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Report No: PAD649

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$100 MILLION

TO THE

PEOPLE'S REPUBLIC OF CHINA

FOR A

GUIZHOU RURAL DEVELOPMENT PROJECT

August 29, 2014

Agriculture Global Practice
East Asia and Pacific Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective June 30, 2014)

Currency Unit = Renminbi (RMB)

US\$ 1.00 = RMB 6.1

RMB 1.00 = US\$ 0.16

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CAIP	Cooperative Annual Investment Plan
CDF	Cooperative Development Fund
CNAO	Chinese National Audit Office
CPS	Country Partnership Strategy
DA	Designated Account
EA	Environmental Assessment
EIRR	Economic Internal Rate of Return
EMDP	Ethnic Minority Development Plan
EMP	Environmental Management Plan
FM	Financial Management
FMM	Financial Management Manual
HACCP	Hazards Analysis and Critical Control Points
FIRR	Financial Internal Rate of Return
GAP	Good Agricultural Practice
IPF	Investment Project Financing
IPM	Integrated Pest Management
IRR	Internal Rate of Return
IS	Implementation Support
LGOPAD	Leading Group of Poverty Reduction and Development
M&E	Monitoring and Evaluation
METT	Management Effectiveness Tracking Tool
MOF	Ministry of Finance
NPV	Net Present Value
OA	Operating Account
OCC	Opportunity Cost of Capital
PAD	Project Appraisal Document
PDO	Project Development Objective

PMO	Project Management Office
PMP	Pest Management Plan
POM	Project Operations Manual
RMB	Renminbi
RPF	Resettlement Policy Framework
SA	Social Assessment

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PEOPLE'S REPUBLIC OF CHINA
Guizhou Rural Development Project

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PAD DATA SHEET*China**Guizhou Rural Development Project (P133261)***PROJECT APPRAISAL DOCUMENT***EAST ASIA AND PACIFIC**9056*

Report No.: PAD649

Basic Information			
Project ID P133261	EA Category B - Partial Assessment	Team Leader Ulrich K. H. M. Schmitt	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints []		
	Financial Intermediaries []		
	Series of Projects []		
Project Implementation Start Date 01-Oct-2014	Project Implementation End Date 31-Jul-2020		
Expected Effectiveness Date 01-Apr-2015	Expected Closing Date 31-Aug-2020		
Joint IFC No			
Practice Manager/Manager Nathan M. Belete	Senior Global Practice Director Juergen Voegele	Country Director Klaus Rohland	Regional Vice President Axel van Trotsenburg
Borrower: People's Republic of China			
Responsible Agency: Guizhou Provincial Poverty Alleviation and Development Office, Foreign Capital Project Management Center			
Contact: Telephone No.: 86-851-6832615	Mr. Shu Yu	Title: Director	Email: zhc0230@163.com
Project Financing Data(in USD Million)			
[X] Loan	[] IDA Grant	[] Guarantee	
[] Credit	[] Grant	[] Other	
Total Project Cost:	140.51	Total Bank Financing:	100.00
Financing Gap:	0.00		

Financing Source	Amount
Borrower	40.51
International Bank for Reconstruction and Development	100.00
Total	140.51

Expected Disbursements (in USD Million)

Fiscal Year	2015	2016	2017	2018	2019	2020	2021	0000	0000	0000
Annual	3.00	5.00	10.00	15.00	35.00	32.00	0.00	0.00	0.00	0.00
Cumulative	3.00	8.00	18.00	33.00	68.00	100.00	0.00	0.00	0.00	0.00

Proposed Development Objective(s)

The Project Development Objective is to demonstrate a model for agricultural sector restructuring and modernization, improved organizational arrangements, and strengthened public service delivery in the Project Counties of Guizhou Province.

Components

Component Name	Cost (USD Millions)
Modernization of Agricultural Key Commodity Value Chains	68.63
Public Infrastructure and Services	56.11
Training and Capacity Building	9.92
Project Management, Monitoring and Evaluation	5.85

Institutional Data

Practice Area / Cross Cutting Solution Area

Agriculture

Cross Cutting Areas

- Climate Change
- Fragile, Conflict & Violence
- Gender
- Jobs
- Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Agriculture, fishing, and forestry	Crops	30		

Agriculture, fishing, and forestry	Animal production	20		
Agriculture, fishing, and forestry	Irrigation and drainage	20		
Industry and trade	Agro-industry, marketing, and trade	20		
Agriculture, fishing, and forestry	Agricultural extension and research	10		
Total		100		

I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Rural development	Rural markets	40
Rural development	Rural services and infrastructure	40
Rural development	Rural policies and institutions	20
Total		100

Compliance

Policy

Does the project depart from the CAS in content or in other significant respects?	Yes []	No [X]
Does the project require any waivers of Bank policies?	Yes []	No [X]
Have these been approved by Bank management?	Yes []	No []
Is approval for any policy waiver sought from the Board?	Yes []	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04	X	
Forests OP/BP 4.36		X
Pest Management OP 4.09	X	
Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10	X	
Involuntary Resettlement OP/BP 4.12	X	
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X

Projects in Disputed Areas OP/BP 7.60			X
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Institutional Arrangements	X		
Description of Covenant			
Provision requiring the maintenance of Project leading groups and Project management offices at the provincial, municipal and county levels.			
Name	Recurrent	Due Date	Frequency
Annual Work Plans	X	October 15 (to the Provincial PMO)/ November 15 (to the Bank)	Annually
Description of Covenant			
Provision requiring the submission of annual work plans by the Project Counties/Municipalities to the Provincial PMO, and the onward submission of the consolidated version of said plans to the Bank			
Name	Recurrent	Due Date	Frequency
Project Operations Manual	X		
Description of Covenant			
Provision requiring the Project to be carried out in accordance with the Project Operations Manual, including the arrangements for: (1) providing grants to Project Farmer Cooperatives under an implementation agreement; (2) providing financing to Cooperating Agro-enterprises under a cooperation agreement, and on the basis of an investment proposal and subject to the joint technical review, appraisal and approval by the Bank and the relevant provincial, municipal and county authorities; and (3) identifying crop insurers and purchasing crop insurance.			
Name	Recurrent	Due Date	Frequency
Safeguards Instruments	X		
Description of Covenant			
Provision requiring the Project to be carried out in accordance with the Environmental Management Plan, the Ethnic Minority Development Plan, the Pest Management Plan, the Resettlement Policy Framework (and any Resettlement Action Plans prepared thereunder).			
Conditions			
Source Of Fund	Name		Type
Description of Condition			
NA			

Team Composition					
Bank Staff					
Name	Title	Specialization	Unit		
Xieli Bai	Program Assistant	Program Assistant	EACCF		
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Name	Title	City			
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Josef Ernstberger	Senior Agriculture Economist				
Zhaomin Lei	Livestock Specialist				
Claude Saint-Pierre	Social Development Specialist				
Jianping Wu	Livestock Specialist				
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
China	Guizhou Sheng	Guizhou Sheng		X	

I. STRATEGIC CONTEXT

A. Country Context

1. Poverty reduction has been an important national development objective of the Chinese Government over the past 35 years. Success in reducing rural poverty has been remarkable, an achievement that is acknowledged worldwide. In the 1980s, de-collectivization and the introduction of the Household Responsibility System marked the beginning of economic reforms and stimulated extraordinary agricultural and rural growth. In the 1990s, further market reforms, integration into the global economy, along with investment and abundant labor supply, provided the impetus for China's industrial growth and urbanization. These developments have allowed some 500 million farmers to escape poverty and some 260 million rural migrants to transition out of agriculture to more productive activities. The Government has supported poverty reduction and rural development through well-designed comprehensive strategies and policies targeted at poor rural areas. In the mid-1980s, the Leading Group of Poverty Alleviation and Development (LGOPAD) of the State Council started the *Development-oriented Poverty Reduction Program in Rural Areas*. Subsequently, LGOPAD implemented the *Seven-year Priority Poverty Reduction Program* (1994-2000) and the *Outline for Poverty Reduction and Development of China's Rural Areas* (2001-2010). Support to the development of commercial agriculture in mountain and remote areas has been an important component in these multi-sector poverty reduction strategies. During the 2001-2010 period, in particular, agribusinesses were supported for the development of contract agriculture (called the 'enterprise plus household model') and for direct investments into agricultural production (on land holdings called 'production bases'). According to the 2011 White Book on development-oriented production, broad positive outcomes have been generated through this approach for major agricultural commodity chains.

2. Rural poverty, however, remains a critical issue. Despite outmigration, poverty is more pervasive and persistent in the western and inland provinces as compared to the coastal regions. The rate of poverty reduction has become less responsive to broad-based growth and rural-urban disparity has increased. It has also been recognized that, given the stringent domestic poverty thresholds, the number of rural poor has likely been underestimated in recent years and that adjustments to poverty measurement were needed to better understand the extent and characteristics of rural poverty and integrate traditional poverty reduction efforts with China's rural-urban transformation and urbanization policies and programs. In 2011, the Government revised the rural poverty line from CNY1,196 (US\$188) to CNY2,300 (US\$361) which increased the number of rural poor from 27 million in 2010 to 128 million in 2011. The subsequent *Outline for Development-oriented Poverty Reduction for China's Rural Areas* (2011-2020), released in 2011, therefore provides a new direction for addressing rural poverty. It aims to eliminate remaining hunger and elementary needs by 2020, achieve a growth rate in rural per-capita income that is above the national average, and promote the convergence of human development indicators and public services coverage across rural and urban areas. It complements the existing geographical targeting of designated poverty counties and villages with the concept of adjacent destitute mountain areas of which 14 have been prioritized for comprehensive regional development investments. The 2011-2020 *Outline* also reconfirms the multi-sectoral nature of China's poverty reduction strategy and, within this framework, government support to the development of commercial agriculture in poor areas.

B. Sectoral and Institutional Context

3. The proposed project is part of a series of Bank-financed projects to scale up innovative features in China's poverty reduction program. The first three projects (during 1995-2006) demonstrated multi-sector approaches to rural poverty reduction in various areas of extreme rural poverty. Two subsequent projects during 2005-2012 promoted more participatory and community-driven approaches to rural development in marginal areas. All projects were planned and implemented through village committees. Agribusinesses were direct beneficiaries in the early projects at a time when domestic poverty reduction funds, including LGOPADS's subsidized credit program, were directed towards county-level enterprises. However, these often performed poorly in economic terms and in their impacts on poverty reduction. The earlier projects also supported a large number of niche products for which no real market demand existed and which quickly became unsustainable. The proposed project builds on these experiences. It promotes agriculture development for poverty reduction, including institutional farmer cooperative development, value chain development and marketing interventions, private enterprise participation and investment, and modern agriculture service delivery.

4. Under the 2011-2020 *Outline*, the Government explicitly invites agribusinesses to invest in the priority destitute mountain areas and focus on economic activities of comparative advantage in those areas while being conducive to environmental rehabilitation. These activities include major agricultural commodities, specialty products and tourism. The *Outline* also encourages the development of diversified farmer organizations including farmer professional cooperatives. China's legal framework on these cooperatives was strengthened in 2013. In 2014, it was confirmed that the modernization of agriculture through cooperatives fully applies to poverty reduction programs. Before that, farmer organizations supported under these programs had mostly been limited to small-scale mutual funds. The renewed approach to poverty reduction through agriculture development envisages the use of a pro-poor value chains to capture opportunities arising from China's growing domestic urban market and emphasizes the complementary roles of the public and the private sectors. Guizhou Province has been nominated a national demonstration province to pilot this new poverty reduction approach.

5. Guizhou Province is a land-locked province in southwest China with a total population of about 40 million of which about 40 percent belong to various ethnic minorities. It is the poorest province in China. A total of 11.5 million people are living below the poverty line of RMB 2,300 (2011), many of them dependent on subsistence farming. Rural living standards remain below living standard in urbanized areas. About 80 percent of Guizhou's total land area belongs to the karst areas of the Wuling and Wumeng Mountains in which sixty-five poor counties are located. Over 85 percent of Guizhou's rural poor, 88 percent of its poor towns, 84 percent of its poor villages, and 82 percent of its ethnic minority towns are situated in this mountain landscape. These geographic conditions, combined with poor accessibility, pose challenges to sustainable and economically viable agricultural development.

6. Over the past decade (2000-2010), the central and provincial governments allocated significant resources in support of Guizhou's poverty reduction efforts, including: infrastructure development to improve connectivity, urban and industrial development and concentration of public services in cities and towns to attract and absorb the already migrating rural population with the perspective to provide alternative employment opportunities in the long-term, the

relocation (or ‘ecological resettlement’) of 1.5 million people over the next 10 years from fragile karst areas, and rural development support in the form of service provision and incentive policies for key commodities and lead enterprise development in areas with agricultural development potential and comparative advantage. Rural to urban migration and the integration of rural surplus labor into the industrial and service sectors situated in urbanized areas will be important for addressing the structural poverty in Guizhou.

7. Agriculture, however, remains a key sector and entry point for rural development, poverty reduction, and long-term employment and income opportunities for those segments for the population that will not migrate. Agriculture also provides new opportunities for returnees with good business ideas. Given the structural characteristics of agriculture, especially the dominance of very small farms, a gradual restructuring of the sector is necessary to develop efficient markets for rural land transfers; promote the consolidation of production into larger units in form of specialized households, cooperatives or enterprises; accelerate technological change; and increase productivity and efficiency to allow for income growth and the catching up with urban incomes. The recent improvements in transportation infrastructure also provide new opportunities for agricultural development. A new regulatory and policy framework explicitly supports the establishment of farmer cooperatives to overcome structural challenges. New value chain opportunities are being created through changing consumer patterns that allows shifting away from basic commodity production to product diversification and higher value products.

8. These opportunities, however, appear to remain largely un-tapped. Agricultural production is often uncoordinated and scattered because of the large numbers of unorganized household farms, limited access to capital for private investments, lack of marketing and price information, low technical and management standards, sub-standard product quality, and often a lack of a critical mass of production to attract investments in up-stream processing and marketing. Furthermore, local governments tend to take on roles and responsibilities that should be market-driven and are better placed in the hands of private farmer entrepreneurs and enterprises. It is within this context that Government has requested the World Bank to provide assistance for a Guizhou Rural Development Project.

C. Higher Level Objectives to which the Project Contributes

9. The proposed project is consistent with the Bank Group’s Country Partnership Strategy (CPS) for China, which was discussed by the World Bank Board of Executive Directors on November 6, 2012. The project would support the CPS’ strategic theme two: *promoting more inclusive development, by geographically focusing on lagging regions and small towns and by supporting policies and demonstration projects that address inequalities*. It would contribute to the CPS outcome 2.3: *enhancing opportunities in rural areas and small towns, by piloting new ways to boost rural incomes and reduce poverty under the umbrella of the new Poverty Reduction for China’s Rural Areas Strategy (2011-2020) and by promoting inclusive innovation to decrease disparities*. The project supports China’s 12th Five Year Plan and is in line with the *Outline for Development-oriented Poverty Reduction for China’s Rural Areas (2011-2020)* and Guizhou’s rural development and poverty reduction strategies and programs.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

10. The Project Development Objective (PDO) is to demonstrate a model for agricultural sector restructuring and modernization, improved organizational arrangements, and strengthened public service delivery in the Project Counties of Guizhou Province.

Project Beneficiaries

11. The project will be implemented in Nayong, Hezhang and Weining counties of Bijie Municipality; in Wuchuan, Zheng An, Daozhen counties of Zunyi Municipality; and in Yinjiang, Yanhe, Shiqian, Sinan and Dejiang counties of Tongren Municipality. The total population in these 11 counties is 7.32 million of which 1.95 million are registered as poor people (2012). The project covers 63 townships and 238 administrative villages and will benefit 444,000 people of which 172,000 are registered as poor and 281,000 belong to ethnic minorities.

PDO Level Results Indicators

12. Achievement of the PDO would be assessed by the following key performance indicators, covering the economic, social and institutional development dimensions of the project:

- a) Percentage of cooperatives making a profit (financial success and sustainability indicator);
- b) Net Present Value generated by project investments (economic success indicator);
- c) Share of poor households in the community that join newly established or improved cooperatives (outreach and inclusiveness indicator); and
- d) Private enterprise investments leveraged through project investments (indicating the success of modernization and attractiveness of key value chains for private investment).

III. PROJECT DESCRIPTION

A. Project Components

13. The project comprises four components, which are summarized below. A detailed project description is provided in Annex 2.

14. **Component 1: Modernization of Agricultural Key Commodity Value Chains.**

- a) *Farmer Cooperative Development.* Construction of offices and acquisition of basic office furniture and office equipment for the use of Project Farmer Cooperatives.
- b) *Farmer Cooperative Development Fund (CDF).* Provision of Grants to Project Farmer Cooperatives to finance Establishment Costs and investments in agricultural products and services for value chain development.

- c) *Value Addition.* Provision of financing to Cooperating Agro-enterprises for investments in commercial processing, post-harvest handling, storage and packaging of agricultural products produced, in partnership with Project Farmer Cooperatives.
- d) *Market Exploration and Development.* Carrying out of marketing studies, product promotion, up-grading of quality standards and food safety monitoring, certification, labelling and brand naming, and construction of product markets.
- e) *Risk Prevention and Mitigation.* Provision of agricultural crop insurance for selected crops in order to pilot crop- and livestock insurance schemes for the benefit of qualifying members of Project Farmer Cooperatives.

15. Component 2: Public Infrastructure and Services

- a) Construction of (i) off grade production road infrastructure, and (ii) tractor roads, field tracks, and foot paths; construction of irrigation and drainage infrastructure; establishment of communications and information infrastructure including acquisition of equipment; construction of public market facilities, including installation of electricity supply and other infrastructure and acquisition of goods necessary to facilitate and complement investments under Component 1 of the Project.
- b) Carrying out of public services in support of Project Farmer Cooperatives, including: (i) construction of food testing certification facilities and acquisition of equipment; (ii) carrying out of food safety testing and control; (iii) provision of public extension and training services; and (iv) carrying out of agriculture research, and technology transfer activities, including recruitment of cooperative advisors.

16. Component 3: Training and Capacity Building

Provision of technical assistance and training to farmers and agricultural technicians, including preparation of training materials, review and improvement of investment proposals for key commodity value chains, training in safeguards awareness and implementation training.

17. Component 4: Project Management, Monitoring and Evaluation

- a) Strengthening of institutional capacity and capability of the county, municipality and provincial Project management offices to manage, implement and monitor Project activities; including the monitoring of environmental and social safeguards requirements, through the provision of technical assistance and domestic and international training.
- b) Carrying out of policy advisory studies in the Project Counties, including studies on poverty reduction, agriculture development, and rural sectors in poor areas, and on how to improve the investment environment, governance, and fair benefit sharing for cooperatives and enterprises.

B. Project Financing

Lending Instrument

18. The selected lending instrument is an Investment Project Financing (IPF). The IBRD loan will be a US Dollar, variable spread loan of US\$100 million for the project, with a maturity of 29 years, including a 6-year grace period.

Project Cost and Financing

19. **Project Cost.** Total project costs are estimated at US\$140.51 million (RMB 857.11 million). The project costs are proposed to be financed by a loan from IBRD of US\$100 million and government counterpart funds of US\$40.51 million (RMB 247.11 million equivalent).

Table 1: Project Cost

Components	Cost			
	Including Contingencies	% of Total	IBRD Financing	% Financing
1. Modernization of Agricultural Key Commodity Value Chains				
a) Cooperative Development	3.13	2.2	3.13	100.0
b) Cooperative Development Fund	43.13	30.7	43.13	100.0
c) Value Addition	8.08	5.8	8.08	100.0
d) Market Exploration and Development	8.09	5.8	8.09	100.0
e) Risk Prevention and Mitigation	1.29	0.9	1.29	100.0
<i>Subtotal</i>	63.73	45.4	63.73	100.0
2. Public Infrastructure and Services	52.09	37.1	24.67	47.36
3. Training and Capacity Building	9.13	6.5	9.13	100.0
4. Project Management, Monitoring and Evaluation				
a) Management	5.03	3.6	1.99	39.65
b) M&E	0.32	0.2	0.23	71.79
<i>Subtotal</i>	5.35	3.8	2.22	41.57
Total PROJECT COSTS	130.29	92.7	99.76	76.56
Contingencies	7.02	5.0	-	-
Financial Charges During Implementation	3.20	2.0	0.25	7.81
Total Costs to be Financed	140.51	100.0	100.00	71.17

20. **Retroactive Financing.** Retroactive financing will be available for eligible expenditures under all project components up to an aggregate amount not to exceed US\$10 million for payments on or after August 1, 2014.

C. Lessons Learned and Reflected in the Project Design

21. The project builds on a body of experiences and knowledge on pro-poor value chain development, emphasizing the complementary roles of the public and private sectors. It includes six elements from international experience outlined below.

- a) *Market stakeholder participation.* Public institutions and the private sector have an equally important role to play in triggering changes in market structure that benefit the poor. In addition to the project leading groups supporting the coordination between government agencies, a participation mechanism (such as an advisory group consisting of representatives from the public and private sectors) is expected to play a critical role during project implementation.
- b) *Transparent rules.* The poor will benefit from improved rules in market relationships. This requires both a more formalized regulatory framework and its implementation. Transparent production arrangements between households, cooperative managers and other market operators will deserve as much attention in project management and monitoring as support to the formalization of cooperatives.
- c) *Entrepreneurship and identification of new opportunities.* New opportunities in value chains arise from changes in consumer demand and in the structuring of market operators. The poor will benefit when their cooperatives better identify these opportunities. This requires the development of enhanced business skills among managers of cooperatives. “Cooperative training” and “technical assistance” project budget lines will enable the provision of related support during project implementation.
- d) *Quality enhancement.* Organic agriculture and geographic indications are only two among a number of quality criteria, and are, except for some commodities, unlikely to be accessible to broad numbers of poor households. Conversely, most market operators will pay higher prices for produce that has been graded after harvest and adequately stored and transported. In addition, traceability is becoming compulsory in sales to supermarkets. The project will help cooperatives through technical assistance to design a quality enhancement strategy, supported by related training of managers and members of cooperatives, and investments in post-harvest equipment.
- e) *Support services.* Poor producers will benefit from direct access to a range of support services, including market information, supply of agricultural inputs, insurance, training & extension, quality monitoring and post-harvest services. The value-addition sub-component will enable private enterprises to be involved in service provision to cooperatives.
- f) *Project-based facilitation.* The poor will benefit from facilitation between the producers and market operators and between the public and private sector. Cooperative advisors will provide this facilitation at the local level, while provincial and county project management offices will need to clearly define their role in business development services and liaison with the private sector.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

22. Project implementation arrangements have been set up at provincial municipality, and county levels. Institutional responsibilities are summarized below. They are described in more detail in Annex 3 and in the Project Operations Manual (POM).

23. **Project Leading Groups.** Project Leading Groups at provincial, municipal and county levels, comprising representatives from the reform and development commissions, finance bureaus, poverty reduction offices, auditor's offices, civil affairs bureaus, ethnic affairs commissions, women's federation, and other departments will provide leadership, policy guidance, and direction for project implementation within their respective jurisdictions.

24. **Project Management Offices.** A provincial Project Management Office (PMO) has been established in the Guizhou Provincial Poverty Alleviation and Development Office, Foreign Capital Project Management Center to be responsible for overall project coordination and management, including annual work and budget planning; coordination of municipalities and counties in public outreach, work planning, procurement, fund withdrawal and reimbursement management and financial reporting; technical and institutional aspects of implementation; general oversight, field supervision and acceptance checks; and training and capacity building. The provincial PMO will also be responsible for overall project M&E and reporting to the Bank and will maintain and update, as necessary, the POM (including the Financial Management Manual (FMM)). Municipal-level PMOs will provide technical guidance to counties, supervise implementation, and assist the provincial PMO in acceptance checks, and M&E. County PMOs will have the primary responsibility for project management at the local level.

25. **Administrative Village Committees.** Village Committees will be responsible for local public information dissemination, community mobilization, planning and implementation of public infrastructure investments assigned to the administrative village level, and coordination of any land adjustments for infrastructure construction, as needed.

26. **Professional Farmer Cooperatives.** Farmer cooperatives will be established as economic entities and registered under China's Farmer Professional Cooperative Law. They will have implementation responsibility for all activities under the CDF. They will organize cooperative members; prepare the cooperative industry investment and Cooperative Annual Investment Plans (CAIPs); and administer cooperative development funds in accordance with approved plans and project regulations. *Farmer Cooperative Advisors* will be recruited and trained by the county PMOs to assist in the establishment and operationalization of new cooperatives; provide guidance to cooperatives in the formulation and implementation of productive investments and CAIPs; and assist the county PMOs in conducting acceptance checks, monitoring and reporting of cooperative activities, and complaints handling.

27. **Technical Advisory Groups.** Each county will set up a technical advisory group comprising representatives from government, cooperatives, and industry-related enterprises to provide advisory services for the cooperative value chain investments.

B. Results Monitoring and Evaluation

28. The Result Framework describes the PDO-level outcome indicators and the component-specific intermediate indicators, including core sector indicators, and respective baselines and targets (Annex 1). Monitoring and evaluation (M&E) arrangements and responsibilities are described in detail in the POM. Project M&E will be the responsibility of the provincial and county PMOs. A designated M&E officer will be appointed at the provincial PMO and in each county PMO for compiling M&E data for consolidation into the semi-annual and annual project progress reports. A simple computerized progress monitoring system will be set-up at the county and provincial PMO levels to help track and document physical, institutional, and financial project progress. Management effectiveness of farmer cooperatives supported by the project would be measured by the Cooperative Management Effectiveness Tracking Tool (METT), a qualitative self-assessment tool. The provincial PMO will engage qualified institutions or experts to conduct independent impact assessments, including the METT, at project mid-term and at the end of the project.

C. Sustainability

29. Specific sustainability considerations that have guided project design include:

- a) *Production scale-up.* The project will not subsidize the expansion of existing agricultural production capacity. Production expansion would only be supported if: there is potential for improving competitiveness and marketability, identified through industry, technology, and market analyses; such expansion is combined with structural adjustments in production arrangements, e.g., new arrangements that involve enterprises and cooperatives as main actors and investors, with government acting as the service provider; and only targeted poverty households will receive project subsidies for additional production and/or expansion of production.
- b) *Cooperative sustainability.* Financial sustainability of commodity value chains will be assessed through market competitiveness analysis during the investment preparation, as laid out in the POM. Environmental sustainability will be confirmed through resource assessments at the cooperative level. In particular, ruminant livestock development will include feed balances and will not depend on free grazing on sloping pasture, in circumvention of government-regulated grazing bans.
- c) *Private sector participation.* The project will promote the participation of agro-enterprises and seek to leverage private sector investments through co-financing of investments that are linked to the project. Investment commitments from the private sector are expected to provide an important indication for a clear business rationale and longer-term sustainability of the commodity value chain. Lead local enterprises will be selected during the investment proposal preparation based on clear criteria, e.g., strong business and financial record, experience in the sector, strong management and business planning, as elaborated in the POM. Enterprise participation would be subject to joint review by provincial and county PMOs, as well as the Bank during the detailed investment proposal preparation process.

- d) *Input supply.* A sustainable approach to input supply has been introduced. In cases where input supply or access to short-term lending from commercial banks is a bottleneck, farmer cooperatives will manage input supply under their own responsibility. Cooperatives can also provide short-term funds to their members for the procurement of seeds or breeding animals.
- e) *Farmer cooperatives.* Detailed constitutional principles for farmer cooperatives have been formulated in the POM, e.g., an elected board, a transparent accounting system, open membership, a system of regular mandatory meetings and decision making arrangements, a complaints handling process, and regular audits.
- f) *Rural infrastructure.* Infrastructure investments and public services are directly linked to the proposed agricultural investments. They will be implemented through local government or village committees in close coordination with the cooperatives to strengthen the overall sustainability of productive investments by cooperatives and agro-enterprises.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary Table

Stakeholder Risk	Low
Implementing Agency Risk	
- Capacity	High
- Governance	Moderate
Project Risk	
- Design	Substantial
- Social and Environmental	Moderate
- Program and Donor	Low
- Delivery Monitoring and Sustainability	Substantial
Overall Implementation Risk	Substantial

B. Overall Risk Rating Explanation

30. Overall risk rating for project implementation is substantial. The main risks and associated mitigation measures are presented in the Operational Risk Assessment Framework (Annex 4). The main risks to the achievement of the PDO are: the limited capacity of the implementing agencies at the provincial and county levels to implement a Bank project, especially in terms of adherence to Bank procurement and financial management requirements in a decentralized environment; the challenges associated with institutional innovation, such as farmer cooperative development and with changing from top-down target-driven development towards investment decisions based on sound business planning; and capacity to conduct

economic and financial analysis at the cooperative level to support long-term sound investments. Risk management measures are reflected in the project design, including the adoption of the POM, procurement and financial management training for relevant staff, and extensive implementation support through the Bank team.

31. From a technical perspective, no particular risks are foreseen. The project will generally invest in infrastructure and agricultural/ rural technologies and approaches that are tested and proven to be of low risk, such as introducing improved seeds and improved breeding stock and related technologies, small-scale primary processing equipment and facilities, standard small-scale public infrastructure and others. Investments in agricultural production are subject to GAP standards and IPM.

32. From an economic perspective, many project areas are marginal agricultural production areas with limited development opportunity or comparative advantage. Project investments could be directed as a temporary subsidization of sub-sectors and products that would not be competitive in the longer run or where demand is limited. The marketing potential of some niche products, such as medicinal herbs or specialized tea products, could also be overestimated. In addition, many project counties may see their local production in isolation from other places that may be promoting the same product and hence there is a risk of over-production that will not generate the economic returns expected. To address the risks to long-term economic sustainability, the project design requires an investment planning process for cooperatives, including market analysis, to be conducted prior to implementation of cooperative investments. The procedures for this detailed investment planning are described in the POM.

33. The use of public (project) funds is justified to overcome market failures that prevent or hinder private investments and business engagement. The understanding of public goods, however, is limited at the local level, and this carries the risk that project funds could be used inefficiently. The project has been designed to avoid directing public funding to finance private commercial activities. Investments of commercial (profit generating) nature will be conducted only at the level of the farmer cooperative, based on approved annual plans subject to review by the advisory group and the county PMO, while public infrastructure have be clearly separated from such commercial investments and will be implemented by the county government or village committees.

34. Farmland consolidation could pose risks to smallholder farmers and cooperative members. Land consolidation refers to two scenarios: (a) commercial investors or large households acquiring land from smaller farmers through lease arrangements. Village or township leaders act as brokers that help organize farmers and the consolidation of land parcels into larger contiguous areas and local governments provide investment support for the needed production infrastructure; or (b) farmer shareholding arrangements are created where land owners become members with decision making rights proportional to their land holdings while production is centralized under a professional management structure under one or several leading households, which generally are also investors and major shareholders in the cooperative. The project would not get involved land consolidation activities. Project regulations have been agreed in the POM that clarify that the project will not support any cooperative arrangements where farmers have to contribute land to obtain a share in the cooperative. The project will not

support the transfer of land to enterprises or any involuntary land consolidation activities. The project would only support transparent land transfers between cooperative members based on time-bound written contractual arrangements. Respective provisions will be included in the final POM.

35. There is a risk of power imbalances between enterprise and farmer in vertically integrated production and marketing structures that will be promoted under the project. Farmers, especially poor households, are often the weaker stakeholders in such value-chains. In the case of speciality agricultural products, market channels also tend to be narrow with often only one processor or marketing company determining production conditions and price. The same company often also provides inputs and technical services. In such arrangements, benefits from added value or increased productivity can be captured primarily by the enterprise partner. The project seeks to reduce such potential power imbalances by formalizing and strengthening the farmer cooperative organizations as independent economic entities and by putting in place clear contractual arrangements between enterprises, cooperative, and local government with facilitation by the project.

36. Commercialization and specialization of farmers increases their exposure to price and market risks and/or the business success of enterprises in the up-stream value chain. In addition, for rural households which are migrating out of agriculture production and are willing the lease their land temporarily to other cooperative members, their lease income will depend on the commercial success of the cooperative. The project will seek to reduce the risk associated with markets through careful analysis of competitiveness and marketing prospects of each investment proposal and an appraisal of the management capacity and financial strength of any enterprises and cooperatives involved in the project, as is detailed in the POM.

37. Vulnerability of ethnic minority households. A large number of households are situated in remote mountain areas and belong to ethnic minorities. Often these are not well integrated into the commercialized agriculture sector, are weakly organized and have limited capacity to participate in market-driven commercial agriculture. The participation of such households in company-farmer arrangements and in value-chain integration may require changes in their traditional (subsistence-oriented) production practices in form of shifting to single and/or specialized crops. Such shifts may expose households to livelihood risks. Risk mitigation measures include an EMDP, the implementation of the cooperative development funds mechanism which is provided on a grant basis and a strong focus on participation of poor households in the production arrangements.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analyses

38. *Development Impact.* Specific and direct benefits expected from the project include improved productivity, value-addition, and market opportunities which are expected to result in increased incomes and long-term local employment opportunities. These benefits will primarily result from: (a) adoption of new production standards and technologies; (b) reduced post-harvest losses; (c) improved produce processing and/or packaging; (d) better access to services, markets, and information; (e) reduced transaction costs; (f) improved product quality and producer (farm-

gate) prices; (g) higher production values through market differentiation (e.g., product certification, branding), and (h) advantages from economies of scale. Indirect benefits expected from the promotion of cooperative models include: (a) strengthening of producers and marketing groups; (b) improving quality and reducing the costs of forward and backward linkages of farmers to markets and value chain operators higher up; (c) local cooperatives managing physical infrastructure investments in a sustainable manner; (d) public and private sector operators delivering quality services in more efficient and targeted ways; and (e) new models of cooperatives and enterprises working together. In addition, the project is expected to contribute to improving outreach and inclusiveness of agri-investment.

39. Because specific cooperative-level investment proposals will only be formulated once the cooperatives are established and participating enterprises are identified, financial and economic net returns of a range of farming activities typical for the proposed value chains have been calculated on a household or per hectare basis. The analysis shows that there is sufficient scope for economically viable investments in agricultural value chains in the project area. Financial rates of returns at the production level range from 6.1 percent to 38.8 percent. The overall Economic Rate of Return (ERR), taking into account all overhead costs, is estimated at 18.5 percent, with a Net Present Value (NPV) of RMB366 million. Value chain investments that are being identified as economically and financially not viable during the detailed investment planning would not be supported under the project. The analysis also indicates that long-term attractive incomes in the project areas, which would be comparable to non-farm incomes, will rely on further structural change with larger land holdings. It is estimated that a household would need about 1.5 to 2 hectares of farmland to realize an income comparable to urban income levels, indicating that only 20-30 percent of the households still engaged in agriculture can be supported by agriculture in the longer term.

40. *Justification of Public Financing and Bank Value-added.* The project addresses a number of market failures related to barriers to entry, stakeholder diversity in combination with weak organizational structures, and imbalance in access to knowledge and information of poverty households. Many project counties have supported their key products mostly in production, but also on processing and marketing by injecting significant public funds. In many cases this was done irrespective of the relative competitiveness and market demand and has led to market distortions and a continuing dependency of the industry on public funds. The project directs its support towards creating sustainable overall organizational and institutional settings and towards addressing only true market failures (not generally issues of insufficient competitiveness). This will allow the private sector and markets to work more effectively and increase long-term competitiveness, with an exit strategy from long term public subsidies. Bank support for the project will add value by: (a) helping to understand the roles of stakeholders and the rationale for using public funds for value chain investments; (b) optimizing the use of funds without distorting markets; (c) ensuring sustainability; and (d) maximizing effectiveness by taking a macro view of the project.

B. Technical

41. Project counties have proposed a set of lead industries and key commodity chains for project support, which are acceptable from an economic, technical feasibility and institutional perspective. An initial technical review of these commodity chains has been carried out during

preparation and further detailed technical review will be carried out for each individual cooperative and enterprise investment proposal during implementation, which will be subject to inputs from the external advisory group as well as reviews by the provincial PMO and the Bank, prior to county government approval. Most of the proposed technologies and technical aspects proposed in agricultural value chain development under the project are already widely applied in the project counties or elsewhere and pose little technical risks. Potential changes to the climate will need to be considered in the choice of agricultural production technologies. Enterprises and/or cooperatives may propose improved plant varieties or livestock breeds, which are not yet used in the project areas. In such cases, technical appraisal teams at the county level and the joint appraisal team at the province level will consult with the relevant provincial agricultural departments and supporting research institutions to ascertain the suitability of the proposed variety/breed for the project area, prior to obtaining approval.

42. All agricultural production will follow Good Agricultural Practice (GAP) standards and the provisions set forth in the project's Pest Management Plan (PMP). To reduce grazing pressure, the project will only support livestock production systems that do not involve any free grazing of animals. Waste disposal systems and related technical options for waste treatment (biogas fermentation or composting) will be assessed and, if necessary, included on a mandatory basis for all animal production support under the project. The design of all agro-processing facilities supported under the project will follow HACCP principles. Only trained staff will operate food testing and certification facilities.

C. Financial Management

43. The project Financial Management risk is rated Substantial. IBRD loan proceeds, including overseeing the Designated Account (DA), will be managed by the Guizhou Provincial Finance Bureau. A Financial Management (FM) capacity assessment conducted by the Bank identified the principal risks as the lack of experience of financial management staff at the county level, a large number of small expenditures carried out at the cooperative level, and the management of IBRD-loan advances by county-level finance bureaus. An action plan to strengthen FM capacity has been agreed with the implementing units. With the implementation of the proposed actions, the project's FM arrangements satisfy Bank requirements under OP/BP 10.00. FM arrangements are described in more detail in Annex 3.

D. Procurement

44. The project Procurement risk is rated Substantial. The provincial PMO and county PMOs have designated full-time procurement staff. Community advisors will be recruited by each county PMO to support project implementation at the cooperative/village level, including procurement. The key project procurement issues and risks identified by the procurement capacity assessment are: (a) some of the county PMOs and their designated procurement staff have no prior procurement experience in Bank-financed projects (although provincial and some county PMOs have implemented Bank-financed projects in the past); and (b) PMOs may unintentionally follow domestic procurement practices, which may lead to non-compliance with Bank procurement guidelines. To address these risks, designated procurement staff have attended procurement training provided by the Bank and will attend additional procurement and contract management training during project implementation. The provincial PMO will provide

support to and monitor the implementation of project activities carried out by the county PMOs. County PMOs will provide support and monitor the implementation of project activities carried out by the cooperatives and village committees.

45. A Procurement Plan for the initial 18 months of project implementation has been agreed at negotiations. The Plan will be available in the project's database and in the Bank's external website. The Procurement Plan will be updated annually (or as often as is required) in agreement with the Bank, to reflect project implementation needs and improvements in institutional capacity. For procurement activities carried out by cooperatives under Component 1 (b), CDF, a Cooperative Annual Investment Plan (CAIP) would be prepared after cooperatives have been established and their investment proposals have been approved by the county PMOs. Annex 3 provides additional information on the project's procurement arrangements.

E. Social (including Safeguards)

46. The project is expected to generate positive social benefits and sustainable poverty reduction opportunities for rural communities in project villages, including employment opportunities for rural households, individual and collective empowerment through membership in farmer cooperatives, improved access to rural infrastructure and trading facilities, as well as new technical and management skills.

47. **Involuntary Resettlement (OP4.12).** No involuntary resettlement is expected under the project. Project areas are not located in areas of current ecological resettlement programs and will not be associated with such programs. It also does not support farmland consolidation or the acquisition for farmland by agro-enterprises. However, the project will involve some small-scale land acquisition for civil works at the village level that will be built on available land. Any needed land adjustments will be coordinated and agreed at the village-level and will be voluntary. Where infrastructure construction extends beyond individual villages and the need for land acquisition arises, the Resettlement Policy Framework (RPF) will guide the process. The RPF will also apply to enterprises participating in the project that might acquire land for the implementation of project-related activities. The RPF is prepared in compliance with the current Chinese legal and policy framework for land acquisition and with the Bank's Policy on Involuntary Resettlement (OP4.12).

48. **Indigenous Peoples (OP4.10).** Bank Policy on Indigenous Peoples (OP4.10) applies. Four ethnic groups, the Miao, Yi, Tujia and Gelao, have rural communities in the project area. These meet the characteristics of indigenous peoples under the operational policy. An Ethnic Minority Development Plan (EMDP) has been prepared to enable ethnic minorities to fully participate in, and benefit from, the project and to ensure the protection of their interests and rights in land and resources. Key elements of the EMDP include: (a) recruitment of qualified cooperative facilitators and trainers that are familiar with local cultures and speak local languages; (b) an enhanced mobilization and participation process at the village community level; (c) a reinforced capacity building program with a related budget; and (d) a required minimum proportion of ethnic minority people among cooperative members, cooperative project workgroups and training course participants. Assistance (or participation) of Ethnic Minority Affairs Commissions at various levels will be invited as and when required, and a grievance mechanism has been established.

49. **Social Assessment (SA).** A SA has been carried out during preparation and was complemented by screening for social impact by the Bank. No risk of potential large scale or significantly irreversible negative social impact has been identified. SA recommendations have been integrated into project design and recommendations from the SA are incorporated in the POM. The main risks identified are discussed in detail in Annex 3 and are covered by relevant clauses in the social safeguard documents. Implementation of the RPF and EMDP will be integrated into project implementation. Implementation will be monitored by the PMOs internally and evaluated at least twice during the project by a professional expert team.

50. **Pro-poor Aspects and Gender Development.** Project sites are located in two nationally recognized poor mountainous regions (Wuling and Wumeng mountains) and most project villages are listed as key poverty reduction villages. A strong pro-poor approach was taken in project design. Providing equal opportunity for women to take part in the development of farmer cooperatives was identified as a challenging task and has been taken into account. This approach will continue to be promoted throughout project implementation through broad consultation and participation of rural households, with special attention to vulnerable groups. The poor and women will be offered equal opportunity to join farmer cooperatives and participate in training and capacity building activities. Special consideration will be given to the voices of women as a vulnerable group, both in accessing employment and in taking part in cooperative decisions. Local Women's Federations at various levels will be invited to facilitate women's participation in project implementation.

F. Environment (including Safeguards)

51. **Environmental Assessment (OP. 4.01).** The project has been assessed as Environmental Category B. An Environmental Assessment (EA) has been prepared in accordance with Bank Operational Policy 4.01 and Chinese domestic regulations. The EA confirms that the project is expected to generate positive environmental benefits in project areas. However, two components will involve activities that may have adverse environmental impacts that require mitigation. Component 1 will support agricultural production activities and agro-product processing. Component 2 will finance rural infrastructure investments, including access roads, field tracks, marketing facilities, irrigation infrastructure, and public markets. The EA confirms that negative environmental impacts resulting from these activities can be mitigated. An Environmental Management Plan (EMP) has been prepared during preparation that specifies mitigation measures, training, M&E, and supervision arrangements for environmental management. Although an EMP has been prepared, during implementation, when additional information on the cooperatives and enterprises sub-investments and related infrastructure become available, the PMOs will develop site specific measures to be included in the EMP for sub-investments, subject to Bank review, in order to address any potential site specific impacts.

52. **Pest Management (OP 4.09).** The expansion, intensification and diversification of agricultural activities will likely result in increased application of pesticides. A Pest Management Plan (PMP) has been prepared, centering on the principles of Integrated Pest Management (IPM). The PMP describes the relevant national and provincial regulatory framework, the current status of pest and disease control, monitoring and supervision mechanisms, experience and problems, and lessons learnt from pest management in previous projects. The PMP also specifies a range of non-chemical methods to address pest management

issues, and a program for training and monitoring during project implementation. The PMP includes a list of all chemicals needed for the project. These fall into the categories recommended by the World Health Organization and meet Bank requirements.

53. **Natural Habitats (OP/BP 4.04).** Bank Policy on Natural Habitats (OP/BP 4.04) will be applicable in view of the importance of ecosystem protection in project areas. The EA screening process identified a number of national and provincial level designated natural reserves in the vicinity of project areas. The project will bring improvements to agricultural production practices and help raise local incomes, which are expected reduce the pressure on and likelihood of encroaching on these areas. However, some project activities (infrastructure construction, seasonal grazing) may impact natural habitats negatively because of their proximity to protected areas. Relevant preventive and mitigation measures are included in the EMP.

54. **Consultation and Information Disclosure.** Public consultation was carried out in the project areas through information dissemination campaigns and as part of the EA/SA process. In each project county, the local PMOs and the external EA/SA teams carried out surveys, interviews and meetings with project beneficiaries in a sample of project villages (covering at least 15 percent of all villages) and with all affected organizations and agro-enterprises. Selection criteria for project sites, and proposed location and implementation plans for civil works were shared with the public and stakeholders during consultation. During EA/SA preparation, two rounds of public consultations were carried out during November/December 2013 and during April/ May 2014, including information dissemination through government websites in the 11 project counties, bulletin boards in project villages, in county poverty alleviation offices, and in public libraries. Consultations took place in form of questionnaire surveys and public meetings. More than 2,000 people together with more than 100 institutions in the project areas were surveyed with a balanced distribution in gender, age, educational background and profession. The majority of the consulted citizens confirmed strong support for the project activities and welcomed the project as means to create new job opportunities, contribute to local development, and improve economic wellbeing and the environment.

55. The final EA report, including the EMP and PMP, was disclosed locally in Chinese language on May 28, 2014. The final SA report, including the RFF and the EMDP, was disclosed locally in Chinese language on May 18, 2014. English versions of the EA, EMP, PMP and the SA, RPF and EMDP were disclosed through the Infoshop on June 6, 2014.

Annex 1: Results Framework and Monitoring

Guizhou Rural Development Project

Project Development Objective (PDO): <i>to demonstrate a model for agricultural sector restructuring and modernization, improved organizational arrangements, and strengthened public service delivery in the Project Counties in Guizhou Province.</i>												
PDO Level Results Indicators*	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
				YR 1	YR 2	YR3	YR 4	YR5				
Indicator One: Percentage of cooperatives making profit.		Percent	0			30		60	Annually	Project Reporting and Survey with financial analysis.	County and Provincial PMO	
Indicator Two: NPV generated by project investment.	<input type="checkbox"/>	RMB million	0			250		290	Mid-term and end of project	Project Reporting and Survey with financial analysis.	Provincial PMOs	
Indicator Three: Share of poor households in the community that join newly established or improved cooperatives (as share of total poor households per village).	<input checked="" type="checkbox"/>	percent	0	30	50	60	80	80	Annually	Project Reporting	Provincial PMOs	
Indicator Four: Private enterprise investments leveraged through project investments (cumulative).	<input checked="" type="checkbox"/>	RMB million	0			75		100	Mid-term and end of project	Survey	Provincial PMOs	

INTERMEDIATE RESULTS

Intermediate Result (Component One): *Value chains for leading agricultural commodities are improved with strengthened institutions and forward and backward marketing linkages*

<i>Intermediate Result Indicator 1.1:</i> Number of cooperatives established legally.	<input type="checkbox"/>	No.	0	31	81	108	108	108	Annually	Project Reporting	County and Provincial PMOs	
<i>Intermediate Result Indicator 1.2:</i> Number of cooperatives which received development funds.	<input type="checkbox"/>	No.	0	5	30	70	100	108	Annually	Project Reporting	County and Provincial PMOs	
<i>Intermediate Result indicator 1.3:</i> Number of public market facilities constructed under the project.	<input type="checkbox"/>	No.	0	0	4	10	16	20	Annually	Project Reporting	County and Provincial PMOs	
<i>Intermediate Result Indicator 1.4:</i> Number of agro-products under the project that obtained brands or certification.	<input type="checkbox"/>	No.	0	0	0	3	6	12	Annually	Project Reporting	County and Provincial PMOs	

Intermediate Result (Component Two): *Supporting public infrastructure and service system established*

<i>Intermediate Result Indicator 2.1:</i> Length of roads, tractor roads and field paths built or improved by the project.	<input checked="" type="checkbox"/>	a) production roads (km)	0	0	88	220	352	420	Annually	Project Reporting	County and Provincial PMOs	
		b) tractor roads	0	0	16	40	64	80				
		c) foot paths (km)	0	0	78	195	312	390				
<i>Intermediate Result Indicator 2.2:</i> Person-months of advisory or facilitation services provided to cooperatives under the project (cumulative).	<input type="checkbox"/>	No.	0	2500	5000	6500	7500	9000	Annually	Project Reporting	County and Provincial PMOs	

Intermediate Result (Component Three): Improved capacity of farmers and government services for pro-poor agricultural pillar industry development												
<i>Intermediate Result Indicator 3.1: Number of analytical studies completed and disseminated.</i>	<input type="checkbox"/>	No.	0			1		2	Mid-term and end of project	Project Reporting	Provincial PMOs	
<i>Intermediate Result Indicator 3.2: Number of farmers trained, by gender and ethnic minority (person-times, cumulative).</i>	<input checked="" type="checkbox"/>	Total No. % female % ethnic minority	0 % %	10,000 20% 20%	30,000 25% 25%	50,000 30% 30%	80,000 30% 30%	88,000 30% 30%	Annually	Project Reporting	Provincial PMOs	
<i>Intermediate Result Indicator 3.2: Number of cooperative management staff trained, by gender and ethnic minority (person-times, cumulative).</i>	<input type="checkbox"/>	Total No. % female % ethnic minority	0 % %	600 20% 20%	2,500 20% 20%	5,000 20% 20%	7,000 20% 20%	7,500 20% 20%	Annually	Project Reporting	Provincial PMOs	
Intermediate Result (Component Four): Capacity of PMOs to manage the Project effectively in place												
<i>Indicator 4.1: Training on project management taken by PMO staff at all levels (person-times, cumulative).</i>	<input type="checkbox"/>	No.	0	200	500	600	700	700	Annually	Project Reporting	County and Provincial PMOs	
<i>Indicator 4.2: Number of study tours and workshops conducted under the project for knowledge exchange.</i>	<input type="checkbox"/>	No.	0	10	15	20	25	35	Annually	Project Reporting	County and Provincial PMOs	

Annex 2: Detailed Project Description

China: Guizhou Rural Development Project

1. The PDO is *to demonstrate a model for agricultural sector restructuring and modernization, improved organizational arrangements, and strengthened public service delivery in the Project Counties of Guizhou Province*. The project aims to demonstrate an approach to rural development, sustainable and equitable income generation, and poverty reduction in lagging rural areas which is based on a clear distinction of the different roles and responsibilities of government (public sector) and enterprises and farmers (private sector) in agricultural modernization and development. The distinction of the roles of various stakeholders is reflected in the project component design.

2. Rural income growth and poverty reduction may only be sustainable if investments in productive activities are based on sound business decisions that take long-term profitability of such investments into consideration. The project therefore focuses on developing rural and agricultural key commodities that have been identified based on comparative advantage and on products that have comparatively good marketing prospects, are suitable for technology standardization and for scaling-up integrated production, and allow for value creation upstream at the cooperative level. Key commodities (sub-sectors) have been selected during preparation in line with the social-economic development and poverty alleviation plans of the project counties in the Wuling and Wumeng mountain areas of Guizhou Province. A complete description of the selected key commodity industries is included in the POM.

3. Project interventions seek to overcome a number of identified structural challenges in the project areas for each identified key commodity or sub-sector. By removing structural bottlenecks, the project will contribute to agricultural sector modernization and thereby strengthen the role and potential of agriculture for employment and income generation and sustained poverty reduction. The bottlenecks that have been identified and the proposed measures to address these are the following:

- **Scattered and Non-standardized Production.** Strengthening the role and capability of cooperatives is a critical intervention to help organize production, and assist farmers to use standardized production methods so that higher and more consistent product quality standards and volumes can be achieved. Unified standards, consistency of supply and product quality combined with quality assurance (provided by cooperatives) can make such production more attractive to enterprises and buyers.
- **Poor market linkages.** Consideration is given on how to strengthen market linkages, e.g., through contract farming, joint marketing through cooperatives, direct sales to supermarkets, traceability systems, etc. This requires the strengthening of cooperatives to coordinate farmers, coupled with strengthening relevant supporting public services, such as food safety testing to guarantee quality, certification standards, etc.
- **Low technology levels.** Project investments are expected to facilitate the introduction of new technologies to increase productivity and product quality. As individual farmers cannot overcome low technology diffusion by themselves, cooperatives and companies

can play a significant role in introducing and extending innovation., for example through improved breeds, varieties, innovative processing, packaging, and other means.

- **Lack of Value Addition.** Introducing new value-added production generally needs outside investors and a value chain approach, not simply a focus on expanding production capacity as is currently practiced in many rural areas. The project will therefore seek to support the development of value chains for key commodities through including value-addition investments, such as quality improvements, standard setting, branding of products, and product marketing, and through new organizational arrangements, such as farmer cooperative – agro-enterprise cooperation agreements.
- **Roles and Responsibilities of Government, Enterprises, Cooperatives and Households.** Many counties lack clarity on the respective roles of agri-enterprises, cooperatives, households and government in commercial agricultural production. The project seeks to improve the understanding of the respective roles of these actors and sharpen the focus on the different characteristics of public and private goods.

4. Based on these considerations, the project is designed along four main components:

Component 1: Modernization of Agricultural Key Commodity Value Chains. The objective of this component is to support: (a) the development or improvement of value chains for selected agricultural commodities and products with local comparative advantage (key commodities); (b) the establishment of new farmer cooperatives or improvement of existing cooperatives or other producer/cooperation arrangements; and (c) the strengthening of forward and backward marketing linkages. Specific activities to be supported under this component are arranged along five sub-components:

- a) **Farmer Cooperative Development**, supporting the construction of management offices and small buildings for project farmer cooperatives and procurement of basic office furniture and office equipment, including computers, printers, copy machines, software, and office furniture.
- b) **Farmer Cooperative Development Fund (CDF)**, providing financing support to newly or existing farmer cooperatives. CDF would be managed by project cooperatives to implement cooperative investment plans for value chain development that are formulated jointly by cooperatives with support from technical experts, agri-enterprises, and county governments. Investment proposals are subject to review and appraisal by county PMOs and approval by the county government. Funds can be used by the cooperatives to invest in nurseries, advanced breeding stations, production facilities and equipment for improved seed production, storage facilities for agricultural produce, small scale pre-processing and processing facilities, and other small-scale cooperative level infrastructure, goods, and services. Grant funds may also be used by cooperative members for purchasing annual farm inputs (seeds, fertilizer).
- c) **Value Addition**, providing co-financing support to cooperating agri-enterprises to support investments in commercial processing, post-harvest handling, storage and packaging of products where private sector investments are needed and where enterprises have agreed to partner with project cooperatives based on the principles stated in the

POM. Enterprise investment proposals would be prepared by the respective enterprises and would be subject to a joint review and appraisal and approval by the Bank, and the respective county PMOs, respective county, respective municipal PMOs, and the provincial PMO. The project may provide up to 20 percent of the total investment of each agri-enterprise.

- d) **Market Exploration and Development**, supporting marketing studies, product promotion, up-grading of quality standards and food safety monitoring, certification, labelling and brand naming as well as investments for the construction of product markets.
- e) **Risk Prevention and Mitigation**, supporting expenditures to finance agricultural crop insurance fees for poor households for selected crops to pilot crop- and livestock insurance schemes.

Component 2: Public Infrastructure and Services. The objective of this component is to support the establishment and strengthening of public infrastructure and service systems in support of farmer cooperatives and rural value chains. It will provide investment support for: (i) the construction or rehabilitation of production road infrastructure, such as off-grade access roads to village production areas or processing and marketing facilities, tractor roads, field tracks, and foot paths, (ii) construction or rehabilitation of irrigation and drainage infrastructure, (iii) establishment of communications and procurement of information infrastructure and equipment, (iv) construction of public market facilities, electricity supply and other infrastructure and goods necessary to facilitate and complement investments under Component 1. This component will also support public services, such as food safety testing and control through government entities, public extension and training services, as well as marketing systems, agriculture research, and technology transfer provided by government and private entities. It will also support advisory services for cooperatives and provide financing support to cover salaries, training, and related costs of cooperative advisors.

Component 3: Training and Capacity Building. The objective of this component is to improve the management capacity of farmers and government services for pro-poor agricultural modernization and commodity value chain development. It will support farmer technical training and cooperative management training. It will also provide financing support to cover expenditures of extension technicians and technical services (consultants' services) for preparing training materials (including for ethnic minority groups), cooperative advisor support, review and improvement of investment proposals for key commodity value chains, safeguards awareness and implementation training.

Component 4: Project Management, Monitoring and Evaluation. This component aims to strengthen and develop the administrative and technical capacity of staff of the PMOs to manage the project effectively. It will support the county, municipality and provincial PMOs with office equipment, vehicle rental fees, domestic and international training, and provide incremental operating funds for regular supervision, monitoring and evaluation, acceptance checks, and for safeguards implementation supervision and monitoring. In addition, it will finance two subject studies, including a study on poverty reduction, agriculture development, and rural sectors in poor areas, and a study to improve investment environment, governance, and fair benefit sharing for cooperatives and enterprises in project areas.

5. **Role of Cooperatives and Capacity Building Needs.** Farmer cooperatives will be critical for farmer organization, coordination of input supply to farmers, product delivery to companies/ processors, markets, and consumers, and the provision of technical services. Cooperatives that already exist in the project areas have varying capability to perform these services to the standards required under the project. During project implementation, the provincial and county PMOs would carry out the following tasks:

- Determine the basic requirements of each cooperative in order to become eligible to participate in the project and receive project funds. These requirements should include clear statements on membership and poor farmer participation, operating principles, formal registration, governance structure, and supervision, and other aspects. In particular, clear principles for the targeting and inclusion of poor farmers into cooperative arrangements need to be formulated for each cooperative.
- Assess human resource capacity building needs of existing and new cooperatives in relation their roles in the project; in addition, develop training plans (such as training in business and financial management, marketing, technical capacity) for cooperatives and households.
- Include the costs of such capacity building in budgets, differentiating human resource capacity building budget lines from buildings, and computers, and during implementation provide a strong focus on staff training, human resource capacity building and provision of technical support with less emphasis on civil works for building construction.

6. **CDF Operating Principles.** The CDF will provide conditional grants to project cooperatives that have been established in accordance with the provisions of the POM. Grants will to support self-organization of cooperative members, improve production organization and engagement in added-value activities, promote technical service outreach and technology diffusion, market position, and strengthen linkages and coordination in the value chain. The principles and operating mechanisms are described in the POM. CDF funds may be used for: (a) cooperative-level start-up investments in new production systems, including production systems for advanced breeding stock and improved seeds; (b) input supply (seedlings, fertilizer, breeding stock); (c) pre-processing and processing technologies for agriculture and related products; (d) storage and marketing facilities; (e) market exploration and market development to provide access to new and higher-value markets; (f) up-grading of quality standards, labeling and certification, branding, product tracing, logistics, food safety and others; and (g) input supply, such as fertilizer and seeds.

Annex 3: Implementation Arrangements

China: Guizhou Rural Development Project

Institutional and Implementation Arrangements

1. Institutional arrangements for project implementation have been established at the provincial level and at the three project municipalities and 11 project counties.
2. **Project Leading Groups.** Project Leading Groups, comprising representatives from the reform and development commissions, finance bureaus, poverty reduction offices, auditor's offices, civil affairs bureaus, ethnic affairs commissions, women's federation, and other departments have been set up at the provincial, municipal and county levels. These will provide leadership, policy guidance, and strategic direction to the PMOs within their respective jurisdiction.
3. **Project Management Offices (PMOs).** A provincial Project Management Office (PMO) has been established in the Guizhou Provincial Poverty Alleviation and Development Office, Foreign Capital Project Management Center. The provincial PMO is responsible for overall project coordination and management, including: annual work and budget planning; coordination of municipalities and counties in public outreach, work planning, procurement, fund withdrawal and disbursement management and financial reporting; technical and institutional implementation aspects; general oversight, field supervision and acceptance checks; and training and capacity building. The provincial PMO will also have primary responsibility for the review and appraisal of investments proposals of participating agro-enterprises prior to county PMO approval. It also be responsible for overall project M&E and reporting to the Bank and will maintain and update, as necessary, the POM (including the FMM). Municipal-level PMOs will provide technical guidance to the counties, supervise implementation, and assist the provincial PMO in acceptance checks, and M&E.
4. County PMOs are responsible for project management at the local level. They will prepare county work plans and review and approve cooperative investment and annual work plans, approve and oversee cooperatives' use of project funds, coordinate line departments in the implementation of cross-village (township) cooperative investments, and coordinate enterprise participation. They will be responsible for the procurement and management of public production infrastructure and services. They will also review and approve investment plans of agro-enterprises that participate in the project and receive financial support. They will oversee cooperatives' use of project funds, coordinate relevant line departments in the implementation of cross-village (township) value chain development projects, and work with enterprises to promote agricultural technology transfer and information and marketing services needed by cooperatives. They will report on the utilization of project funds to the provincial PMO, prepare semi-annual progress reports, and recruit and train cooperative professional advisors. They will also be responsible for identifying and addressing implementation issues and manage the local complaints handling mechanism.
5. All PMOs staff have experience (or have been trained) in project management, financial management, procurement, and monitoring and evaluation. They will be assisted by officers

from the finance bureaus, development and reform commissions, auditor's offices, and the poverty alleviation offices as well as technical line bureaus.

6. **Administrative Village Committees.** Village Committees will be responsible for local public information dissemination, community mobilization, planning and implementation of public infrastructure investments assigned to the administrative village level, and coordination of any land adjustments for infrastructure construction.

7. **Professional Farmer Cooperatives.** Farmer Cooperatives will be established as economic entities and registered under China's Farmer Professional Cooperative Law. They will have implementation responsibility for all project activities under the CDF. They will organize cooperative members; prepare cooperative industry investment and Cooperative Annual Implementation Plans (CAIP); and administer cooperative development funds in accordance with approved plans and project regulations. They will provide training and technical support to their members; facilitate linkages between cooperatives and enterprises; manage cooperative-level production facilities and related services; support the introduction of new technologies, and provide technical training, technical exchanges and advisory services to their members. Cooperatives will be responsible for outreach to and inclusion of poor community households. They will operate and manage industry-related infrastructure under their ownership and enter into partnership arrangements with relevant private sector enterprises.

8. **Farmer Cooperative Advisors.** Cooperative Advisors will be recruited and trained by county PMOs to assist in village mobilization and in the establishment and operationalization of new cooperatives; provide guidance to cooperatives in the formulation and implementation of productive investment plans and CAIPs; and assist county PMOs in conducting acceptance checks, monitoring and reporting of cooperative activities, and complaints handling.

9. **Technical Advisory Groups.** Each county will set up a technical advisory group comprising representatives from government, cooperatives, and industry-related enterprises to provide advisory services for cooperative value chain investments. Advisory groups will participate in and guide value-chain development investment planning of cooperatives. They will provide inputs to investment costing, technology innovation and dissemination, production organization and processing, and marketing research to strengthen the overall business orientation and operation of cooperatives. They will also assist the counties in soliciting interest from qualified agro-enterprise investors for investment in the project.

10. **Other Technical Support.** Technical Support will be sought from the Chinese Academy of Social Sciences, Chinese Academy of Agricultural Sciences, universities, and technical staff from the agriculture, forestry, animal husbandry and other functional departments at the county and town levels. This will include support in the development of technical standards and specifications for crops and other products, standardization of livestock breeding, as well as fertilizer and pesticide application.

Financial Management, Disbursements and Procurement

Financial Management

11. The FM capacity assessment identified the following principal risks: (a) most project activities will be implemented and managed by county PMOs, however, most of the staff in county PMOs are not expected to have much experience or strong capacity; (b) a large number of project activities involve small expenditure items carried out at the village or community level, which would make project management more complex; and (c) county finance bureaus will manage further advances of funds. Mitigation measures to address the above risks are: (a) preparation of a designated Financial Management Manual (FMM) as part of the POM to standardize FM procedures and reporting; (b) in addition to FM training to be provided by the Bank, the Provincial Finance Bureau and the provincial PMO will continuously provide workshops and hands-on guidance; (c) the provincial PMO will closely guide and monitor the status of project implementation at county PMOs; (d) transparent disclosure and public monitoring mechanism will be established in village and communities to safeguard project funds; and (e) county finance bureaus will report periodically to the Provincial Finance Bureau on the usage of further advances in the required format, supported by the bank statement. The residual financial management risk, after taking these mitigation measures into account, is rated as substantial.

12. Funding sources for the project include the Bank loan and counterpart funds. The World Bank Loan Agreement will be signed between the World Bank and MOF on behalf of the People's Republic of China, while the on-lending agreement will be signed by MOF and Guizhou Provincial Government, which will be the final debtor responsible for repayment. The Bank loan proceeds will flow from the Bank into the project DA to be set up at and managed by Guizhou Provincial Finance Bureau. Further advances from the DA will be made into the Operating Accounts (OAs) managed by the eleven county finance bureaus. Requirement for opening and maintaining OAs will be documented in the on-lending agreement between MOF and Guizhou Province, in accordance with the requirements of the Account Management Regulation issued by MOF (Caiku [2013] No. 46).

13. **Audit.** The Guizhou Provincial Audit Office will be the auditor for the project and will issue the annual audit report. The annual audit report on project financial statements will be due to the Bank within 6 months after the end of each calendar year. The audit reports and audited financial statements will be made available to the public through the official websites of both the World Bank and the project auditor (either CNAO or the provincial auditor) in accordance with the World Bank Policy on Access to Information.

14. **Budgeting.** All counterpart funds will be government fiscal funds earmarked for poverty reduction, which are managed by provincial and county finance bureaus. The annual project implementation plan, including the funding budget and resources, will be prepared by the county PMOs based on the annual work program implemented by the county PMOs and cooperatives. County finance bureaus will review the annual budget and release project funds based on implementation progress. Budget variance analysis will be conducted regularly to enable timely corrective action.

15. **Funds Flow.** The project DA will be opened in USD (with a ceiling of USD10 million) and managed by the Guizhou Provincial Finance Bureau. Further advances from the DA will be made to the OAs established at commercial banks acceptable to the Bank and managed by county finance bureaus. Each OA will be maintained in RMB with a pre-defined ceiling of RMB 5 million, as documented in the Disbursement Letter. Actual eligible expenditures paid from the OAs should be reported to the Guizhou Provincial Finance Bureau on a quarterly basis, documenting the advances paid into the OAs and outstanding advances in the OA. Disbursements will be made: (a) from the DA to the provincial PMO, county PMOS or contractors for expenditures incurred by the provincial PMO, municipal PMOs or expenditures for activities procured through competitive bidding incurred by county PMOs; and (b) from OAs to county PMOs, cooperatives or contractors for all other expenditures.

16. **Accounting and Financial Reporting.** The administration, accounting and reporting of the project will be set up in accordance with Circular 13: “Accounting Regulations for World Bank-financed Projects” issued in January 2000 by MOF. The county PMOs will manage, monitor and maintain the project accounting records in accordance with Circular 13 for both county PMO and for project cooperatives. The provincial PMO will consolidate project financial statements of each county PMO and incorporate DA and OA information maintained by the related finance bureaus to prepare the consolidated project financial statements. The unaudited semi-annual project financial statements will be prepared and furnished to the Bank by the provincial PMO as part of the Progress Report no later than 60 days following each semester (due dates are August 31 and February 27 of each year).

17. **Internal Control.** Accounting policy, procedures and regulations for Bank projects were issued by MOF and the FMM aligns the financial management and disbursement requirements among various implementing agencies. In addition, since the project will be using a further advance mechanism at the county level, the following financial control measures have been incorporated into the FMM to strengthen financial management:

- (a) A joint financial team comprised of the Provincial Finance Bureau, provincial PMO and consultants will carry out semi-annual FM supervision of county PMOs during the first year of implementation, covering (i) a review of semi-annual project financial statements, (ii) review of project accounts, (iii) examination of the project expenditure eligibility and related supporting documents, (iv) sample review of cooperatives’ project accounts and supporting documents, and (v) variance analysis between the approved annual work plan and expenditures. The supervision results will be documented in a report and filed. The frequency of FM supervision may be reduced to an annual basis during the second year and onwards if no significant FM issues are identified.
- (b) Each cooperative will comply with the National Accounting Regulation for Rural Cooperatives to maintain financial records and accounts, subject to PMO and Bank review. Bank loan proceeds received and the status of their usage would be included in the cooperative’s individual annual audit, which would be publicly disclosed annually in each village.

Disbursement

18. Four disbursement methods are available for the project: advance, reimbursement, direct payment and special commitment. Supporting documents required for Bank disbursement under different disbursement methods are documented in the Disbursement Letter issued by the Bank.

19. The Bank loan would disburse against eligible expenditures (taxes inclusive) as in the following table:

Table 2: Disbursement Categories and Percentages

Disbursement Category	Amount (US\$)	Percent of expenditure financed
Civil works, goods, consultants' services, training (domestic and international), and incremental operating cost, under Component 1 (a), (c), (d), (e), Component 2 (excluding works under Part 2(a) (i)), Component 3, and Component 4.	33,950,000	100%
Grants under Component 1 (b) (Cooperative Development Fund)	43,130,000	100%
Works under Component 2 (a) (i).	22,670,000	62%
Front-end fee	250,000	100%
TOTAL	100,000,000	

20. In all 11 project counties, project cooperatives will implement activities under Component 1 (b) *Cooperative Development Fund (CDF)*. Disbursement procedures for the CDF would be as follows: (a) project cooperatives will open cooperative-level accounts; however, no advances of Bank loan proceeds will be made from the county financial bureau into such cooperative accounts; (b) county PMOs and each project cooperative will enter into an implementation agreement, including an approved overall investment plan and approved CAIP; (c) cooperatives will claim expenditures incurred in accordance with the annual work plan from the county financial bureau through the county PMO; (d) payments will be made by the county finance bureau out of the OAs to the cooperatives, if the expenditures were pre-financed by the cooperatives or to third parties directly upon payments due; and (e) supporting documents for payments to cooperatives (signed procurement contracts, copies of invoices, verification report, etc.,) are stated in the FMM.

21. **Retroactive Financing.** Retroactive financing will be available for eligible expenditures under all project components up to an aggregate amount not to exceed US\$10 million for payments on or after August 1, 2014, and is specified in the Loan Agreement.

Procurement

22. **Capacity Assessment.** The Bank's procurement capacity assessment identified that procurement personnel of the provincial PMO and those in a number of county PMOs have experience with Bank-financed projects, including the Southwest Poverty Reduction Project

1995-2000, and are familiar with Bank procurement procedures. However, newly appointed procurement staff in many counties lack experience with Bank-financed projects. This risk will be addressed through: (a) preparation and implementation of a procurement training plan to train all procurement staff at provincial and county levels periodically during project implementation; (b) participation of procurement staff in the regular procurement training program offered by Tsinghua University (or equivalent) in cooperation with the Bank; (c) preparation of a procurement section in the POM to standardize project procurement procedures and provide guidance to procurement staff, with particular focus on community participation in procurement; (d) a Procurement Agent with experience in Bank procurement procedures will be recruited by the provincial PMO to assist with procurement planning and implementation; and (e) Community Advisors will be recruited by County PMOs to support the project implementation at cooperative/village level, including in procurement. Overall procurement risk is rated ‘substantial’.

23. **Applicable Guidelines.** Procurement for the proposed project would be carried out in accordance with: World Bank “Guidelines: Procurement of Goods, Works and Non-consulting service under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011; “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers”, dated January 2011; and the provisions stipulated in the Loan agreement. Bank standard procurement methods and procedures would apply to all procurement activities carried out by the provincial PMO and the county PMOs, except Component 1 (b). Community Participation in Procurement would apply to civil works carried out by project village committees under Component 1 (a) *Cooperative Development*; to all procurement activities under Component 1 (b) *Cooperative Development Fund*; and to small-scale civil works related to cooperative development under Component 2. Detailed procedures for Community Participation in Procurement are defined in the procurement section of the POM.

24. **Procurement Responsibilities.** Procurement for investment activities at provincial and municipal/city levels will be implemented by the provincial PMO and municipal/city PMOs, respectively. Procurement for investments at the county level will be under the responsibility of the respective county PMOs, except for those activities to be implemented by village committees and farmer cooperatives under Community Participation in Procurement. The detailed procurement arrangements and responsibilities are summarized in Table 3.

25. **Procurement of Works, Goods, Non-Consulting Services and Consulting Services under Component 1 (a) (Cooperative Development); Component 1 (b) (Cooperative Development Fund), and Small-Scale Civil Works Related to Cooperative Development under Component 2.** The nature of community participation in procurement requires more flexible procurement procedures and arrangements for implementation by the cooperatives and administrative village committees. Within the principle of community participation in procurement under the Bank’s Procurement Guidelines (paragraph 3.19), simplified procurement procedures, including Local Competitive Bidding, Local Shopping, Direct Contracting, Off the Shelf Purchase, Community Force account as well as Selection of Consultants through CQS for firms, Individual Consultants, and Single Source Selection for both firms and individuals will be used and are described in the procurement section of the POM.

26. **Procurement under other Components.** Goods, works, non-consultants’ services, and consultants’ services under the Components 1 (except Component 1 (b)), 2, 3 and 4 would be procured as shown in Table 3.

27. **Training and Workshops.** Plans for training and workshops will be developed by the PMOs and included in annual project work plan. Expenditures incurred in accordance with the approved plans for training and workshops will be the basis for reimbursement.

Table 3: Detailed Procurement Arrangements and Responsibilities

Component and Sub-Component	Activities	Procurement Arrangement		Responsible Agency
		Standard Procedures	Community Participation	
Component 1: Modernization of Agricultural Key Commodity Value Chains				
<i>1 (a) Cooperative Development</i>	Cooperative Office Buildings	Yes	Yes	County PMO Village Committee for small-scale buildings
	Cooperative Office Equipment	Yes		County PMO
	Cooperative Office Furniture	Yes	Yes	County PMO Village Committee for small value furniture
<i>1(b) Cooperative Development Fund</i>	Investments in nurseries, production facilities and equipment for advanced breeding stock and improved seed production; storage facilities for agricultural produce, small-scale pre-processing and processing facilities, and other small-scale cooperative level infrastructure, goods, and services.		Yes	Cooperatives
<i>1 (c) Value Addition</i>	Processing equipment, post-harvest handling facilities and equipment, storage and packaging of products, testing equipment and related technical services (civil works, goods, and consultants services).	Yes		County PMO
<i>1 (d) Market Exploration and Development</i>	Marketing studies, product promotion, up-grading of quality standards and food safety monitoring, certification, labeling, and brand naming, as well as hardware investments in the construction of product markets (civil works, goods, and consultants' services).	Yes		County PMO
<i>1 (e) Risk Prevention and Mitigation</i>	Agricultural crop insurance fees for poor farmer households (incremental operating cost, consultants' services).			County PMO

Component 2. Public Infrastructure and Services				
<i>Public Infrastructure related to cooperative development under Component 1</i>	(i) construction of production road infrastructure (such as off-grade access roads to village production areas or processing and marketing facilities, tractor roads, field tracks, and foot paths); (ii) construction of irrigation and drainage infrastructure, land preparation and terracing; (iii) establishment of communications and procurement of information infrastructure and equipment; (iv) construction of public market facilities, electricity supply and other infrastructure and goods necessary to facilitate and complement investments under Component 2. (civil works, goods, and consultants' services).	Yes Direct Contracting for electricity supply (power transmission lines)	Yes	County PMO Village Committee: for small-scale civil works County PMO
<i>Public Services and Training</i>	Services related to food safety testing and control, public extension and training services, marketing systems, agriculture research and technology transfer; market studies for business development, and advisory services for cooperatives and provision of financing support to cover salaries, training, and related cost of cooperative advisors (consultants services)	Yes		County PMO
Component 3. Training and Capacity Building				
<i>Training and Capacity Building</i>	Farmer technical training and cooperative management training, extension technicians and technical services for preparing training materials, including for ethnic minority groups, cooperative advisor support, review and improvement of investment proposals for key commodity value chains, safeguards awareness and implementation training, and others. (consultants' services, training, and incremental operating cost).	Yes		Provincial PMO County PMO

Component 4. Project Management, Monitoring and Evaluation				
<i>Project Management, Monitoring and Evaluation</i>	<p>Office equipment, vehicle rental fees, transportation, and technical assistance services, international and domestic training (goods, consultants' services, incremental operating cost).</p> <p>Regular project supervision, monitoring and evaluation, acceptance checks, and safeguards implementation supervision and monitoring (incremental operating cost, consultants' services).</p> <p>Studies to improve the investment environment, governance, and fair benefit-sharing for cooperatives and enterprises in project areas (consultants' services).</p> <p>Studies on poverty reduction and agricultural development in destitute areas (consultants' services).</p>	Yes		Provincial PMO Municipal PMOs County PMOs

28. **Procurement Plan.** A Procurement Plan, acceptable to the Bank, has been prepared by the Guizhou PMO for the initial 18 months of project implementation. It will be made available in the project's database and on the Bank's external website. The Procurement Plan will be updated annually or as required to reflect implementation needs. For the procurement activities carried out by cooperatives under Component 1 (b) (Cooperative Development Fund), no Procurement Plan will be prepared. Instead, cooperatives would prepare a CAIP after the cooperatives have been established and their investment proposals have been approved by the county PMO.

29. **Prior-Review Thresholds.** Prior-review thresholds are indicated in the table 4 below:

Table 4: Thresholds for Procurement Methods and Prior Review

Expenditure Category	Contract Value Threshold (US\$)	Procurement Method	Prior Review Threshold (US\$)
1. Goods and Non-Consulting Services	≥3,000,000	ICB	All
	<3,000,000	NCB	first two contracts
	<100,000	Shopping	Not applicable
	None	Direct Contracting	All
2. Works and Supply and Installation of Plant and Equipment	≥25,000,000	ICB	All
	<25,000,000	NCB	≥10,000,000 and first two contracts
	<200,000	Shopping	Not applicable
3. Consultants Services	≥300,000	QCBS/QBS	All
	<300,000	CQS	first contract
		Individual consultant	Only in exceptional cases e.g. long term TA
		Single source selection (firm)	All
	Single source selection (individual)	≥20,000	

30. **Frequency of Procurement Supervision.** Prior review supervision will be carried out through the World Bank office in Beijing. Procurement post reviews will be carried out every 12 months by the Bank and/or by external auditors in accordance with terms, conditions, and reporting procedures acceptable to the Bank. The initial procurement post review sampling ratio will be one out of twenty-five contracts for procurement activities carried out by Cooperatives/village committees and one out of fifteen contracts for procurement activities carried out by the provincial, municipal, and county PMOs.

31. **Advance Contracting and Retroactive Financing.** Contracts expected to be procured in advance (before Loan Signing) are included in the Procurement Plan. Retroactive financing will be allowed under the project for eligible expenditures under all project components. Withdrawals for eligible expenditures up to an aggregate amount not to exceed US\$10 million may be made for payments on or after August 1, 2014. Relevant activities for which retroactive financing is being sought are subject to prior review.

Environment

32. **Environmental Assessment (OP. 4.01).** The project is classified as an Environmental Category B project. It is expected to bring about positive environmental benefits to the poor rural areas of Guizhou Province. Two components of the project will involve activities that may have adverse environmental impacts. Component 1 will support agricultural activities and agro-products processing. Component 2 will finance investments in rural infrastructure (access roads and tracks, market facilities, irrigation infrastructure, public market facilities etc.), necessary for Component 1. An Environmental Assessment (EA) has been prepared by the Guizhou Provincial Environmental Institute, a certified institute with experience in similar projects in the region, in accordance with Bank Operational Policy 4.01 and Chinese domestic regulations. The EA describes baseline conditions and assesses the potential impacts of major project activities. Based on the EA, an Environmental Management Plan (EMP) was developed, specifying mitigation measures, training and monitoring, as well as supervision arrangements.

33. The main potential adverse impacts of project investments are:

- a. **For cropping activities**, erosion may occur as part of traditional slope-land cropping and inter-cropping in the typical karst mountain areas of Guizhou. Overuse and misapplication of fertilizer and pesticides, common in rural China, could lead to water and soil contamination and soil and water eutrophication. Plastic material used for mulching and greenhouses could be left in the field affecting soil texture, clog irrigation facilities and pollute rivers and land.
- b. **For animal husbandry activities**, there is a risk of exceeding the carrying capacity of existing seasonal pasture land due to the planned expansion of livestock (sheeps, goats) production and insufficient availability of fodder for animal pen-feeding. Over-grazing and poor management of pasture resources could lead to a deterioration of pastures, soil erosion and exacerbate the stone desertification already severe in various parts of Guizhou. These risks were considered during the site selection process. Grazing sites, are to be located at least 1.5 kilometers away from any protected or fragile areas, including natural reserves and protected zones for drinking water supply.
- c. **Animal waste** from expanded livestock production activities could be a significant source of non-point source pollution, if poorly managed and if livestock production expansion exceeds the capacity of the land to absorb manure as nutrients. The scale of animal husbandry activities has therefore been adjusted and provisions have been made for adequate animal waste management.

- d. **Agro-processing investments** will require higher consumption of water and energy and will generate more pollution compared to primary processing of herbs, tea, and other products. Appropriate mitigation measures are included in the EMP.
- e. **Rural infrastructure** could result in additional dust, noise, spoil dumping on farmland or blockages of irrigation facilities, and traffic disturbance. Impacts have been assessed as moderate and temporary and can easily be mitigated.

34. **Alternative Project Analysis.** The EA analysed alternatives to the project design, including a “without-project” scenario. Different methods of manure treatment that are suitable for both households (simple piling with soil cover versus biogas production) and centralized scale husbandary (larger-scale biogas, septic tank /anaerobic digestion, composting or conversion to manure-fertilizer) were compared. Conventional planting and pest control practice were also compared with the new practice to be adopted by the project.

35. **Related Activities.** Enterprises upstream and downstream on the value adding chain, necessary for achieving the PDO, were examined as part of the EA. Due diligence review of their current EA status, pollution levels, and environmental compliance was carried out, with the findings summarized in the EA. The EA also contains information on other major on-going or planned projects or development that could potentially compete for the limited land, pasture/folder and water resources in each project county.

36. **Pest Management (OP 4.09).** Due to the expansion, intensification and diversification of agricultural activities under the project, changes in the application of pesticides for pest and disease control are foreseen. As per the Bank’s safeguard policy, a separate Pest Management Plan (PMP) was prepared under the principle of Integrated Pest Management (IPM). The PMP describes the relevant national and provincial regulatory framework, current status of pest and disease control, monitoring and supervision mechanism, major experience and problems, and lessons learnt from past projects. It specifies a range of non-chemical methods and a training and monitoring program to facilitate implementation. A list of all chemicals needed for the project that meet Bank requirements, namely, comply with the World Health Organization’s recommended categories, has been included in the PMP.

37. **Natural Habitats (OP/BP 4.04).** The EA screening process identified a number of national and provincial level designated natural reserves in the vicinity of the project areas. Agriculture-related activities would take place on existing household farmland and no expansion or creation of new farmland in fragile mountain areas is foreseen. While the project will bring improvements to agricultural practices that are expected to reduce the pressure on and likelihood of encroaching on these areas, some project activities, however, might negatively impact natural habitats because of the proximity of project interventions, such as the construction/upgrading of rural infrastructure and temporary livestock grazing. OP 4.04. will therefore apply to the project, highlighting the need to incorporate the protection of local ecosystems. Relevant preventive and mitigation measures are included in the EMP.

38. **Environmental Management Plan (EMP).** Based on relevant domestic guidelines and specification, and WB/IFC Environmental, Health and Safety (EHS) Guidelines related to

planting, husbandry and agri-processing, an EMP was developed. It specifies the institutional arrangements and responsibility of each party for EMP implementation and supervision, and includes a budgeted training program. The EMP includes environmental codes of practice for all construction work related to rural infrastructure. It also contains specific sets of mitigation measures for production of major plants and animals over their life cycle and for processing of major agro-products. The environmental monitoring program covers soil losses, surface runoff, soil fertility, frequency of pest and disease, and effluents from key polluting agro-processing in selected counties. During project implementation, when additional information on the cooperative and enterprise sub-investments and related specific infrastructure become available, the PMOs will develop site specific measures to be included in the EMP for sub-investments, subject to Bank review, in order to address any potential site specific impacts.

Social

39. **Social Assessment (SA) Process.** A SA was undertaken by a specialized research institution during project preparation. The SA included consultations with households in 49 villages or 20 percent of the project villages. A quantitative survey with 1,013 respondents was combined with close to 100 focus group discussions in project villages and around 400 interviews with households and local cadres. Women accounted for 47 percent of survey respondents and half of focus group discussions have been held with women groups, while 23 percent of the project's ethnic minority villages have been covered. The Bank also undertook a screening of risks and opportunities as part of the preparation process. The SA confirmed that two Bank safeguard policies, Indigenous Peoples (OP 4.10) and Involuntary Resettlement (OP 4.12) are applicable. An Ethnic Minority Development Plan (EMDP) and a Resettlement Policy Framework (RPF) have been prepared in compliance with the Chinese legal and policy framework as well as Bank operational policy requirements. The final SA report, including the RPF and EMDP report were disclosed locally in Chinese language on May 18, 2014. The English versions of the SA, RPF and EMDP were disclosed through the Infoshop on June 6, 2014.

40. **Project Area and Poverty Status.** All eleven project counties are located in two of the destitute mountain areas that have national priority status for poverty reduction, the Wumeng mountains in Northwest Guizhou (Bijie Municipality) and the Wuling mountains in Northeast Guizhou (Zunyi and Tongren Municipalities). All project counties are listed as national key counties for poverty reduction, and 155 administrative villages, i.e. 64 percent of project villages, are listed as key villages for poverty reduction. Poverty incidence in the project area, based on poor household registration in 2012, is around 35 percent but with variation between counties. There are an estimated 217,000 households in the project areas with a total population of 848,000 people. Only 60 percent of households in the survey have farming as their main income source, while in other households younger members, both men and women, migrate for off-farm work so that agricultural labor is mostly undertaken by elderly parents. Illness, high education expenses, high wedding expenses, labor shortage and natural disasters are viewed locally as important causes of poverty. Infrastructure in the project area has improved in recent years. Only 10 percent of natural villages have no road access and 7 percent do not receive TV programs. However, most roads are not all-season roads. In the karst environments of the

project area, access to drinking water remains an issue. More than 40 percent of the population in project villages does not have safe water access.

41. **Project Stakeholders.** A stakeholder analysis was completed during the SA. Stakeholders share an interest in the development of cooperatives and in the improvement of agricultural skills among farmers, and rural infrastructure improvement is a priority for all of them. Rural households see a need to develop more formal cooperatives and expect that such cooperatives will help reduce market risks. Members of existing cooperatives plan to invest into the development of their cooperative. They are also interested in more formal cooperatives as well as in learning from other cooperatives. Agri-businesses view cooperatives as a means to reduce their risks and move into processing, and individual businesses other than cooperative investors are interested in linking up with cooperatives.

42. **Cooperatives in the Project Area.** In 2014, there were 715 farmer professional cooperatives in the project area, or about 3 cooperatives on average per administrative village. About one third of households surveyed were cooperative members. Tea, medicinal plants, animal raising, vegetables and rural tourism are the most prominent production activities in cooperatives. Almost all of the 31 cooperatives reviewed during the SA have been initiated by local farmer entrepreneurs, often with the participation of village cadres. Most cooperatives operate a “production base “, i.e. a larger-scale crop production or animal breeding operation, sometimes under the direct control of an enterprise, sometimes in an independent fashion. Households with land use rights in a production base either contribute their land use rights as shares in the cooperative or lease them to the cooperative. A small number of cooperatives only have agricultural input supply and marketing functions. Beyond these main types, cooperatives in the project area are very diverse and at an early stage of development.

43. Most cooperatives are de facto microenterprises run by a small number of core members, while ordinary members mostly provide land and labor. Micro-entrepreneurs often take up a cooperative status to access larger areas of agricultural land with preferential policies. In return, they fulfil a social function of providing employment to the elderly and the poor. Only 20 percent of cooperatives in the counties operate well according to monitoring data from the Ministry of Agriculture. Asset ownership is often unclear and few cooperatives distribute profits to all their members. The availability of services is limited. The SA revealed a strong interest for cooperatives among local households in spite of these limitations. About 90 percent of the surveyed households stated support for a project related to cooperative development and more than 95 percent of those who were not members yet were interested in joining a cooperative.

44. **Risks of Negative Social Impacts.** No potential large scale or risk of significantly irreversible negative social impact was identified through project preparation. The SA, however, pointed to five issues or risks that deserve attention to ensure the success of the project: (a) women, the poor and the elderly are three vulnerable groups in the context of the project and their participation in project activities might be limited; (b) the current policy framework requires cooperatives to specialize in one single commodity, and this might reduce the diversity of livelihood sources in the project area and expose farmers to additional market and price risk; (c) rural infrastructure investments serving agricultural production might be insufficiently connected with the construction and maintenance of the existing rural road network; (d)

ecological resettlement programs may impact the project if communities are not well established and stable; it was therefore agreed that project villages will neither be departure locations nor arrival locations for households of the government's resettlement programs; and (e) the participation of vulnerable households in transfers of land use rights to cooperatives and enterprises or their contribution of land as cooperative share, which are both widespread practices aimed at promoting land consolidation, may not be fully voluntary or equitable and such households may be disadvantaged in long-term land leasing arrangements.

45. **Opportunities for Positive Social Impact.** The SA identified four areas of opportunities to maximize positive project impact: the improvement of local infrastructure will have a positive impact, which can be maximized through careful identification of infrastructure that both serve agricultural production needs and the needs of local communities; through the formalization of cooperatives, the individual and collective self-development capacity of rural households will be enhanced, especially if training is not limited skill development but provides actual capacity-building opportunities and if the majority of the households in the project villages actively participate in the development of the local cooperative; the project is an opportunity to reinforce management and other entrepreneur skills among cooperative investors, which together with new market facilities, will allow enhanced and more sustainable market access for local produce as well as easier purchases of agricultural inputs and equipment. The Chinese domestic feasibility study also includes a SA section that confirms the importance of rural infrastructure and capacity building to generate positive social project impacts.

46. **Pro-poor Value Chains.** The project will address social risks through various measures. The formalization of cooperatives would set up more transparent rules at the local level, and local entrepreneurship would be enhanced among cooperative core members. The project also provides the opportunity to invite the public sector and enterprises to work jointly for the development of value chains. This will take place if enterprises are actually invited to advise on cooperative business proposals and if the public sector strengthens its role in market development support, for example through public brands or business support services. There is also an opportunity to develop a new strategy for quality agricultural produce in poor and remote areas, taking into account both modern production standards and the unique features of mountain products when these are in increased demand among urban consumers. Cooperative advisors recruited under the project will have an important role to play not only to support cooperative establishment but also to facilitate interaction among stakeholders along the value chain.

47. **Specific Risks and Opportunities and Risks for Women.** More than 90 percent of surveyed women stated their interest in becoming a cooperative member, a proportion only slightly lower than among men. The project will generate employment opportunities for women in cooperative operations and will provide them training in agricultural skills. However, the focus on the formalization of cooperatives might result in limited participation of women since farmer professional cooperatives are a field where women are markedly less present than men in the current stage. According to the survey, women are twice less likely than men to be in management positions in cooperatives at present. Only one of the 31 cooperatives reviewed during the SA had been created by a women micro-entrepreneur.

48. **Ethnic Minorities in the Project Area.** The two mountain ranges where the project area is located have a significant proportion of ethnic minority population. Four ethnic groups, the Miao, Yi, Tujia and Gelao (the latter from the Thai-Lao ethno-linguistic family), are indigenous peoples based on the definition of OP4.10. They have distinct cultural features and identify themselves as indigenous groups with customary social institutions. The SA identified ethnic minority communities in 9 counties (including 5 autonomous counties), 39 townships (including 10 with minority township status) and 138 administrative villages, i.e. 57 percent of project villages, with a population of around 265,000 ethnic minority people. The Miao and the Tujia are the largest groups with respectively 37 percent and 21 percent of the ethnic minority population in these villages. Among the remaining two counties, Zheng'an is nearly entirely Han, while Sinan has a significant but more scattered ethnic minority population.

49. The SA documented that ethnic minority villages are more vulnerable compared to other villages. Almost all key villages for poverty reduction in the project area are ethnic minority villages, receiving support through various poverty reduction programs. They tend to: be located in vulnerable natural environments at higher elevations with weaker infrastructure; rely more on traditional agriculture with fewer income generation opportunities and more exposure to market risks; and have a lower organizational level and depend more on government support. More than 95 percent of the surveyed ethnic minority people support the project, a share significantly higher than for the project area as a whole. Only 25 percent of surveyed ethnic minority households were cooperative members compared to 57 percent of the Han.

50. The use of the Mandarin and overall vulnerability in ethnic minority villages differ between Northwest and Northeast Guizhou. In the Northwest, there are Yi villages with low formal education levels and limited command of Mandarin, and the Miao have kept their own language in use. In the Northeast, formal education levels among ethnic minority people in the survey were similar to those of the Han and no language gap was reported, but a set of well-kept cultural features was observed.

51. **Specific Risks and Opportunities for Ethnic Minority People.** The risks of potential negative project impact listed above are also present in ethnic minority villages. Furthermore, specialization in one agricultural commodity appears more risky in these villages due to the mountain environment and more traditional agricultural practices. Ethnic minority households may also be at risk of unequal access to the project if attention to their participation is inadequate. Newly established cooperatives might fail to operate sustainably because at present there is less experience in farmer organizations and availability of management and micro-enterprise skills is more limited. The SA identified three areas with opportunities for positive project impact in ethnic minority villages: employment opportunities in cooperative operations and temporary jobs for infrastructure construction; improving rural roads, irrigation facilities and market places will be beneficial not only to agricultural production but also to local living conditions; and the gap between ethnic minority villages and other localities in the development of farmer professional cooperatives will be reduced.

52. **Ethnic Minority Development Plan (EMDP).** An EMDP covering all project villages with ethnic minorities has been developed in compliance with the Chinese legal and policy framework for ethnic minorities as well as OP4.10. It incorporates an action plan with three sets

of actions: the project's participatory process will be enhanced in cooperatives that cover ethnic minority villages so that cooperative members take an active role in the development of these organizations; special attention will be paid to the use of appropriate training methods, and project information dissemination and capacity building activities will be carried out in the local language unless local people have a preference for training sessions in Mandarin; and equal access for ethnic minority people to cooperative membership, management positions and profit distribution will be emphasized and monitored, and a minimum percentage has been recommended. A grievance redress mechanism has been established and a specific budget for capacity-building has been estimated. The need for training programs for PMO staff on culturally appropriate interaction is also foreseen, as well as assistance of participation of the Ethnic Minority Affairs Commission at various levels.

53. **Resettlement Policy Framework (RPF).** Most project facilities will be small scale at village level and built on existing land. Some facilities might be added to current project plans but these will be at the administrative village level and would require only voluntary land adjustments within the village. In order to cover cases where infrastructure construction extends beyond individual villages or where a need for land acquisition later arises, a Resettlement Policy Framework (RPF) has been prepared to guide the land acquisition process in compliance with the Chinese legal and policy framework for land acquisition as well as OP 4.12. The RPF has set key principles and procedures for land acquisition, covering compensation and mitigation principles, a grievance redress mechanism, M&E, and institutional arrangements.

54. The RPF also includes measures to minimize the land tenure risk. The framework applies to beneficiary enterprises that may acquire land during project implementation. It states a principle of voluntary and fair land management in project-supported cooperatives and enterprises. Households that do not want to join a production base will be able to stay out without being impacted by the neighboring production base. Short-term land rentals, with clear contractual arrangements, will be promoted instead of long-term leasing, so that poor households can actually opt out of the cooperative, especially in case a migrating family member is returning to the village. Finally, since the project will provide each cooperative with a grant as working capital, newly established cooperatives will not require household land use rights as cooperative shares.

55. **Management and M&E.** The Guizhou PMO has overall responsibility to coordinate and oversee implementation of the RPF and EMDP, including management and supervision, training, and preparation of semi-annual project progress reports based on monitoring information from each project county. Each PMO at provincial and project county level will assign a dedicated staff member or recruit qualified social/resettlement experts to coordinate social safeguards work with relevant local government departments and for social and resettlement monitoring. The assessment of project impact on vulnerable groups, including the poor, women and ethnic minority people, will be integrated into the evaluation of overall project impacts at project mid-term and at the end of the project.

56. **Consultation and Information Disclosure.** Public consultation was carried out in the project areas through information dissemination campaigns and as part of the EA/SA process. Two rounds of public consultation were carried out. The first one in November/December 2013

included information dissemination through the government websites of the 11 project counties and bulletin boards in project villages. The second round in April/ May 2014 followed the disclosure of the draft EA on the website of the Provincial PMO, in the counties' poverty alleviation offices, and in some public libraries. Consultations took place in the form of questionnaire surveys and public meetings. Selection criteria for project sites, proposed location and implementation plans for civil works were shared with the public and stakeholders during consultation. More than 2,000 people in the project areas were surveyed with a balanced distribution in gender, age, educational background and profession, together with more than 100 institutions. The majority of the consulted citizens confirmed strong support to the project activities and welcome the project as means to create new job opportunities, contribute to local development, and improve economic wellbeing and the environment.

57. The final EA report, including the EMP and PMP, was disclosed locally in Chinese language on May 28, 2014. The final SA report, including the RPF and EMDP report was disclosed locally in Chinese language on May 18, 2014. The English versions of the EA, EMP, PMP and the SA, RPF and EMDP were disclosed through the Infoshop on June 6, 2014.

Monitoring & Evaluation

58. The Result Framework describes the PDO-level outcome indicators and the component-specific intermediate indicators and the respective baselines and targets (Annex 1). The M&E arrangements and responsibilities are described in the POM. M&E of project progress, outputs, and outcomes will be under the responsibility of the provincial and county PMOs. A designated M&E officer will be appointed at the provincial PMO and in each county PMO and will be responsible for compiling M&E relevant information in a timely manner for consolidation into the semi-annual and annual project progress reports. A computerized progress monitoring system will be set-up at the county and provincial PMO levels to help track and document physical, institutional, and financial project progress.

59. In addition to performance indicators, the management effectiveness of farmer cooperatives supported by the project would be measured by a qualitative self-assessment, using the Cooperative Management Effectiveness Tracking Tool (METT). This tracking tool is described in the POM and would be applied at mid-term and at the end of the project. METT would allow the qualitative assessment of various elements of cooperative performance, e.g., the availability of management objectives, analysis of challenges of the farmer cooperative, appropriate planning and resources allocation (inputs), application of management actions, provision of products and services (outputs), and results in terms of impacts.

60. The provincial PMO will engage qualified institutions or experts to conduct independent impact assessments, including the METT, at project mid-term and at the end of the project. During project implementation, terms of reference for these impact assessments will be prepared and shared with the Bank for technical review and comment.

Annex 4: Operational Risk Assessment Framework (ORAF)

China: Guizhou Rural Development Project

Stage: Negotiation

1. Project Stakeholder Risks		Rating	LOW		
Description: Government stakeholders are committed to an innovative project. Interest from and ownership at the direct beneficiaries level (farmers, cooperatives, companies) has been confirmed through the consultations carried out during the E&S assessment process. Such interest and ownership is expected to remain high through implementation.		Risk Management: No specific risk management measures are considered necessary to ensure the commitment of the provincial government level. The Bank will continue to consult with project stakeholders and beneficiaries during implementation on an on-going basis.			
		Resp: Bank	Stage: Implementation	Due Date : Continuous	Status: Ongoing
2. Implementing Agency Risks (including fiduciary)					
2.1 Capacity		Rating:	High		
Description : Technical expertise of the PMOs in agriculture and rural sector economic issues is weak. While the provincial PMO has previous experience managing Bank operations, its capacity to manage and coordinate an innovative designs in a decentralized project may be relatively weak. County level PMOs (with some exceptions) have no previous Bank experience and implementation capacity is weak. Since county level decisions are generally guided by local development plans, project implementation may be diverted to achieve the government's quantitative output targets rather than promoting the institutional innovations envisaged by the project.		Risk Management: The Bank team will provide continuous and extensive implementation support to the provincial PMOs and county PMOs with particular focus on: (a) quality of cooperative investments plans and investment (matching grant) proposals of agro-enterprises that partner with the project; (b) establishment and governance of project cooperative arrangements in line with principles and provisions of the POM; and (c) social and environmental safeguards supervision. The county PMOs will establish a technical advisory group to review and advise on improvements of cooperative and enterprise investment proposals. All such proposals will be subject to technical review and approval by the provincial PMO and subject to technical review by the Bank prior to approval by the PMO (during the first year of implementation).			
		Resp: Bank/ PMO	Stage: Implementation	Due Date : Continuous	Status: Ongoing
2.2 Governance		Rating: Moderate			
Description: A provincial project leading group is in place to guide implementation. Provincial strategies and programs are in place and funded, and decision making responsibilities within the government system are clearly defined. The provincial LGOPAD role will coordinate line agencies at different levels of implementation are well coordinated.		Risk Management: Bank implementation support missions will monitor effective functioning of the governance structure for the project and address any issues with provincial leaders. FM and procurement IS will help to ensure that the project is implemented in compliance with fiduciary obligations.			
		Resp: Bank / Guizhou PMO	Stage: Implementation	Due Date : Continuous	Status: Ongoing

3 Project Risks			
3.1 Design	Rating:	Substantial	
<p>Description: The project design is relatively complex and involves the establishment of new cooperatives or the improvement of existing cooperatives as relatively new institutions in rural areas that are envisaged as self-standing institutions with equitable participation opportunities and benefit sharing arrangements situated between government and the agro-enterprise sector. Local governments could dominate the process of cooperative establishment, promoting investments into products to meet local government targets but for which markets do not exist. Existing cooperatives that are dominated by elite households may capture project support and thereby reduce participation opportunities for poor households. Proposed value chain investments may fail to generate the economic returns expected affecting the sustainability of cooperatives.</p>	<p>Risk Management: Agreed principles and procedures to establish project cooperatives are listed in the POM. The project requires cooperatives and participating enterprises to prepare standard investment proposals and market analyses with support from qualified technical advisory groups. These proposals will then be subjected to county and provincial level PMO and World Bank technical reviews.</p> <p>Clear guidelines for the participating of existing cooperatives (especially cooperatives dominated by elite households) have been developed to avoid value capture. Existing (enterprise) cooperatives can participate can receive grant support based on an investment cost sharing approach.</p> <p>Intensive Bank supervision and implementation support is envisaged for the first years of implementation to focus on creating an understanding of the different roles and responsibilities of the various actors in the value chain: local governments, cooperatives, and enterprises. Bank supervision will also closely monitor the implementation of benefit sharing within cooperatives. The PMOs and the Bank will continuously monitor performance of newly established cooperatives and review capacity building and other support needs.</p>		
	Resp: Bank and PMOs	Stage: Implementation	Due Date : Continuously
3.2 Social & Environmental	Rating:	Moderate	
<p>Description : Environment: The EA has identified potentially negative impacts on the environment through project investments and revisions to county-level investment proposals have been made. The EMP minimizes any negative environmental impacts from project investments. During implementation, site specific environmental management measures will be added detailed cooperative proposals will be finalized.</p> <p>Social: The project would operate on the principle that households that become members of cooperatives will manage their own land. Transfers of land between cooperative members would be possible if based on written contractual arrangements where land is transferred for a specified period of time. Land consolidation, especially land transfers from households to agri-enterprises, if not managed and monitored properly, could result in unfair land tenure arrangements and negative impacts on poor households.</p>	<p>Risk Management : The Bank and the provincial PMO will provide close supervision and support during for the implementation of the EMP and the social aspects of the project.</p>		
	Resp: Bank and PMOs	Stage: Implementation	Due Date : Continuously

3.3 Program & Donor	Rating:	Low		
Description : No donor participation is foreseen during implementation. No specific risks have been identified.	Risk Management:			
	Resp: Bank	Stage: Implementation	Due Date : Continuous	Status: Ongoing
3.4 Delivery Monitoring & Sustainability	Rating:	Substantial		
Description : An M&E framework has been developed that covers economic, institutional and social/ income aspects in a clear conceptual framework. Intermediate indicators with baselines and targets have also been formulated and included in the POM. In addition, a simple self-evaluation tool the cooperative METT has been introduced, to help the PMOs assess the performance of project cooperatives Counterpart funding shortages or delays in the provision of counterpart funds could negatively implementation progress and performance.	Risk Management : Two independent project impact evaluations will be carried out by external consultants (under ToR provided by the Bank) at mid-term and at project closing. The Bank would monitor the effective functioning of the M&E system on an on-going basis and initiate remedial action, as required Counterpart funding availability needs to be continuously monitored during implementation.			
	Resp: Bank / PMO	Stage: Implementation	Due Date : Continuous	Status: Ongoing
Overall Implementation Risk	Rating:	Substantial		
The project seeks to introduce an innovative approach to agriculture sector restructuring, agro-enterprise participation, and integration of poor households into modern commercialized activities in remote poverty areas with poor resource endowments. The relative complexity of the design and the relatively low capacity of the provincial PMO are challenges during project implementation. Project implementation will be guided by a detailed project implementation manual and the successful implementation will also depend on the PMOs commitment to the project's innovative approach.				

Annex 5: Implementation Support Plan

China: Guizhou Rural Development Project

1. The Project will require intensive Implementation Support (IS) and a continuous dialogue with the client at the provincial, county and cooperative levels. It is expected that the early implementation phase, in particular, will face some significant implementation start-up and support challenges:

- a. **Achieving the Project's Learning Objective.** Achievement of the project's learning objective will depend on an IS strategy built on dialogue and partnership. The IS team will have a continuous interaction with all stakeholders of the project. This will require consistency in the composition of the core IS team, technical expertise and familiarity with country and local situations.
- b. **Changing Perceptions of Local Government Offices.** The process of preparing business oriented investment proposals and defining their content poses significant challenges to the stakeholders at the local level. Local governments are inclined to continue using the project to pursue past government driven strategies with limited business and market orientation and neglecting issues of private sector participation and competitiveness. The IS team will allocate significant time and resources to interact with county governments and leaders to help change perceptions.
- c. **Technical Review of Investment Proposals.** The first set of cooperative investment plans and the first 15 agri-enterprise investment proposals will need careful technical review, including a review of the business aspects and financial viability. For the subsequent proposals (in the range of 80-100 proposals in total) a post review of technical and economic aspects would be necessary. Sufficient staff time for an experienced agricultural economist and/or agri-business expert will be provided.
- d. **Capacity Building of the Implementation Agencies.** Significant training and hands-on support will be required on a technical level and in terms of fiduciary management.
- e. **Monitoring, Evaluation and Learning.** Coordination of M&E and the capturing of project outcomes and results will need professional guidance from a monitoring expert in the IS team.
- f. **Fiduciary Safeguards Support.** The proposed funds flow (one DA and 10 OAs) brings challenges for project financial management. IS will provide hands-on guidance related to review and audit, and reporting procedures. Similarly procurement activities will be spread widely among entities, types of procurement and size of contracts. This will require intensive IS.
- g. **Social and Environmental Safeguards.** M&E and mitigation of social risks requires experienced expertise in the IS team with a good understanding of the rural transformation process in China. In addition, sufficient staff time and resources

will be provided to review site specific environmental management measures during the investment planning process for cooperatives and agri-businesses.

Implementation Support Plan

2. The IS Plan below describes Bank support for the implementation of risk mitigation measures (identified in the ORAF) and provide the technical advice necessary to facilitate achieving the PDO (linked to results/outcomes identified in the result framework). The IS plan also takes into account the requirements to meet the Bank’s fiduciary obligations.

<i>Time</i>	<i>Focus</i>	<i>Skills Needed</i>	<i>Resource Estimate</i>	<i>Partner Role</i>
<i>First twelve months</i>	<p><i>General.</i> Assure that all PMOs are familiar with the project approach and that the POM is being followed. Familiarize the PMOs with all relevant administrative and operational aspects of project implementation. Provide consistent and on-going support on operational and technical implementation issues.</p> <p><i>Technical.</i> Review and comment on investment proposals.</p> <p><i>Procurement.</i> Provide training to PMO staff; review procurement documents and provide timely feedback; provide detailed guidance on Bank Procurement Guidelines; monitor procurement progress against the detailed Procurement Plan; and (e) conduct procurement post review assessments once a year.</p> <p><i>Financial Management.</i> Provide training to PMO staff; assess the project’s FM system, including but not limited to, accounting, reporting and internal controls; Review the project’s FM reports on a regular basis; and review annual audit reports.</p> <p><i>Environment and Social Safeguards.</i> Ensure that the related safeguard documents are well understood and the provisions are implemented.</p>	<p>TTL,</p> <p>Agricultural Economist,</p> <p>Agri-business,</p> <p>Procurement</p> <p>FMS</p> <p>Environmental Safeguards</p> <p>Social Safeguards</p>	<p>US\$ 100,000</p>	
<i>12-48 months</i>	<p><i>General.</i> Review and understand all implementation processes and remove implementation obstacles. Refine and revise POM as needed. Move focus towards dialogue and capturing lessons. Prepare for mid-term review.</p> <p><i>Technical.</i> Visit on-going project investments and provide feedback; continue prior and/or post review of Investment Proposals and provide comments.</p> <p><i>Procurement.</i> Review procurement documents and providing timely feedback; monitor procurement progress against Procurement Plan; conduct procurement post reviews at least once a year.</p> <p><i>Financial Management.</i> Implementation support will include: (a) review the implementation of Project’s financial management system, including but not limited to, accounting, reporting and internal controls; (b) reviewing the project’s financial management reports on a regular basis; and (c) reviewing the annual audit reports.</p>	<p>TTL,</p> <p>Agricultural Economist,</p> <p>Agri-business,</p> <p>Procurement</p> <p>FMS</p> <p>Environmental Safeguards</p> <p>Social Safeguards</p>	<p>US\$ 90,000 per year</p>	

	<i>Environment and Social Safeguards.</i> Review environmental and social impact.			
<i>48-60 months</i>	<p><i>General.</i> Understand failure and success parameters in close dialogue with the implementing agencies. Facilitate exchange among counties and cooperatives to learn from each other. Prepare detailed learning and analysis framework and prepare for end-project evaluation.</p> <p><i>Technical.</i> Visit on-going project investments and provide feedback. Support technical and financial analysis of project investments. Post review Investment Proposals and provide comments.</p> <p><i>Procurement.</i> Review procurement documents and providing timely feedback; monitor procurement progress against Procurement Plan; conduct procurement post review at least once a year.</p> <p><i>Financial Management.</i> Review implementation of the project's FM system, including but not limited to, accounting, reporting and internal controls; review the project's FM reports on a regular basis; review annual audit reports.</p> <p><i>Environment and Social Safeguards.</i> Review environmental and social impact and extract lessons. Provide guidance to the social and environmental impact assessment.</p>	TTL, Agricultural Economist, Agri-business, Procurement FMS Environmental Safeguards Social Safeguards	<i>US\$ 90,000 per year</i>	

I. Skill Mix

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Task Team Leader	12 SWs annually	Two per year, three in first year	Country office or headquarter based
Social Specialist	3 SWs annually	Fields trips as required.	Country office based
Environment Specialist	3 SWs annually	Fields trips as required.	Country office based
Procurement Specialist	3 SWs annually	Two per year	Country office based
Financial Management Specialist	3 SWs annually	Two per year	Country office based
Monitoring and Evaluation Specialist	3 SWs annually	Two per year, three in first year	Consultant
Agricultural Economist,	6 SWs annually	Two per year, three in first year.	Consultant
Agri-Business Specialist	10 SWs annually	Two per year, three in first year.	Consultant (national, if available)

Annex 6. Project Economic and Financial Analysis

Guizhou Rural Development Project

I. Introduction and Overview of the Analysis

1. An economic and financial analysis of the project was undertaken to assess and answer the following three questions related to the project design and expected outcomes:

- *What is the project's expected economic development impact?* A standard cost-benefit-analysis of various value chain production systems in the project areas is used to assess this impact.
- *Is public funding needed and what levels of financing are appropriate?* This part of the analysis identifies market failures that prevent private farms and businesses to invest in the destitute poverty areas in Guizhou. It analyzes how these market failures would be addressed by the project and what level of public interventions are needed.
- *What is the World Bank's value added in the project?* This part of the analysis discusses the value added derived from Bank experience and the commitment of Bank staff time and implementation support.

II. The Project's Expected Development Impact

Project Benefits

2. Direct benefits expected from the project include: improved productivity, value-addition, and new market opportunities, resulting in increased incomes and employment opportunities. These benefits will result from: (a) the adoption of new production standards and technology packages, leading to increased output and increased factor productivity; (b) reduced post-harvest losses; (c) improved produce processing and/ or packaging; (d) better access to services, markets, and information; (e) reduced transaction costs; (f) improved product quality and producer (farm-gate) prices; (g) higher production values through market differentiation (e.g., product certification, brand naming etc.), and (g) advantages from economies of scale.

3. Indirect benefits expected from the establishment and support to farmer cooperatives under the project include: (a) strengthening of capacity and the organizational level of producers and marketing groups; (b) improving quality and reducing the costs of forward and backward linkages of farmers to markets and higher up value chain operators; (c) local cooperatives managing their physical infrastructure investments in a sustainable way; (d) public and private sector operators delivering quality services in a more efficient and targeted way; and (e) new models of cooperatives and enterprises working together. In addition, the project is expected to contribute to improving the “rules of the game” with respect to improved outreach and inclusiveness of agri-investment. It is expected that the indirect benefits from re-organizing value chains and value chain operators would be significant.

Quantification of Project Benefits

4. **Crop and Household Activity Models.** The key value chains and types of agricultural activities in the project areas are already known. However, detailed site-specific investment activities and the scale of local investments are subject to further refinement in investment plans to be prepared by cooperatives and enterprises during implementation. The analysis has therefore calculated the financial and economic viability of a range of typical farming activities for the selected value chains on a household or per hectare basis. These unit models take into account the ‘with’ and ‘without’ project situations and are scaled-up to the likely total scale of each value chain under the project. The models analyzed in the financial and economic analysis include: fruit trees, nut trees, poultry production, goat raising, tea, *Tian Ma* (an annual Chinese herb), *Dendrobium* orchid (a perennial Chinese herb), and rural tourism. For these activities cash flow calculation were prepared over a period of 10 years for livestock and tourism, and over a period of 15 years for tree crops and tea production. Economic and fruit trees are usually inter-cropped with an annual crop during the first years after establishment. This is reflected in the cash flow models for plantations.

5. **Prices.** Farm-gate prices are used for all traded input and output prices. The current stage of trade liberalization in China does not suggest significant price distortion. For rural labor, the daily rate of RMB60 is used as a financial labor cost. Based on historic trends showing a continuing increase of rural labor costs, the current rate of RMB60 is expected to increase to RMB110 over the next 10 years. This increase is considered in the cash flow calculations. However, despite a continuing reduction in the availability of rural surplus labor, there is still some level of rural unemployment for those who do not have enough mobility and opportunities for labor migration. To account for the lower economic opportunity costs for labor in rural areas, financial labor costs are converted by a factor of 0.8.

6. **Other Project Investment Costs.** No separate benefits are calculated for project investments in public infrastructure, institutional capacity building, training, market development, risk mitigation and project management and evaluation. These investments are added as costs to the aggregated cash flow from production models. It is assumed that these investments will mainly generate benefits at the household and cooperative levels. However, there will likely be spill-over effects. Production roads, tractor roads and field tracks will benefit other farmers and users and institutional capacity building will have a wider impact. The economic benefit calculation is therefore considered conservative and overall project benefits are likely higher than estimated.

Results

7. **Financial Returns of Cropping and Household Activity Models.** Most of the crop and household activity models show good financial returns and provide attractive income opportunities for the poor farmers in project areas. The only exception is walnut plantation with the lowest returns (FIRR 6.1%). Walnuts are promoted by many local governments, since they are relatively easy to grow and provide an alternative use of steep slope-land which under Chinese regulations cannot be used for annual cropping. Fresh nuts are often not competitive and processors, if available at all, offer often low prices to farmers. The detailed results are shown in Table 1 below.

8. **Implications for Long-term Household Income.** The analysis shows that improvements in productivity, new organizational arrangements, better market access and a switch to higher value crops and activities can significantly increase household income. However, even with such increase, limited land resources in the long-run will not allow farm households that depend mainly on land-based production activities to earn an income comparable to those in the non-farm sector. For most of the land based activities (except for tea) a land area of 1.5 to 2 hectare would likely be necessary to achieve per capita income levels of RMB8,000 to 10,000 per year. In practical terms this means that in the long-run only some 20 to 30 percent of the current rural population could possibly be supported by farming in the project areas.

9. **Internal Rate of Return (IRR).** The aggregated economic cash flow of the project including all supporting investments shows an Economic Internal Rate of Return (EIRR) of 18.5 percent and an economic NPV (OCC 10 percent) of RMB 366 million. The Financial Internal Rate of Return (FIRR) of the project using agricultural labor costs at market values is 9.4 percent. Details of the analysis are in the project files.

10. **Sensitivity Analysis.** The economic return is not sensitive to increases in the project investment costs. A cost increase of 10 percent would reduce the EIRR by one percent and a cost increase of 20 percent would reduce the EIRR by two percent. The project's economic viability is however sensitive to changes in the agricultural product prices. For example, if all output prices would drop by 10 percent the EIRR would drop from 18.5 percent to 11.2 percent.

Table 6: Economic and Financial Analyses Results

Activity	Financial Rate of Return	NPV (OCC 10%) RMB	Comments
Fruit tree plantation (per ha)	13.1%	14,844	
Nut tree plantation (per ha)	6.1%	-13,174	The calculation is based on walnuts (most common nut tree in the areas), slow building up of production and difficulties in marketing, which make this investment relatively uncompetitive
Poultry production (household unit)	30.3%	37,179	
Goat production (household unit)	31.7%	38,519	
Tea plantation (per hectare)	32.7%	353,899	
Rural tourism (household unit)	38.8%	51,877	
<i>Dendrobium</i> orchid (per hectare)	15.8%	11,797	Activity is relatively labor intensive, and increasing labor costs reduce the rate of return. Without labor costs the IRR is 44.9%.
<i>Tian Ma</i> (per hectare)	This is an annual cropping activity with an annual net return per hectare of RMB 3,400. Rate of return calculation is not applicable.		

III. Justification of Public Funding and Levels of Financial Support

Public Funding to Overcome Market Failures

11. The proposed project provides public funds to help correcting market failures faced by small and poor farmers in destitute areas, including the following:

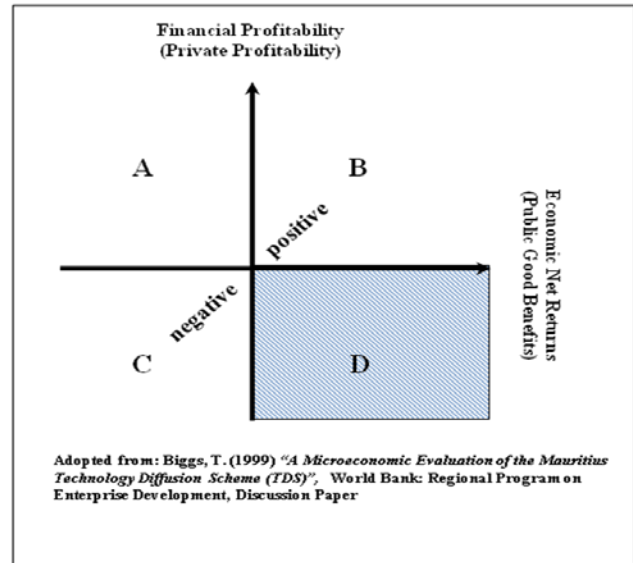
- a. *Temporary barriers to entry, such as high transactions costs that prevent the aggregation of product, or demanding quality standards for high value markets.* An example of such market failure is when smallholders can produce products (e.g., fruits for high value markets) but need certification and guarantee that each individual producer is following the required production standard. Public funding support is used to invest in product certification, product quality assurance, brand naming and the protection of product standards and quality.
- b. *Stakeholder diversity and obstacles to interact in agricultural value chains with weak organizational structures.* To access markets it is often necessary to provide scale production, which smallholders cannot provide individually. Cooperative grant support will be used to allow farmers to aggregate production and make themselves attractive partners in value chains.
- c. *Time lags in agricultural production with different stakeholders needed to invest at different times.* Start-up public grants provided to cooperatives and matching grants provided to enterprises will be used as tool to link producers and investors, when both parties need to invest in a phased manner (e.g., providing initial subsidy for tree crops, which need several years to grow, before processors are required to invest).
- d. *Limited access to knowledge about new technologies and institutional structures.* One of the most prominent features of partnering farmers with investors and enterprises is the injection of knowledge and innovation, which private partners bring to the table. Private sector enterprises become key drivers of technology change and market innovation. Unlike in public extension systems this innovation is much more relevant as it is directly market and business related.

12. *Avoid Creating Market Distortions through Public Investment.* A difficult aspect of managing public investment in private production is to determine how much public funding is required and in what areas to overcome particular market failures. If funds are too small, market failure may not be overcome and the objective of the public funding would not be met. If too much funds are provided or used in a wrong way, they would create new distortions. Over the past decades, many project counties have supported key commodities both at the production side and in processing and marketing through public funds. This was often done irrespective of the relative competitiveness and market demand and often led to market distortions and a continuing dependency of producers on public funds. A more careful approach to public funding is needed, moving away from subsidizing non-competitive industry towards public funding aimed to achieve competitiveness. The project therefore needs directs support towards creating sustainable organizational and institutional settings and towards addressing only real market failures. This

will allow the private sector and markets to work more effectively and increase long-term competitiveness with an exit strategy from the provision of public subsidies.

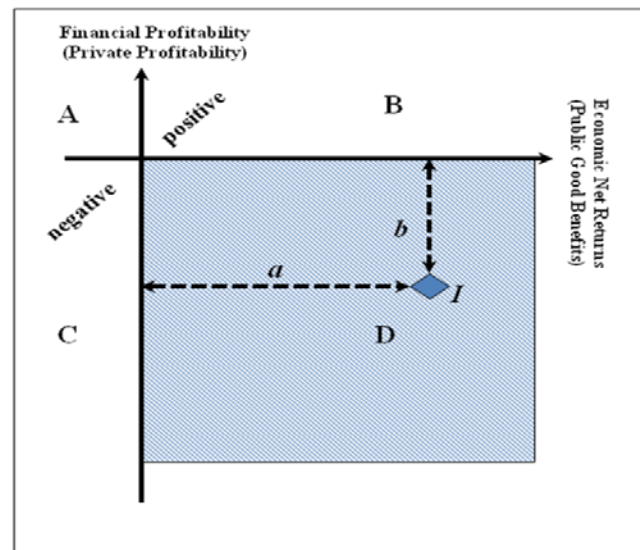
13. *Applying the Additionality Principle under the Project.* With regard to the allocation of public funding to private entities under Component 1 (c), the use of public funds to support private sector investment is justified if additional positive net economic returns are generated through these funds. To approach this problem, the project distinguishes between four types of investments as illustrated in Figure 1¹. Investments that fall into quadrants A and C would be ‘undesirable’ under the project as the expected net benefits to society are negative. Private investors may invest in activities in Quadrant A because these investments can generate profits. However, because social and environmental costs are externalized, such investments proposals are not suitable for project support. Investments in quadrant C are not profitable for the private investors and have negative net-returns for the society. These will also not be funded by the project. Investments in quadrant B are profitable and receive investments from the private sector and there is no need for public financial support. Investments in quadrant D, however, will not be funded by the private sector, because they are not profitable. Public investment may be justified as these have positive net benefits for society.

Figure 1: Private and Public Investment Decision Making



14. However, it would not be appropriate for the project to pay for the full value of all public goods generated by the proposed sub-project investment. The level of public funding should only be high enough to change investment decisions by the potential investor. In Figure 2 this is shown by the gap represented by *b*, and not the positive economic returns shown by *a*. In other words, the project will not pay for the public good itself, but for the incentive needed to trigger an investment, which has an economic net return above an agreed benchmark of 12 percent.

Figure 2: Appropriate Public Funds



15. This approach will require that cooperative investment plans and agri-

¹ The coordinates refer to positive or negative NPVs, which could relate to different opportunity costs of capital under financial or economic considerations.

enterprise investment proposals will need an *economic* and a *financial* analysis in the form of a realistic cash flow forecast. These analyses have to be done as part of a business plan for each value chain investment and will be reviewed by a joint appraisal team (for agri-enterprise investment proposals) and the county level appraisal teams (for cooperative investment plans). Economic analysis will help determine whether an investment falls into categories B and D. The financial analysis will show whether public funds are required and help determine the level of public funds needed. Both types of analysis will be demanding for local level stakeholders and will need support from skilled agricultural economists and/or agri-business experts who should be selected from the provincial PMO.












IV. World Bank Value-added in the Project

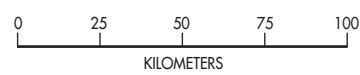
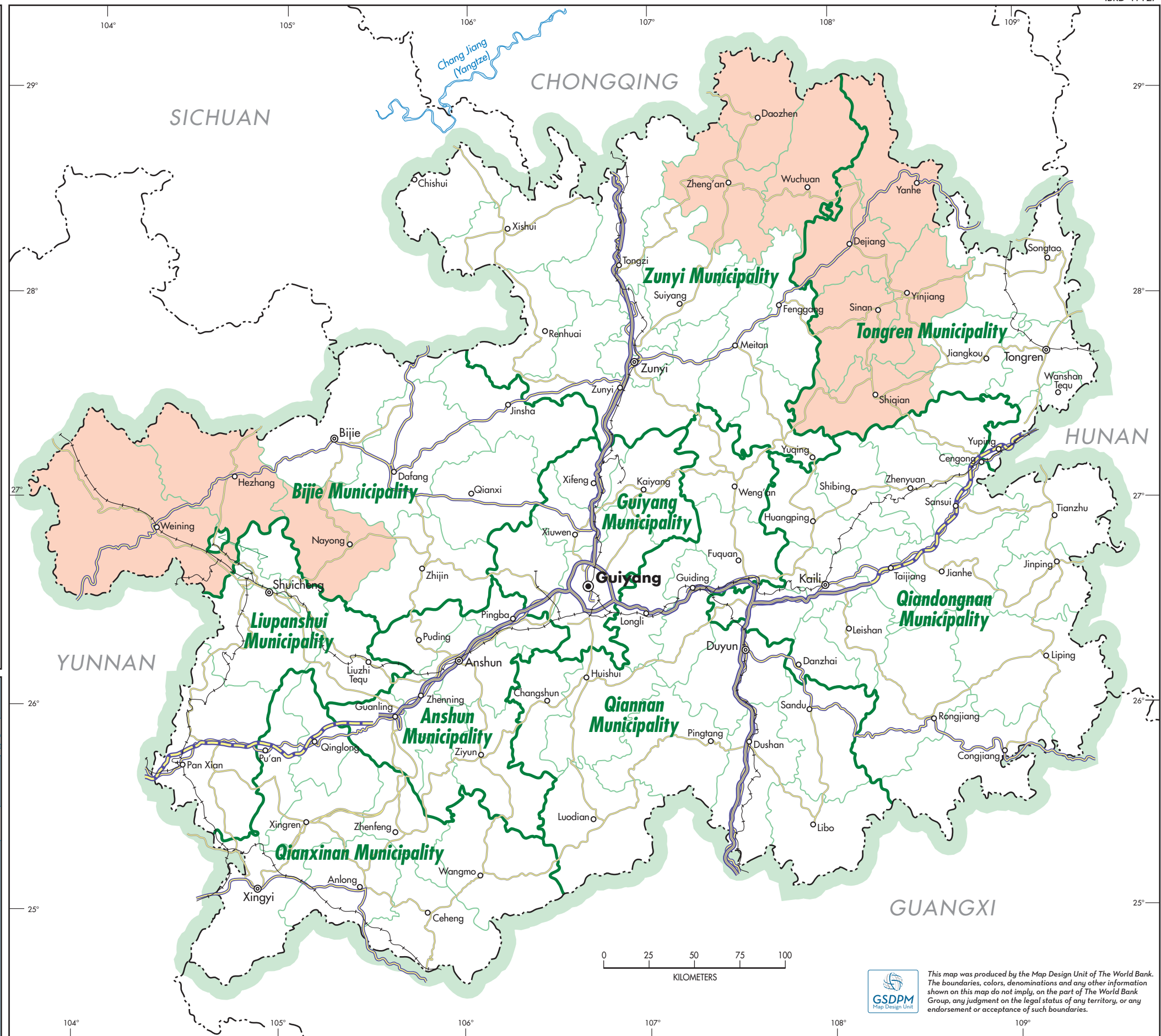
16. The Bank's value added in this project will be in four main areas: (a) helping to understand the roles of stakeholders and the rationale for using public funds in value chain investments; (b) optimizing the use of funds without distorting markets; (c) ensuring sustainability; and (d) maximizing effectiveness by taking a macro view under the project.


17. **Understanding the Role of Stakeholders.** Bank involvement will be instrumental in helping to define the role of stakeholders in promoting the integration of larger numbers of small and poor farmers into competitive agricultural supply chains in destitute areas. The private sector is expected to be more efficient and effective in bringing about market driven innovation (technical and institutional), application of new technologies, developing new products and production opportunities, and accessing new national and international markets. The government's role remains important for providing: (a) a conducive business environment, essential public services and a regulatory system and enforcement capacity; and (b) the necessary public infrastructure. Innovative institutional and organizational models are required to allow stakeholders to interact more effectively and market incentives and linkages are required to generate investment opportunities with prospects to generate growth for the poor. The Bank has conducted a large amount of analytical work to understand the role of private businesses in partnerships with the private sector becoming a key partner in development and accumulated significant expertise in agricultural value chain support. This expertise will be critical during project implementation.

18. **Optimizing the Use of Funds and Long-term Sustainability.** Making the best use of public finance has two major dimensions: (a) understanding what to finance and at what levels (see above justification of public financing); and (b) making sure that funds are fully used for the purpose intended. In both dimensions, the Bank will provide expertise and implementation support, especially analytical expertise and in fiduciary matters. For long-term sustainability the project needs to ensure that the investments: (a) achieve a sufficient outreach and coverage of the poor, including ethnic minorities and women; (b) involve fair benefit sharing between larger investors and small farmers; and (c) are based on sound business planning ensuring that the financial returns are sufficient and sustainable. The project design gives due consideration to all of these aspects. The Bank is expected to have sufficient leverage to address all of the above sustainability dimensions. The project not only provides support at the micro-investment level, but provides also a platform for investment environment analysis and a policy dialogue with the Poverty Alleviation Leading Group of Guizhou Province.

CHINA GUIZHOU RURAL DEVELOPMENT PROJECT

-  PROJECT COUNTIES
-  EXPRESSWAYS
-  HIGHWAYS
-  MAIN ROADS
-  RAILROADS
-  COUNTY (XIAN) CAPITALS
-  PREFECTURE CAPITALS
-  PROVINCE CAPITAL
-  COUNTY (XIAN) BOUNDARIES
-  PREFECTURE BOUNDARIES
-  PROVINCE BOUNDARIES



 **GSDPM**
Map Design Unit

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