6.3. *Responsibilities.* The responsibilities of the VIGs will include: (i) participatory perceived well-being ranking of households within the village on a need basis, (ii) identifying Project modules and activities prioritized by eligible groups through participatory approach, and reporting to the PMOs for the development of AWPBs, (iii) organizing the poor and vulnerable households to participate in Project activities, (iv) assisting PMOs monitor Project implementation and collecting M&E data as required, (v) organizing the operation and maintenance of community infrastructure built by the Project.

B. Implementation of Components

7. Component A - Community infrastructure development

The implementation of the activities under this component shall be implemented by the BOWRs for the improvement of irrigation facilities and the construction of community facilities of safe drinking water supply and the BOTs for the implementation of the village road activities. The BOWRs and BOTs shall be responsible for the identification of eligible villages in accordance with the criteria set forth in the PIM, the design of the works by site, the formation of interest group for Project works and to report to CPMO on the progress and results of implementation.

8. Component B - Agricultural production and marketing support

8.1. The BOAs shall be responsible for the implementation of Modules 1, 2, 4 and 5. The responsibilities of the BOAs shall include: the identification of eligible villages within the list of selected villages in consultation with the TPMOs, farmers cooperatives, target households for carrying out the Modules, together with VIGs, adjustment of the Modules to fit local conditions with given criteria, technical support and follow-up services to beneficiaries on Module activities, facilitation of the formation of beneficiary group or farmers cooperatives, reporting to CPMO on the progress and results of implementation.

8.2. The Bureaux of Livestock (BOLs) shall be responsible for the implementation of the activities under Module 3. The responsibilities of the BOLs shall include: identification of eligible villages within the list of selected villages confirmed by CPMO, identification of target households for carrying out the Module, together with VIGs, adjustment of the Module to fit local conditions, with given criteria, technical support and follow-up services to beneficiaries on Module activities, facilitation of the formation of beneficiary group or farmers cooperatives, reporting to CPMO on the progress and results of implementation.

9. Component C - Rural environment improvement

9.1. The Rural Energy Offices (REOs) shall be responsible for the implementation of Module 6 (Biogas system). The responsibilities of the REOs shall include the identification of eligible villages within the list of selected villages confirmed by CPMO, identification of target households for carrying out the Module, together with VIGs, adjustment of the Module to fit local conditions, with given criteria set forth in the PIM and training of beneficiaries.

9.2. The BOAs shall implement the activities under Module 7 (Village Sanitation Improvement). The responsibilities of the BOAs shall include the identification of eligible villages with given criteria for carrying out the activity, within the list of selected villages confirmed by CPMO, design of the works by villages, facilitation of the formation of interest group for Project works and reporting to CPMO on the progress and results of implementation.

C. Project Implementation Manual

10. *Preparation.* The PPMO shall prepare a draft PIM. The draft PIM shall include, among other things:

- (i) Terms of reference and implementation responsibilities of Project staff, consultants and likely service providers and IAs;
- (ii) Criteria for the performance appraisal of the Project professional staff;
- (iii) Targeting and selection criteria for participating villages and beneficiaries;
- (iv) Project operational, financial procedures and procurement procedures, including participatory planning, implementation and monitoring procedures;
- (v) M&E system and procedures including RIMS; and
- (vi) Implementation modalities for all Modules;

11. *Approval and Adoption.* The Lead Project Agency shall cause the PPMO to forward the draft PIM to the Fund for comments and approval. The Lead Project Agency shall adopt the PIM, substantially in the form approved by the Fund, and the Lead Project Agency shall promptly provide copies thereof to the Fund. If the Fund does not comment on the draft PIM within thirty (30) days after receipt, it shall be deemed approved.

Schedule 2

Allocation Table

1. *Allocation of Loan Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category and the percentages of expenditures for items to be financed in each Category:

| Category | Loan Amount Allocated (expressed in SDR) | Percentage of Total Expenditures |
|--|---|-------------------------------------|
| I. Civil works | | |
| (a) Community Infrastructure Development (CID) | 11 350 000 | 40% |
| (b) Buildings | 1 390 000 | 70% |
| II. Vehicles, Equipment and Materials | 440 000 | 90% |
| III. Training, Workshops, Technical Assistance and Studies | 1 800 000 | 100% |
| IV. Modules | 9 250 000 | 70% |
| V. Market Access | 2 520 000 | 75% |
| Unallocated | 2 900 000 | |
| TOTAL | 29 650 000 | |

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

“Buildings” means expenditures under Category I(b) related to the construction of buildings for the training centres.

“Community Infrastructure Development” means expenditures under Category I(a) related to civil works under Component A for investment such as irrigation, roads improvement and provision of water supply facilities.

“Modules” means expenditures under Category IV related to the implementation of the seven Modules (annual crops perennial crops production, landrace livestock development, improvement of township agricultural stations, support to farmers cooperatives, biogas system and village sanitation improvement).

“Market Access” means expenditures under Category V related to the implementation of the activities under the Value chain enhancement package and the institutional support package and Market support activities such as processing, storage and un-packaging facilities plus markets.

2. *Retroactive Financing.* Withdrawals not exceeding in the aggregate the equivalent of SDR 630 000 to pre-finance activities under Categories II (except Vehicles), III and IV, may be made from the Loan Account in respect of expenditures for: essential items of equipment for PMOs excluding vehicles, the establishment of a M&E system, the start-up training and workshops on implementation and management, exposure visits for knowledge and experiences sharing, fields surveys and studies and seasonally dependent crop demonstration activities, incurred as from the date of signature of the Memorandum of Understanding of the Design Completion Mission. Such expenditures may be considered Eligible Expenditures for all purposes of this Agreement.

Logical framework

| Narrative Summary | Verifiable Indicators | Means of Verification | Assumptions |
|--|---|---|---|
| GOAL | | | |
| Rural development and poverty reduction in targeted poor areas achieved. | Successful innovative approaches for rural enhancement scaled-up. | <ul style="list-style-type: none"> Government policies; Donor's reports. | |
| OBJECTIVES | | | |
| Increased revenue from diversified agricultural production in 8 project counties is achieved. | <ul style="list-style-type: none"> 25% of HHs with improved asset ownership index compared to baseline (RIMS); drop in child malnutrition prevalence from 17% at baseline to 13.6% (RIMS). | <ul style="list-style-type: none"> RIMS and benchmark surveys; Impact assessment. | <ul style="list-style-type: none"> Continued government support; Increased income improves assets; Increased income of households leads to reducing child malnutrition. |
| OUTCOME BY COMPONENT (gender disaggregated) | | | |
| Component A: Community infrastructure: Improved conditions for rural poor by developing community infrastructure (roads, irrigation and drinking water supply facilities). | <ul style="list-style-type: none"> 50% of HHs report increased productivity and access to information and markets; 17,500 HHs access safe drinking water; 50% of improved infrastructure schemes have O&M arrangements in place. | <ul style="list-style-type: none"> RIMS and benchmark surveys; Project M&E reports; Agricultural census data | <ul style="list-style-type: none"> Continued government investment to development of rural infrastructure VIGs are capable in organizing maintenance of community infrastructure. |
| Component B-1: Agricultural production: Increased household incomes through improved access to services and development of crops and livestock. | <ul style="list-style-type: none"> 85% of farmers adopt recommended technologies, by sector; 70% of households report increased income from development of cash crops/livestock. | <ul style="list-style-type: none"> RIMS and surveys; Project M&E reports; Sector reports. | <ul style="list-style-type: none"> Recommended technologies are effective in increasing production; Service function of cooperatives recognized by farmers. |
| Component B-2: Marketing support: Increase the production and marketing efficiency of rural poor joining the value chain system. | <ul style="list-style-type: none"> 90% of targeted cooperatives and project value chain enhancement facilities are operational after 3 years; 80% of members report increased marketing through cooperatives, by gender. | <ul style="list-style-type: none"> RIMS and benchmark surveys; Project M&E reports; Sector reports. | <ul style="list-style-type: none"> Service function of cooperatives recognized by farmers; Improved rural infrastructure are maintained by local authorities/beneficiaries. |
| Component C: Rural environment improvement : Innovative approaches for improving rural habitat sanitation piloted successfully. | <ul style="list-style-type: none"> 90% of project-built biogas systems and sanitation improvement schemes are well operated and maintained after 3 years. | <ul style="list-style-type: none"> Project M&E reports; Sector reports. | <ul style="list-style-type: none"> Government supports piloting habitat improvement schemes; Villagers' awareness and interests in the schemes improved and maintained. |
| Component D: Project management: Project is implemented successfully, and M&E system functions effectively | <ul style="list-style-type: none"> Project planning, implementation, M&E and reporting function effectively and timely; 100% of IFAD loan proceeds disbursed. | <ul style="list-style-type: none"> Project M&E reports; IFAD project reviews; and Project completion report. | <ul style="list-style-type: none"> PMOs have and use good coordination and management capacity; and PLGs function adequately. |

| Narrative Summary | Verifiable Indicators | Means of Verification | Assumptions |
|--|---|--|---|
| OUTPUT BY ACTIVITY | | | |
| Component A: Community infrastructure: Lining of irrigation canals, paving roads, constructing water supply systems, training | 80 km of branch canals & 230km of lateral canals lined, 460 km of roads paved, 69 safe drinking water supply systems constructed, 113,000 farmers trained, by gender. | Project M&E report, progress report, and sector reports | Continued investment in infrastructure; standards are met. |
| Component B-1: Annual cash crops (module 1): Demonstrations of new technologies and varieties; scaling-up; & beneficiary training. | 130 ha of annual cash crops demonstrated, 1300 ha of cash crops scaled-up, and 16,000 farmers trained, by gender | -Project M&E & progress reports; -agricultural reports -livestock reports -sector reports | Annual cash crops have good markets; farmers adopt new technologies. |
| Component B-1: Perennial cash crops (module 2): Demonstrations of new technologies and varieties; scaling-up; & beneficiary training | 240 ha of perennial cash crops demonstrated; 2400 ha of perennial cash crops scaled-up; and 24,000 farmers trained, by gender | | Perennial cash crops have good markets; farmers adopt new technologies |
| Component B-1: Landrace livestock (module 3): Provision of breeding stocks feedstuff; improvement of sheds and poultry facilities; beneficiary training | 320 HHs provided breeding stocks; 320 households provided livestock sheds or poultry facilities; 320 HHs provided feedstuff; & 640 farmers trained, by gender | | Livestock products have markets; farmers adopt new technologies. |
| Component B-1: Improvement of township agricultural stations (module 4): Construction of office and training spaces, & provision of equipment | 18 township agricultural stations constructed; about CNY 10 million spent on provision of office and technical equipment to the 18 stations. | | Continued policies on improving township agricultural stations. |
| Component B-1: Institutional support: Construction of training centres; provision of equipment; training of staff; and crop experimentations | 5 county training centres built; CNY 0.53 million spent on training equipment for 5 training centres; 1,200 technical staff trained; 32 crop experiments conducted | | Continued policy directives on improving agricultural extension system. |
| Component B-2: Support to farmer cooperatives (module 5): Poor HHs and women inclusion; access to new techniques & know how; market linkage & trade promotion; provision of office equipment | 13,000 members admitted, by gender by HH category; at least 13,000 members trained, by gender; CNY XXX spent on market linkage & trade promotion; CNY XXX spent on provision of office equipment | | Continued support for cooperatives; farmers join cooperatives; Members are participate in training |
| Component B-2: value chain enhancement: Provision of value-added facilities; Building of markets | 25 farmer cooperatives provided with value-added facilities; 6 local markets built. | | Farmer cooperatives and mini-enterprises participate in project activities |
| Component C: Biogas system (module 6): Construction of HH-based biogas digesters; latrine renovation; kitchen improvement; livestock-shed renovation; beneficiary training | 569 HH-based biogas digesters constructed; 569 latrines renovated; 569 kitchens improved; 569 livestock-sheds renovated; About 850 beneficiaries trained, by gender | Project M&E & progress reports, sector reports | Continued interest in proposed packages |
| Component C: Village sanitation improvement (module 7): Inner-village track construction; building of garbage collection stations; sewer construction; building of wastewater septic tanks; construction of drainage ditches; beneficiaries' awareness training | 29 villages' inner-village tracks built; 29 villages' garbage collection stations built; 29 villages' sewer constructed; 29 villages' wastewater septic tanks built; 29 villages' drainage ditches constructed; About 5300 beneficiaries trained, by gender | | Continued support for village sanitation improvement; HHs dispose garbage in line with project requirements |