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Report No: **PAD1629**

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

SHAANXI POOR RURAL AREAS COMMUNITY DEVELOPMENT PROJECT

January 18, 2017

Agriculture Global Practice  
East Asia And Pacific Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective June 1, 2016)

Currency Unit = Renminbi (RMB)  
RMB 1.00 = US\$0.13  
US\$ 1.00 = RMB 6.5

FISCAL YEAR  
January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

AVC	Administrative Village Committee
CAIP	Cooperative Annual Investment Plan
CPS	Country Partnership Strategy
CQS	Consultant's Qualification Selection
DA	Designated Account
DOA	Department Of Agriculture
EA	Environmental Assessment
ECOP	Environmental Code Of Practice
EIA	Environmental Impact Assessment
EIRR	Environmental Internal Rate Of Return
EMP	Environmental Management Plan
ESMF	Environmental And Social Management Framework
FM	Financial Management
FMM	Financial Management Manual
FY	Fiscal Year
GDP	Gross Domestic Product
GOC	Government Of China
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IFR	Interim Financial Report
INDC	Intended Nationally Determined Contribution
IRR	Internal Rate Of Return
LGOP	Leading Group of Poverty Reduction and Development
M&E	Monitoring and Evaluation
METT	Managing Effectiveness Tracking Tools
MIS	Management Information System
MOF	Ministry of Finance
NCB	National Competitive Bidding
NPV	Net Present Value
PAD	Project Appraisal Document
PDO	Project Development Objective
IPF	Investment Project Financing

PMO	Project Management Office
PMP	Pest Management Plan
POM	Project Operational Manual
PPADO	Provincial Poverty Alleviation and Development Office
PPMO	Provincial Project Management Office
PSC	Project Steering Committee
QBS	Quality Based Selection
QCBS	Quality-and –Cost –Based Selection
RAP	Resettlement Action Plan
RPF	Resettlement Policy Framework
SA	Social Assessment
SPFD	Shaanxi Provincial Finance Department
SOE	Statement of Expense
SPG	Shaanxi Provincial Government
SPAO	Shaanxi Provincial Audit Office
TAG	Technical Advisory Group
VSL	Variable Spread Lending
WA	Withdrawal Application
WBG	World Bank Group

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**CHINA**  
**SHAANXI POOR RURAL AREAS COMMUNITY DEVELOPMENT PROJECT**  
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## PAD DATA SHEET

China

*Shaanxi Poor Rural Areas Community Development Project (P153541)*

### PROJECT APPRAISAL DOCUMENT

*EAST ASIA AND PACIFIC REGION*

*Agriculture Global Practice*

Report No.: PAD1629

Basic Information					
Project ID P153541	EA Category B - Partial Assessment	Team Leader(s) Guangming Yan, Wendao Cao			
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]				
	Financial Intermediaries [ ]				
	Series of Projects [ ]				
Project Implementation Start Date 09-Feb-2017	Project Implementation End Date 30-Jun-2022				
Expected Effectiveness Date 31-May-2017	Expected Closing Date 31-Dec-2022				
Joint IFC No					
Practice Manager/Manager	Senior Global Practice Director	Country Director	Regional Vice President		
Nathan M. Belete	Juergen Voegele	Bert Hofman	Victoria Kwakwa		
Borrower: PEOPLE'S REPUBLIC OF CHINA					
Responsible Agency: Shaanxi Provincial Office of Poverty Alleviation and Development					
Contact:	Xiangling Yang	Title:	Director General		
Telephone No.:	029-87368291	Email:	sxpkdqncfz@163.com		
Project Financing Data(in USD Million)					
[ X ]	Loan	[ ]	IDA Grant	[ ]	Guarantee
[ ]	Credit	[ ]	Grant	[ ]	Other

Total Project Cost:	150.04	Total Bank Financing:	100.00							
Financing Gap:	0.00									
<b>Financing Source</b>										
			<b>Amount</b>							
Borrower			50.04							
International Bank for Reconstruction and Development			100.00							
Total			150.04							
<b>Expected Disbursements (in USD Million)</b>										
Fiscal Year	2017	2018	2019	2020	2021	2022	2023	0000	0000	0000
Annual	2.00	8.00	15.00	25.00	25.00	15.00	10.00	0.00	0.00	0.00
Cumulative	2.00	10.00	25.00	50.00	75.00	90.00	100.00	0.00	0.00	0.00
<b>Institutional Data</b>										
<b>Practice Area (Lead)</b>										
Agriculture										
<b>Contributing Practice Areas</b>										
Social, Urban, Rural and Resilience Global Practice										
<b>Proposed Development Objective(s)</b>										
The Project Development Objective is to increase incomes of targeted beneficiaries in selected poor counties of Shaanxi.										
<b>Components</b>										
<b>Component Name</b>								<b>Cost (USD Millions)</b>		
Component A: Farmer Cooperative and Value Chain Development.								93.41		
Component B: Economic Infrastructure and Services Support								35.84		
Component C: Technical Assistance and Capacity Building Support								4.17		
Component D: Project Management, Monitoring and Evaluation (M&E).								4.39		
<b>Systematic Operations Risk- Rating Tool (SORT)</b>										
<b>Risk Category</b>								<b>Rating</b>		



1. Political and Governance	Low	
2. Macroeconomic	Moderate	
3. Sector Strategies and Policies	Low	
4. Technical Design of Project or Program	Substantial	
5. Institutional Capacity for Implementation and Sustainability	Substantial	
6. Fiduciary	Moderate	
7. Environment and Social	Moderate	
8. Stakeholders	Moderate	
9. Other		
<b>OVERALL</b>	Substantial	
<b>Compliance</b>		
<b>Policy</b>		
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 [ ]	
<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01	<b>X</b>	
Natural Habitats OP/BP 4.04		<b>X</b>
Forests OP/BP 4.36		<b>X</b>
Pest Management OP 4.09	<b>X</b>	
Physical Cultural Resources OP/BP 4.11		<b>X</b>
Indigenous Peoples OP/BP 4.10		<b>X</b>
Involuntary Resettlement OP/BP 4.12	<b>X</b>	
Safety of Dams OP/BP 4.37		<b>X</b>
Projects on International Waterways OP/BP 7.50		<b>X</b>
Projects in Disputed Areas OP/BP 7.60		<b>X</b>
<b>Legal Covenants</b>		

Name	Recurrent	Due Date	Frequency
Institutional Arrangements	X		Continuous
<b>Description of Covenant</b> Project Agreement, Schedule, Section I.A: Provisions requiring the maintenance of a Provincial Steering Committee and Project leading groups at the county level, as well as Project management offices at the provincial, municipal and county levels.			
Name	Recurrent	Due Date	Frequency
Annual Work Plans	X	December 31	Yearly
<b>Description of Covenant</b> Project Agreement, Schedule, Section I.B.1: Provision requiring the submission of consolidated annual work plans to the Bank.			
Name	Recurrent	Due Date	Frequency
Project Operation Manual	X		Continuous
<b>Description of Covenant</b> Project Agreement, Schedule, Section I.B.2 and I.E: Provision requiring the Project to be carried out in accordance with the Project Operations Manual, including the arrangements for providing grants to Project Farmer Cooperatives and Cooperating Agro-enterprises under the relevant agreement.			
Name	Recurrent	Due Date	Frequency
Safeguards Instruments	X		Continuous
<b>Description of Covenant</b> Project Agreement, Schedule, Section I.D: Provision requiring the Project to be carried out in accordance with the Environmental and Social Management Framework, the Environment Management Plan, the Pest Management Plan, the Resettlement Policy Framework (and any Resettlement Action Plans prepared thereunder).			
Name	Recurrent	Due Date	Frequency
Mid-term review	X	June 30, 2020	Yearly
<b>Description of Covenant</b> Project Agreement, Schedule, Section II.A.2: Provision requiring Shaanxi to furnish to the Bank a mid-term review report for the Project, summarizing the result of the monitoring and evaluation activities carried out from the inception of the Project, and setting out the measures recommended to ensure the efficient completion of the Project and the achievement of the objectives thereof during the period following such data..			

Team Composition				
Bank Staff				
Name	Role	Title	Specialization	Unit

Guangming Yan	Team Leader (ADM Responsible)	Senior Urban Development Specialist	Urban Specialist	GSU08	
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Xueming Liu	Senior Economist		Rome		
Xueyi Yang	Urban planning & management, Consultant				
<b>Locations</b>					
<b>Country</b>	<b>First Administrative Division</b>	<b>Location</b>	<b>Planned</b>	<b>Actual</b>	<b>Comments</b>
China	Shaanxi Province			X	



# I. STRATEGIC CONTEXT

## A. Country Context

1. China's economic and social development over the past three decades (1980-2013) has been remarkable. The average annual Gross Domestic Product (GDP) growth of about 10 percent and rapid industrialization and urbanization process have lifted more than 600 million people out of poverty, which accounts for 70 percent of the population which broke out of poverty worldwide. Past poverty reduction and rural development strategies and policies targeted at poor rural areas have been very successful in reducing extreme rural poverty, which dropped from 17.2 percent in 2010 to 7.2 percent in 2014. China's per capita income grew from RMB 332 in 1980 to RMB 20,167 in 2014. China has now become the second largest economy and the largest exporter in the world. The urbanization rate rose from 20 percent in 1980 to 54.8 percent in 2014, enabling some 260 million rural migrants to transition out of agriculture to more productive industries.

2. However, China is still among the five countries with the largest number of poor in the world. Measured by China's national rural poverty line of RMB 2,300<sup>1</sup> per year, official sources estimate 55 million people living in poverty by the end of 2015. Poverty is mainly a rural phenomenon and most severe in China's western regions, in upland villages, among ethnic minorities, and in households with low levels of educational attainment. Despite outmigration, during the economic downturn migrants are vulnerable and tend to return to the countryside to engage in agriculture and thus increase the rural labor force.

3. **China Poverty Reduction Strategy 2010-2020.** The Leading Group of Poverty Alleviation and Development (LGOP) published national poverty reduction assessments and strategy documents in 1989, 1993, 2003, and 2011. While maintaining the core approach of development-oriented poverty reduction, the new 2011 document "*Outline for Development-oriented Poverty Reduction for China's Rural Areas 2011-2020*" (2011 Outline) advances several new approaches to overcoming poverty and directly addresses the above-noted emerging challenges. The 2011 Outline highlights targets to lift the country's 70 million poor people above the poverty line by 2020, to 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.

4. Within the LGOP's core poverty reduction programs, the 2011 Outline introduces the concept of "*Promoting Poverty Reduction through Industrialization*", which states that: The Government will promote utilization of advanced and practical agro-techniques, nurture specialty and pillar industries, and advance tourism backed poverty relief programs leveraging the ecological environment and natural resource advantages of poverty-stricken areas. It will endeavor to promote industrial restructuring, help poor households develop production through leading enterprises, farmers' specialized cooperatives and mutual fund organizations, and guide and encourage enterprises to invest in poor areas so as to help poor households increase their incomes. The Outline also encourages the development of diversified farmer organizations. The renewed and strengthened regulatory and policy framework explicitly supports the establishment of farmer

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<sup>1</sup> In 2011, the Government of China (GOC) revised the rural poverty line from CNY1,196 (US\$188) to CNY 2,300 (US\$361)

cooperatives to overcome the structural challenges of small farm size and scattered production in rural areas. There is also a vibrant private commercial enterprise sector that can reach out and provide new technology to increase productivity in backward areas and assist in marketing agricultural products to downstream consumers.

## **B. Sectoral and Institutional Context**

5. Located in Northwestern China, with a geographic area of 205,800 km<sup>2</sup> and a population of about 38 million in 2014, Shaanxi province has a total of 50 national level key poverty counties. In 2014, the average annual per capita disposable income in Shaanxi was RMB 24,366 for urban residents (85 percent of the national average) and RMB 7,932 for rural residents (75.6 percent of the national average), with an urban-rural income disparity of 3.1 against the national average of 2.92. Based on the national rural poverty line of RMB 2,300, Shaanxi province has a remaining rural poverty population of about 4.6 million, most of which are distributed across the contiguous poverty-stricken areas of the *Qingba* Mountain, *Baiyu* mountain areas, hilly areas along the *Yellow River* and the dry highland area north of *Weishui* River.

6. Agriculture remains a key sector and source of income for rural residents, in particular the rural poor who remain dependent on agriculture. However, agricultural production is often scattered in these areas because of the large numbers of unorganized household farms and low technical and management capacity. Productivity and efficiency remain at a low level focusing on primary products of sub-standard quality, making it hard to attract investments in up-stream processing and marketing which in turn makes it difficult for producers to participate in modern supply chains which are increasingly sensitive to quality and food-safety issues. There is a high degree of vulnerability to poverty, especially for those about two million people who are close to the poverty line. They have limited capacity to avoid harm from unexpected external shocks and are thus at a high risk of falling back into poverty.

7. Unleashing the potential of the agriculture sector to promote the economy and stimulate rural transformation and modernization has become a new strategic direction for addressing rural poverty in Shaanxi. Given the structural characteristics of agriculture in Shaanxi, a gradual restructuring of the sector is necessary to increase productivity and efficiency. This is being done through strongly promoting the development of farmer cooperatives to enable small farmers to participate in markets and take advantage of economies of scale to increase their household incomes. Government strategies also include a focus on value chain development and marketing interventions, private enterprise participation and investment, and the development of modern agriculture infrastructure

8. In 2015, the World Bank undertook a review<sup>2</sup> of cooperative development in China since the promulgation of the cooperative law in 2007. It found that cooperatives have indeed played an important role helping farmers operate in modern value chains, primarily by providing technical training, information and collectively purchasing production inputs and marketing products for members. The report also found that cooperatives in general suffer from weak management

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<sup>2</sup> Enhancing the Role of Farmer co-operatives in Agriculture Growth (2015 Draft), hereinafter called the “World Bank Report”. The report was largely based on a detailed survey of 109 cooperatives in 3 provinces (Shandong, Jiangxi and Sichuan) undertaken by the Rural Development Institute of the Chinese Academy of Social Sciences.

capacity, are under-capitalized, have difficulty getting access to credit and that very few are operating profitably. However, the survey also found that most Chinese cooperatives are more akin to investor-owned businesses rather than standard cooperatives, and to a large extent rural elites have captured control of cooperatives and appropriated to themselves most of the financial benefits arising from their operation.

9. According to the Shaanxi Department of Agriculture (DOA) as of the end of 2015 there were 36,500 registered cooperatives in Shaanxi with a total of 1,950,000 members. Only about 15 percent of these cooperatives were well-functioning and effectively providing services to their members. Some 60 percent were providing very basic services, only active on a seasonal basis or simply acting as middle-men for buying inputs or selling products. The rest were largely dormant, having registered but not engaging in any activities.

10. The proposed project represents a continuation of the LGOP-Bank cooperation in poverty reduction that has evolved from multi-sector approaches, participation and community-driven development, towards market-based approaches to poverty reduction. It adopts the pro-poor value chain approach to capture opportunities for poverty reduction arising from China's growing urban market. It aims to enable participation of smallholder farmers in modern value chains and improve their access to markets through investment in the development of farmer cooperatives and partnerships with agribusinesses. The project will also help improve economic infrastructure, facilitating better market access and extending the existing value chain for poor villages.

### **C. Higher Level Objectives to which the Project Contributes**

11. The proposed project is consistent with the World Bank Group's Country Partnership Strategy (CPS) for China 2013-2016 (Report No. 67566-CN) dated October 11, 2012. The CPS focuses on two strategic themes: support greener growth and promote more inclusive development. The proposed project supports CPS theme two: promoting more inclusive development by focusing on lagging regions and small towns and by supporting policies and demonstration projects that address inequalities. It could contribute to two outcomes: enhancing opportunities in rural areas and small towns, and improving transport connectivity for more balanced regional development.

12. The project supports China's 13rd Five Year Plan and the poverty alleviation goals proposed during the fifth plenary session of the 18th Central Committee of the Communist Party of China (CPC). The project is also aligned with the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity. As all eleven project counties are designated national or provincial -level poverty counties, the project is targeting the extreme poverty areas in China including the poorest rural population with average income below the national poverty line of RMB 2,300 (US\$ 361) per year. The project will assist the GOC in its efforts to end extreme poverty for these vulnerable groups, address rural-urban disparity and boost shared prosperity in the selected project areas.

13. The project is well positioned to contribute to China's stated climate change policies and measures, as outlined in its Intended Nationally Determined Contribution (INDC), which also takes into consideration several actions, specified in other relevant national processes. China's INDC focuses, among other points, on proactively adapting to climate change, by enhancing

mechanisms and capacities to effectively defend against climate change risks in key areas including agriculture, while progressively strengthening disaster reduction mechanisms. With respect to climate change mitigation, the INDC is also inclusive of promoting low-carbon development in agriculture. The project can contribute to these commitments by building the resilience of rural households and communities, while also potentially achieving mitigation co-benefits.

## II. PROJECT DEVELOPMENT OBJECTIVES

### A. PDO

14. The Project Development Objective is to increase incomes of targeted beneficiaries in selected poor counties of Shaanxi.

### B. Project Beneficiaries

15. The project will be implemented in 11 counties i.e. *Longxian, Linyou, Changwu, Heyang, Baishui, Fuping, Yichuan, Yanchang, Yanchuan, Dingbian and Mizhi* under five prefecture-level municipalities. The project will cover about 29 towns/townships involving an estimated total of 253 administrative villages, with a total population of 177,578 of which 48,665 are registered as poor (2015). The main project beneficiaries are participating farmers, farmer cooperatives, agro-business enterprises and village committees. In addition, project management entities, Poverty Alleviation and Development Offices and other relevant government line agencies at provincial, municipal, county and township levels will benefit from the project interventions in terms of capacity building for project management and poverty alleviation.

### C. PDO Level Results Indicators

16. The PDO will be achieved through the following outcome indicators: (i) number of direct project beneficiaries, disaggregated by female and poor; (ii) number of cooperative members lifted out of poverty (as measured by government “precise poverty alleviation” survey); and (iii) share of project cooperatives making profit (Percentage).

## III. PROJECT DESCRIPTION

### A. Project Components

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

18. **Component A: Farmer Cooperative and Value Chain Development** (*US\$93.41 million, of which IBRD US\$46.99 million*). This component aims to support the improvement of value chains for selected agricultural products with local competitive advantage, establish new farmer cooperatives or strengthen existing cooperatives to become effective business entities and strengthen forward and backward linkages. The specific activities supported under this component are arranged in two sub-components:



- a) **Cooperative Development.** This sub-component will provide conditional grant financing support to business operation of eligible new or existing farmer cooperatives, including new production systems; improved seedlings and improved breeding stock; facilities for processing agricultural products; storage and marketing facilities; technical and advisory services for market analysis and development; and civil works, goods and services related to upgrading quality standards, labeling, certification, branding, logistics, food safety and other investments at the cooperative level. It will also support improving management facilities and basic office equipment, as well as training in cooperative management and business operations, financial, technical and other training related to the establishment or improvement of farmer cooperatives and training and capacity building for other community groups.
- b) **Competitive Grant for Enterprises (CG).** This sub-component would provide matching grants to finance eligible enterprise investments that establish a partnership with beneficiary cooperatives which demonstrate marketing linkages and benefit sharing with poor farmers/households. Grants would focus on the investments which ensure market for agricultural products and increase their value, extending activities either upstream or downstream in the value chain and create income-generating activities for poor farmers.

19. **Component B: Economic Infrastructure and Services Support** (*US\$35.84 million, of which IBRD US\$32.22 million*). This component aims to improve the economic infrastructure connecting project communities to large value chains. It would provide investments for: (i) improving connectivity within selected villages, inter-villages, between villages and central small towns; (ii) upgrading production infrastructure, including construction and rehabilitation of irrigation and drainage infrastructure; establishment of communications and information infrastructure; provision of cold storage and other post-harvest facilities, market facilities, etc.; and (iii) strengthening other infrastructure serving farmers' income increasing activities.

20. **Component C: Technical Assistance and Capacity Building Support** (*US\$4.17 million, of which IBRD US\$4.17 million*). This component aims to support both technical and institutional capacity building for participating farmers, village committee members, community economic groups, farmer cooperatives and advisors, agricultural technicians, agro-enterprises and companies, etc. This will be achieved through training, extension services, study tours, skill development programs, consultations and project awareness raising campaigns and dissemination of project lessons. This component will include recruitment of cooperative facilitators and support for the Technical Advisory Groups (TAGs) to review and improve the Cooperative investment plans. Applied research and analysis will also be carried out under this component.

21. **Component D: Project Management, Monitoring and Evaluation (M&E)** (*US\$4.39 million, of which IBRD US\$4.39 million*). This component aims to strengthen and develop the administrative and technical capacity of PMO staff through: (i) capacity building for the provincial, municipal, county PMO and cooperatives to strengthen project management; and (ii) development of Management Information System (MIS) and an M&E system for project activities which includes monitoring physical project progress, compliance with environmental and social safeguards, and project impact monitoring.

## B. Project Financing

22. The project will be financed by an IBRD loan, extended as Investment Project Financing (IPF), in the amount of US\$100 million with government counterpart financing of US\$ 50.04 million. The loan will be on standard IBRD terms for a LIBOR-based US\$ denominated, variable spread loan (VSL), with a maturity of 29 years, including a 6-year grace period, a front-end fee of 25 base points and a commitment charge of 25 basis points. Table 1 below summarizes the project cost and financing by component and sub-component.

**Table1: Project Financing**

Component	Total Cost (US\$ million)	IBRD Loan (US\$ million)	% Financing
<b>Component A:</b> Farmer Cooperative and Value Chain Development	93.41	46.99	50%
<b>Cooperative Development</b>	43.94	36.99	84%
<b>Competitive Grant for Enterprises</b>	49.47	10.00	20%
<b>Component B:</b> Economic Infrastructure and Services Support	35.84	32.22	90%
<b>Component C:</b> Technical Assistance and Capacity Building Support	4.17	4.17	100%
<b>Component D:</b> Project Management, Monitoring and Evaluation (M&E)	4.39	4.39	100%
<b>Total Baseline Cost</b>	137.81	87.77	64%
Physical and Price Contingencies	4.55	4.55	100%
<b>Total Project Cost</b>	142.36	92.32	65%
Financial Charges During Implementation	6.91	6.91	100%
Front end Fees	0.25	0.25	100%
Commitment Fees	0.52	0.52	100%
<b>Total Financing Required</b>	150.04	100.00	67%

## C. Lessons Learned and Reflected in the Project Design

23. There is a large body of international literature, including the World Bank's 2008 World Development Report: *Agriculture for Development*, highlighting the unique potential of farmer cooperatives for both alleviating poverty and improving agricultural efficiency. This potential is attributed to the special nature of cooperatives with their dual economic and social functions. However, there is also a general consensus that realizing this potential of cooperatives is closely linked to the quality of cooperative governance, and specifically to a high degree of involvement of cooperative members in decision making and setting the strategic objectives of the organizations.<sup>3</sup> To the extent that cooperative members are not engaged in decision making and

<sup>3</sup> The World Development Report noted five major challenges facing cooperatives globally: i) Resolving conflicts between efficiency and equity; ii) Dealing with a heterogeneous membership; iii) Developing managerial capacity

cooperatives do not practice democratic management, cooperatives will tend to be controlled by a small number of members in pursuit of their own objectives, and lose their comparative advantage for promoting pro-poor development. Lack of member engagement easily leads to elite capture and failure to realize the advantages of the cooperative form of business.

24. The project design has incorporated lessons learned from the international experience and similar operations on pro-poor value chain development, both globally and in China, including:

(i) *Sub-projects will be linked with local development strategies.* Keeping project investments within the boundaries of individual villages limits the potential impact for cross-village development and connectivity. The proposed project design broadens the individual project sites to clusters of villages to link project interventions with local development strategies such as those from the Industrial Development and Poverty Reduction plans to ensure the realization of greater development potential and spillover effects.

(ii) *Public goods can be successfully delivered with well-designed institutional arrangements.* Private institutions can play an important role delivering public goods and services in a cost effective way and with high quality. Under the project, farmer cooperatives and companies will enter into contractual arrangements with the government to provide public services, such as animal health, training of farmers or other extension services. Contractual arrangements will be designed to allow the government to specifically target poor farmers and disadvantaged groups.

(iii) *Another lesson is about having an efficient institutional framework.* Organizing farmers in company-farmer arrangements or establishing farmer organizations allows stakeholders to achieve scale and therefore enter more easily into higher value production through product branding, certification, or access to new markets and even exports. Companies as well as farmer organizations can both serve as a driving force for value addition through innovation. In both cases, support to establish strong farmer cooperatives can ensure a fairer sharing of the incremental value generated.

(iv) *A transparent and a regulatory policy and investment framework will help the poor benefit from improved market relationships.* Similar Bank-financed projects in Latin America, the Philippines and Vietnam offer lessons and models for overcoming market barriers for smallholder farmers. Ensuring transparent transaction arrangements between households, cooperative managers and other market operators is an essential element of good governance. Good cooperative governance practices which foster confidence and solidarity in the relations between cooperatives and members can reduce supervision and enforcement costs related to product quality.

25. The challenge for this project will be to strengthen member participation in cooperative governance at the same time as strengthening the management capacity and business performance of the cooperatives. A number of interventions are planned to address this challenge including: (1) contracting and training community (cooperative) facilitators to provide on-site coaching and

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for high-value chains; iv) Participating in high-level negotiations and; v) Dealing with a sometimes-unfavorable external environment.

support for cooperatives; (2) providing training for cooperative managers, leaders and members on cooperative awareness and management skills in addition to technical production skills; (3) providing high-level support from a highly qualified provincial level cooperative support group; and (4) using M&E tools which assess both the business performance and the governance aspects of cooperatives.

## **IV. IMPLEMENTATION**

### **A. Institutional and Implementation Arrangements**

26. 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 Operational Manual (POM).

27. **Provincial Steering Committee.** A Provincial Steering Committee, chaired by the Director General of Provincial Poverty Alleviation and Development Office (PPADO) with representatives from the senior management of provincial Finance Department, Development and Reform Commission, Agriculture Department, Auditor's Offices, Civil Affairs Bureau, Women's Federation, and other departments will provide leadership, policy guidance, and direction for project implementation within their respective jurisdictions. Project Leading Groups at county level, comprising of authorities of relevant expertise will also be formed to provide overall guidance.

28. **Project Management Offices.** A provincial Project Management Office (PPMO) has been established in the Shaanxi 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 have been established with the primary responsibility for project management at the local level, including reviewing investment proposals, carrying out supervision and initial acceptance checking for construction and procurement activities, recruiting cooperative facilitators and providing technical support to farmer cooperatives. The County PMO will also play a key role in coordinating project activities with other relevant government agencies as well as local enterprises involved in value chains supported by the project.

29. **Town/Township Government and Administrative Village Committee (AVC).** Town/Township government and AVC will be responsible for local public information dissemination, community mobilization, planning and implementation of economic infrastructure investments assigned to the administrative village level, and coordination of any land adjustments for infrastructure construction, as needed.

30. **Beneficiary Farmer Cooperatives.** About 80 beneficiary Farmer cooperatives will be selected based on the agreed principles, criteria and approval procedures during the project cycle. These cooperatives shall be legally established as economic entities and registered in accordance with China's Farmer Professional Cooperative Law under local Bureaus of Industry and Commerce. They will have implementation responsibility for all agreed activities financed under the Component A (a) in accordance with the signed implementation agreement.

31. **Farmer Cooperative Facilitators.** Farmer cooperative facilitators will be recruited and trained by the provincial and county PMOs to assist in the establishment and operation of new cooperatives, provide guidance to cooperative operations, and assist the county PMOs in conducting acceptance checks, monitoring and reporting of cooperative activities, and handling cooperative complaints.

32. **Technical Advisory Groups (TAGs).** Each county will set up a TAG comprising representatives from government, cooperatives, and industry-related enterprises to provide advisory services for the cooperative business development and value chain investments.

33. **Framework Approach.** A framework approach was adopted to streamline project preparation and implementation and provide lessons which will benefit the design and implementation of the remaining investments. A POM has been prepared and agreed with Shaanxi Province which sets out the key principles and criteria for preparation, appraisal, approval, and implementation arrangements for the farmer cooperatives investments. For the first tranche of 13 towns/townships for implementation specific project activities have been identified and appraised, while the project activities for the subsequent tranche(s) of 16 towns/townships will be selected in accordance with the POM after or during the implementation of the first tranche to incorporate the lessons learned.

## **B. Results Monitoring and Evaluation**

34. The primary tool to monitor and evaluate project results will be the Results Framework detailed in Annex 1. The PPMO will consolidate information and data at project level to measure the project performance and the achievements of the targets set, and prepare semi-annual progress reports, in accordance with a format outlined in the POM. A qualitative cooperative performance assessment tool will be used to measure the management effectiveness and internal governance performance of farmer cooperative supported by the project. The purpose of these reports is to provide Shaanxi Province and the World Bank timely and updated information on the progress of project implementation, achievement of outcome and output indicators, and constraints and obstacles.

## **C. Sustainability**

35. **Cooperative sustainability.** The sustainability of project interventions will hinge on the establishment and development of cooperatives which are professionally managed and can become successful, commercially viable enterprises within the project period. Cooperatives operating as professional business enterprises will be involved in providing inputs to farmers, delivering technical training, solving issues related to market access and responding to changing markets.

The project will also explore the opportunities for the delivery of financial services by cooperatives to their members where credit is a constraint for the participation of poor farmers. The project will invest significant efforts into training and capacity building for cooperatives. Community facilitators will be trained as Cooperative Promoters to assist cooperatives to devise and implement business plans. The aim is to build the capacity of cooperative leaders, managers and members and ensuring that they are self-sufficient in key management skills before the end of the project. Attention will also be paid to cooperative-specific issues impacting on sustainability such as succession planning for cooperative leaders and mentoring young people within cooperatives.

36. ***Environmental sustainability.*** A key strategy for cooperatives to gain access to higher end markets is to obtain certification for hazard-free, green or organic production, all of which serve to reduce negative environmental impacts of production activities. Cooperatives will be encouraged to develop and implement such business strategies, resulting simultaneously in better financial returns and an improved environment. Cooperative training will also include raising the environmental awareness of cooperative managers and members and training on environmentally sustainable production practices. Given that members live in the production area and are dependent over the long term on the sustainable use of their natural resource base, the prospects for ensuring environmental sustainability are high. Project support will not be provided for cooperative activities which have a negative environmental impact, and environmental impact assessments will be done for any project activities with potential negative impacts such as large-scale animal raising facilities or agro-product processing.

37. ***Private sector agro-business participation.*** Collaboration between cooperatives and private sector enterprises will be supported to foster the development of strong and competitive value chains which are sustainable and responsive to rapidly changing markets. This will leverage the private sector strengths in agro-product processing and marketing with the strengths of the cooperatives in production of primary products and preliminary processing. Selection of enterprises for such partnerships will be done using open and competitive procedures, and will be based on evidence of their business experience and capacity, the willingness of the enterprise to invest their own resources in the value chain development and the demonstrated willingness of the enterprise to collaborate with the cooperative in arrangements which ensure equitable sharing of the added value. Private enterprises will be expected to contribute financially to the development of enhanced value chains.

## **V. KEY RISKS**

### **A. Overall Risk Rating Explanation**

38. Overall implementation risk is rated 'Substantial' because of : (i) the large number of project counties without previous Bank experience and with weak managerial capacity to implement Bank-financed projects; (ii) the fiduciary risks due to unfamiliarity with Bank procurement procedures and financial management requirements; (iii) insufficient or late provision of counterpart funding; and (iv) the challenges associated with farmer cooperative development including business planning, marketing and financial management to support sound long-term investments. Measures have been incorporated into the project design to mitigate these risks, including: (1) adoption of a framework approach to streamline project preparation and implementation and provide lessons which will benefit the design and implementation of the

remaining investments; (2) development of POM setting out criteria and procedures for selection, preparation, review, and approval of the cooperative investments including analysis of competitiveness and marketing prospects of each investment proposal, etc.; (3) consultant services for guiding cooperatives in value-chain development planning and formulation and implementation of productive investment plans and CAIPs; (4) provision of procurement and financial management training for relevant staff and extensive implementation support; and (5) increasing the Bank finance percentage up to 100 percent.

## **VI. APPRAISAL SUMMARY**

### **A. Economic and Financial Analysis**

39. **Expected Development Impact.** The proposed project aims to adopt the pro-poor value chain approach to capture the opportunities for poverty reduction that arise from China's growing and rapidly changing rural and urban markets. It promotes participation of smallholder farmers in modern value chains and improves their access to markets through investments in the development of farmer cooperatives and partnerships with agribusinesses. The project will also help to improve the economic infrastructure to facilitate better market access and extend the existing value chain for the poor villages. As such, the proposed project would increase income opportunities and improve market access through improved economic infrastructure in selected poverty communities of Shaanxi province. The main expected impacts include: (a) enhanced access to economic infrastructure for beneficiaries to improve their livelihood; (b) improved income opportunities for the participating farmers, the rural poor in particular, through the development of various value chains; (c) strengthened institutional capacity for project management entities and relevant government agencies at various levels involved in project management and implementation; (d) improved project sustainability through introduction of the cooperative development grant; (e) strengthened management and operations of participating farmers cooperatives; and (f) improved operations and competitiveness of participating agro-businesses through the enterprise fund.

40. **Results of Economic and Financial Analysis.** For the first tranche of cooperative-level investment activities, financial analysis has been conducted for a range of farming/agribusiness activities typical of the proposed value chains in the project areas on a household or per hectare basis. Crop budgets and activity models have been prepared to gauge the incremental income generated from alternative crops and good farming practice by comparing with "without project situation" income. The analysis has included, but not been limited to, the following: (i) annual crops/tree crops; (ii) livestock sector covering goats, sheep, pig and donkey; and (iii) agribusiness, including agricultural storage and processing. The overall Economic Internal Rate of Return (EIRR) has been estimated on a community basis, taking into account the total project costs including those for infrastructure, institutional development and project management. The calculations show that financial internal rates of returns (FIRR) are from 19-46 percent for the key project activities, while EIRRs by community range from 9-25 percent, indicating the project is both financially and economically viable. In addition, the local government fiscal sustainability has been analyzed to ensure the provisioning of counterpart funds and servicing the Bank loan.

## **B. Technical**

41. *Establishment and operation of cooperatives.* The project aims to create strong, commercially viable cooperatives bringing financial benefits and providing important services to all cooperative members, with a particular focus on serving the needs of poorer members. The cooperative form of organization is relatively new in China, where the Cooperative Law was promulgated only in 2007. There were more than 36,000 registered cooperatives in Shaanxi province as of the end of 2015 but the large majority of them do not operate as profitable enterprises, largely due to limited management capacity. A substantial effort is planned to provide technical training and support for project cooperatives both in production and management skills. To support cooperative development, the project will hire full time Community Facilitators in each project county to provide advice and support to the cooperatives. These facilitators will be backed up by a provincial Cooperative Support Center which will provide training and advisory support for the Community Facilitators.

42. *Value chain analysis.* Project counties have identified potential cooperatives for project support in the first round of project activities, and these cooperatives have prepared a preliminary set of investment proposals including a value chain analysis and a feasibility analysis of the proposed investments. Some of the value chains identified for support include apple production, persimmons, mushrooms, chili pepper, goat raising and beekeeping. Some of the proposals, specifically the pepper and persimmon cooperatives, include measures for value-added processing to be done by the cooperatives themselves. These proposals have been reviewed during project preparation and have generally been found to be technically sound. The proposals will be further refined and elaborated by the cooperatives and reviewed by a technical advisory group prior to final approval. Most proposals involve technology with which farmers are familiar and do not represent a high degree of technical risk in implementation. While farmers may need technical training to improve their production skills, the skills necessary are well within the competence of technical personnel available at the local or provincial level. The issue of ensuring a clear and secure market linkage is essential to increase the likelihood of success. A clear and strong link between the cooperatives and the buyers (industries, marketing agents, exporters, etc.) will establish the partnership with the selected enterprises through the competitive grant.

43. *Infrastructure design and construction:* Proposals for infrastructure improvement involve well established technologies and do not pose a significant technical challenge. Cooperatives and communities will be closely consulted in the design process and will be involved in monitoring and supervision of construction. Operation and maintenance (O&M) of physical infrastructure such as access roads and irrigation facilities will be the responsibility of cooperatives or community groups, depending on whether the investments serve the cooperative only or serve the wider community.

## **C. Financial Management**

44. The IBRD loan proceeds, including overseeing the Designated Account, will be managed by Shaanxi Provincial Department of Finance (SPDF). The Project Management Offices established in the Poverty Alleviation Office at provincial, municipality/prefecture, and county levels are the responsible project implementation agencies. These entities are existing agencies that have previously managed poverty alleviation projects financed by domestic funds and some



have previously managed Bank loan-financed projects. The FM assessment was conducted for all the PMOs at the project pre-appraisal and identified the principal risks as: 1) the lack of county financial management staff experience, and 2) a large number of project activities and scattered county PMOs increasing project management complexity. An action plan to strengthen FM capacity has been agreed with the implementing agencies. The FM assessment concluded that with the implementation of the proposed actions, project's FM arrangements satisfy the Bank's requirements under OP/BP 10.00. Annex 3 of the PAD provides additional information on financial management.

#### **D. Procurement**

45. Project implementation arrangements have been set up at provincial, county and cooperative levels. Institutional responsibilities and procurement regulations are designed and described in POM. Full-time procurement staff at provincial, county and cooperative levels are designated and in place. A procurement agent will be recruited by the Provincial PMO to support project procurement. The key project procurement issues and risks identified by the procurement capacity assessment are as follows: (a) some of the County PMOs and their designated procurement staff have no procurement experience in Bank-financed projects (although some county PMOs have implemented Bank-financed projects in the past); (b) most of the Farmer Cooperatives with no procurement experience are scattered, with some in remote locations, which will make supervision a challenge; and (c) County PMOs may follow domestic procurement practices, which may lead to non-compliance with Bank procurement guidelines. The mitigation measures to improve the capacity of PMOs at all project levels is agreed with PPMO and described in annex 3 of the PAD in detail. The Procurement Plan (PP) dated December 16, 2016 for the initial 18 months of project implementation was prepared and agreed to. The Plan will be available in the project's database and in the Bank's external website. The PP 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.

#### **E. Social (including Safeguards)**

46. **Project Social Impact and Beneficiaries.** The positive social impacts of the project are to directly promote agriculture-related income, increase physical, human, and social capital of the rural people, empower rural communities and poor households, and improve institutional capacity and services. The social assessment noted that in total, 45,357 households with a population of 177,578 will benefit from the project, including 21,644 households with 83,847 people for the first tranche. Among the beneficiary population, 48,665 representing 27.4 percent of the total are poor. No risk of potential large scale or significantly irreversible negative social impact has been identified. Attention to more equitable sharing of economic gains from modernized value chains will be paid during the process of farmer cooperative establishment with active support from dedicated cooperative facilitators. The Social Assessment (SA) recommendations have been integrated into project design and recommendations from the SA are incorporated in the POM.

47. **Policy Application and Instruments.** The social assessment team concluded that no minority groups are present in the project areas. Therefore **OP 4.10 Indigenous Peoples** is not triggered. The project triggers **OP4.12 Involuntary Resettlement** as the project may permanently and temporarily acquire some land for construction of infrastructure and facilities. Since most sites

of these activities can only be clearly determined during project implementation, a Resettlement Policy Framework (RPF) was developed for the potential resettlement impacts for regulating resettlement planning preparation, review, approval and implementation, where needed.

48. **Involuntary Resettlement OP4.12.** The project activities are relatively small in scale and flexible in location, not resulting in any demolition or relocation of structures or facilities. However, project implementation will entail some land use, mostly through land transfer and rural land renting market, and possibly through land acquisition. Most land use will be for agricultural production, processing, and marketing through land transfer and commercial renting among farmers and cooperatives based on written agreements. The land transfer agreements will be reached in the project implementation stage and before any land transfer; and will be signed voluntarily between farmers and cooperatives, including duration, annual rent or benefit sharing methods, etc., to ensure farmers' land use rights. Land acquisition may be necessary for minor land use on construction of relatively larger activities such as storage, large market, road extension, etc., which are non-agricultural related facilities. All types of activities possibly involving land acquisition were clearly identified but specific locations of these activities can only be determined during project implementation, therefore the RPF was prepared.

49. For addressing the potential land acquisition, the RPF defined, among other regular elements, land compensation rates, social security programs, procedures for resettlement plan preparation, review, approval, and arrangements of resettlement plan implementation, monitoring and grievance redress. The RPF was well prepared in line with the OP 4.12 and domestic regulations, through full consultation with local land authorities, village leaders and farmer representatives.

50. **Social Assessment.** The social assessment was conducted in the project areas. The SA focused on how to ensure project activities target the right beneficiaries, on how to design standards and mechanisms to ensure proper involvement of and benefit for common households, poor households and women, and to enable long term sustainable operation after project completion. The findings and recommendations of the SA were reflected in the project design.

51. **Gender and Poverty Issues.** As part of the SA, a disaggregated gender analysis in the affected communities was undertaken which found that the female population in the project area amounts to 83,480 or 47 percent of the total population. Based on a survey of 112 female farmers the SA identified that 14 percent of women possess the basic skills for the project agricultural activities, 60 percent expressed interest in receiving training in the project, and 89 percent would like to participate in cooperatives. Women's expectations, ideas and recommendations were incorporated in the designs of subprojects including training program. Not less than 40 percent of women will be provided with training opportunities during project implementation. Indicators integrated into the project monitoring plan include: i) number of cooperative members trained disaggregated by gender; ii) direct project beneficiaries satisfied with access to economic infrastructure disaggregated by gender; and iii) female beneficiaries. The SA also indicated that 70 percent of the poor households are aware of cooperatives and 90 percent intend to participate in cooperatives if they have the opportunities in the project. The project aims to engage about 70 percent of poverty households in cooperatives to directly benefit from the project. Poor households

will receive an additional 20 percent allocation of investment shares in cooperatives. No less than 80 percent of poverty households will receive training during project implementation.

52. **Citizen Engagement.** The project is characterized by a high reliance on participation from farmers, cooperatives, and service providers. The project planning and design had to be done in a participatory way, and a participatory implementation manual was prepared to guide farmer participation. The key areas of participation include the following: (i) full information disclosure at each stage; (ii) reflect the real demands from farmers/the poor/women, agricultural producers and service providers; (iii) establishing and operating standard cooperatives in line with the Cooperative Law; (iv) engaging farmers, especially poverty groups, in cooperatives and other project activities to enable their sharing of project benefits; (v) establishing strong linkage mechanisms between cooperatives and beneficiaries especially poor households; and (vi) selection and design of activities.

53. The information sharing and public participation from the villagers and other local stakeholders was conducted thoroughly during the preparation process of the RPF and the SA. 91 percent of people surveyed were aware of the project, and 92.5 percent responded that they would like to participate in the project. The SA and the RPF were disclosed locally on May 9, 2016, with an announcement in the *Sanqin Newspaper*, and through Bank's Infoshop on May 30, 2016 and June 21, 2016, respectively.

#### **F. Environment (including Safeguards)**

54. The project is classified as a Category B project. Applicable environmental safeguard policies for the project include: Environmental Assessment (OP4.01) and Pest Management (OP4.09).

55. **Environmental Assessment (OP4.01).** The project will bring about positive impacts and benefits on the environment and the targeted communities in the project areas. At the same time, the project will cause short-term general construction nuisances associated with the construction/rehabilitation/upgrading of basic infrastructure (e.g. rural roads) and livelihood intervention activities (e.g. installation of irrigation facilities, provision of small scale crop storage and processing facilities, household livestock farms and bio-gas tanks, vegetable greenhouses etc.). During operation, livelihood improvement interventions may generate waste, wastewater, air emissions, noise, and involve pest management issues. However, these impacts are not expected to be significant given that these investments are of small scale and scattered in eleven counties in the Province.

56. An Environmental Management Plan (EMP) has been prepared for the first batch of investments in thirteen communities in accordance with Environmental Assessment Policy OP4.01. The EMP identified potential environmental impacts of the project and proposed mitigation measures including: (i) Environmental Codes of Practice (ECOPs) for construction activities; and (ii) mitigation measures for infrastructure and livelihood improvement facilities. The EMP also proposes a monitoring plan, institutional arrangements and capacity building activities, and EMP implementation budget etc.

57. **Environmental and Social Management Framework (ESMF).** Since the project will take a framework approach for the implementation of community activities, the details of specific investment activities for the second tranche investments will be selected in accordance with the POM after or during the implementation of the first tranche. As such an ESMF has been prepared which identifies the potential types of investments, sets out the guidelines and procedures to assess the environmental and social impacts, and contains measures and plans to reduce, mitigate and avoid adverse impacts and enhance positive impacts.

58. **Pest Management (OP4.09).** The project will support the diversification of crop systems (e.g. approximately 389ha of fruit garden and greenhouse) which may increase pesticide use, but the environmental and health risks are limited. A Pest Management Plan (PMP) has been developed for the project. The PMP incorporates the existing good pest management practices and proposes a number of activities such as: (i) promoting Integrated Pest Management (IPM) to reduce the use of toxic pesticides; (ii) training and capacity building for local farmers and governmental agencies; (iii) introducing and promoting biological and botanical pesticides; (iv) strengthening monitoring; and (v) reinforcing regulatory aspects.

59. **Public Consultations and Disclosure.** The EA safeguard documents were prepared through consultation with key stakeholders during the project preparation process. The EA safeguard documents were locally disclosed through announcements published on the local website and newspaper on May 9, 2016. They were subsequently disclosed at the Bank Infoshop on June 21, 2016 (for EMP), June 22, 2016 (for PMP), and August 25, 2016 (for ESMF).

## **G. World Bank Grievance Redress**

60. Communities and individuals who believe that they are adversely affected by a World Bank (WB)-supported project can submit complaints through existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project-affected communities and individuals can submit their complaint to the WB's independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints can be submitted at any time after concerns have been brought directly to the World Bank's attention and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit [www.worldbank.org/GRS](http://www.worldbank.org/GRS). For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

**ANNEX 1: RESULTS FRAMEWORK AND MONITORING**  
**China**  
**Shaanxi Poor Rural Areas Community Development Project (P153541)**

**Project Development Objectives**

PDO Statement

The Project Development Objective is to increase incomes of targeted beneficiaries in selected poor counties of Shaanxi.

**These results are at** Project Level

**Project Development Objective Indicators**

Indicator Name	Baseline	Cumulative Target Values					
		YR1	YR2	YR3	YR4	YR5	YR6
Direct project beneficiaries (Number) - (Core)	0	16,000	40,000	64,000	96,000	140,000	160,000
Female beneficiaries (Number - Sub-Type: Supplemental) - (Core)	0	4,800	16,000	25,600	38,400	63,000	72,000
Poor Beneficiaries (Number - Sub-Type: Supplemental)	0	4,300	8,000	18,000	26,000	39,000	44,000
Number of cooperative members lifted out of poverty (as measured by government “precise poverty alleviation “ survey)	0	1700	6800	10,000	20,000	30,000	40,000
Share of project cooperatives making profit (Percentage)		10	20	35	45	50	60

**Intermediate Results Indicators**

Indicator Name	Baseline	Cumulative Target Values					
		YR1	YR2	YR3	YR4	YR5	YR6
Number of cooperatives supported by the project (Number)	0	14	40	60	80	80	80

Percentage of poor households participating in the farmer cooperatives (Percentage)	0	10	30	50	60	70	70
Number of cooperative management staff trained	0	380	900	1700	2900	3400	3800
Cooperative management effectiveness (METT)	0	15	-	-	30	-	50
Number of enterprises which received competitive grant for enterprises	0	5	10	15	20	20	20
Number of agro-products certificates and brand names obtained under the project	0	0	10	15	20	25	25
Percentage of direct project beneficiaries satisfied with access to economic infrastructure and services provision, disaggregated by gender	0	0	-	60 (60)	-	-	80 (80)
Person months of advisory or facilitation services provided to cooperatives under the project (cumulative) (Number)	0	260	600	900	1200	1500	1800
Number of analytical studies completed and disseminated	0	0	2	3	5	5	5
Training (person-day) in project management completed by PMO staff at all levels (cumulative) (Number)	0	690	1700	3100	5000	6000	7000

### Indicator Description

#### Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Direct project beneficiaries	Direct beneficiaries are the members of the project communities who directly derive benefits from an intervention (i.e., cooperative and value chain development, economic infrastructure, training and extension services etc.).	Annual	Project Reporting	Provincial and County PMOs

Female beneficiaries	Based on the assessment and definition of direct project beneficiaries, specify number of the beneficiaries who are female.	Annual	Project Reporting	Provincial and County PMOs
Poor beneficiaries	Based on the assessment and definition of direct project beneficiaries, specify number of the beneficiaries who are registered as poor.	Annual	Project Reporting	Provincial and County PMOs
Number of cooperative members lifted out of poverty	Number of cooperative members who were registered as poor, directly derived benefits from joining the cooperatives and rose out of poverty, as measured by government “precise poverty alleviation” survey.	Annual	Project county government poverty monitoring survey	County and Provincial PMOs
Share of project cooperatives making profit	Percentage of the cooperatives supported by the project that make profits as evidence of being financially and managerially stable. Data will be collected from cooperative’s annual audited financial reports.	Annual	Project Reporting; Annual audited cooperative financial report	County and Provincial PMOs; external monitoring

### Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Number of cooperatives supported by the project	Number of cooperatives whose business proposals are accepted and supported wholly or partly by the project Cooperative Development Funds.	Annual	Project Reporting	County and Provincial PMOs
Percentage of poor households participating in the farmer cooperatives	percent of poor households who are members of the cooperatives against the total number of registered poor households in the project villages.	Annual	Project Reporting	County and Provincial PMOs
Number of cooperative management staff Trained	Training for cooperative leaders and managers is of vital importance to strengthen the management capacity and business performance of the cooperatives.	Annual	Project Reporting	County and Provincial PMOs
Cooperative effectiveness, as measured by improvement in performance assessment score	Cooperatives supported by the project show improved scores through performance assessment survey, a multi-dimensional scoring system.	Annual	Performance assessment exercise	External Monitor
Number of enterprises which received competitive grant for enterprises	The indicator records the number of agro-enterprises who receive, individually or in partnership with farmer cooperatives, the matching grants to finance enterprise	Annual	Project Reporting	County and Provincial PMOs

	investments, which demonstrate linkages and benefit sharing with poor farmers/households.			
Number of agro-products certificates and brand names obtained under the project	This indicator measures both number of product certificates and the number of geographical indication and brand name certificates. Product certification is defined as agri-products certified as organic; green; pollution free according to national standards. Geographical indication or branding certificates are done according to national standards.	Annual	Project Reporting	County and Provincial PMOs
Percentage of direct project beneficiaries satisfied with access to economic infrastructure and services	The end-users of economic infrastructure and services (road, irrigation/drainage, information and market facilities etc.). Data will be collected through surveys at Mid-term and end of the project.	Mid-term and end of project	Satisfactory surveys (representative sample)	External Monitor
Person months of advisory or facilitation services provided to cooperatives under the project (cumulative) (Number)	The indicator records the services (on-siting coaching) provided to the cooperatives by the cooperative advisors/community facilitators hired by the project.	Annual	Project Reporting	County and Provincial PMOs
Number of analytical studies completed and disseminated	The studies identified during the project preparation related to the key commodity value chains and policies related to poverty reduction through industrialization and modernization.	Annual	Project Reporting	County and Provincial PMOs
Training (person-times) in project management completed by PMO staff at all levels by gender (cumulative).	The indicator records the training provided to the project staff at all levels and disaggregated by gender during the project life.	Annual	Project Reporting	County and Provincial PMOs



## ANNEX 2: DETAILED PROJECT DESCRIPTION

### China Shaanxi Poor Rural Areas Community Development Project (P153541)

1. The PDO is *to increase incomes of targeted beneficiaries in selected poor counties of Shaanxi*. The project aims to demonstrate an approach to income generation in poverty-stricken areas based on commercialized agriculture, institutional development and capacity building, participation and empowerment, and involves a clear distinction of the different roles and responsibilities of government (public sector) and farmer cooperatives (private sector) in agricultural modernization. The distinction of the various roles of different stakeholders is reflected in the component design. The project has also a broader learning objective to generate lessons from implementation experiences relevant for the application and scale-up within the LGOP's own program under the *Outline for Development-oriented Poverty Reduction for China's Rural Areas (2011-2020)*. With this implicit learning objective, the project represents a continuation of the LGOP-Bank cooperation in poverty reduction that has evolved from multi-sector approaches, participation and community-driven development, towards market-based approaches to poverty reduction.

2. Selection Criteria for Project Counties. The project will be implemented in 11 counties i.e. *Longxian, Linyou, Changwu, Heyang, Baishui, Fuping, Yichuan, Yanchang, Yanchuan, Dingbian and Mizhi* under five prefecture-level municipalities. All the counties are national or provincially designated poverty counties which are located in the contiguous poverty-stricken areas of the Baiyu Mountains, hilly areas along the Yellow River and dry highland areas north of the Weishui River. The project will cover about 29 towns/townships involving an estimated total of 253 administrative villages, with a total population of 177,578 of which 48,665 are registered as poor (2015), although there is a degree of flexibility built into the project design and these figures could vary as implementation progresses. The following criteria were used to select project areas (town/townships/villages).

- 1) be supported by the poverty monitoring information, and meet key poverty criteria as measured by poverty incidence ratio, severity of poverty, and larger groups of rural poor, etc.;
- 2) have a long-term development perspective, e.g., well established and stable communities with potential for rural development and growth.
- 3) have developed local development strategies especially urban-rural integration plan, Agriculture Development plan and Poverty Reduction plan to ensure linkage and integration between project interventions and these local development strategies;
- 4) be existing cluster of rural villages with the following features (i) being defined as major rural settlements in local master plan of rural-urban development; (ii) having a relatively large population size; and (iii) densely located within a reasonable service catchment of existing central small towns;
- 5) be representative with potential for demonstration and replication;
- 6) be willing to establish or enhance farmer cooperatives as the primary vehicle for connecting specific investment and project beneficiaries (poverty households in particular).

3. The project design reflects the recognition and experience that 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 key agricultural commodities that have been identified based on local 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.

4. Project interventions seek to promote the modernization of the household-based farming model in rural areas, improve the sustainability of agriculture, and strengthen the role and potential of agriculture for employment, income generation and poverty reduction. The project design also recognizes that out-migration from rural to urban areas and agricultural modernization are complementary elements in China's poverty reduction strategy. The following are some key areas that have been identified and given special attention during the project design:

- **Technology extension service.** 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 have a critical role to play in introducing and extending innovation and technical skills, for example through improved breeds, varieties, innovative processing, packaging, and other means. Improving management practices, logistics, and post-harvest handling through the operation of cooperatives will all contribute to reducing losses and increasing incomes from production of primary products.
- **Standardized production and quality assurance.** The role and capability of cooperatives shall be strengthened to help organize production, and assist farmers to use standardized production methods to achieve higher and more consistent product quality standards and improved yields. Unified standards, consistency of supply and product quality combined with quality assurance and the implementation of traceability systems (provided by cooperatives) can make such production more attractive to enterprises and buyers and open up marketing channels.
- **Strengthen market linkages.** The World Bank report found that cooperatives have helped strengthen linkages between producers and modern markets through approaches such as contract farming, joint marketing with enterprises or through federations of cooperatives, direct sales to supermarkets and institutions, establishing traceability and food safety systems, improving product quality, providing storage and handling, e-commerce, etc. This requires the strengthening of cooperatives to organize and train farmers, coupled with strengthening relevant supporting public services, such as food safety testing to guarantee quality, certification standards, etc.
- **Value chain approach.** Both the World Bank report and the Shaanxi DOA note that up to now cooperatives in China largely remain focused on production related tasks and very few have extended their activities up or down the value chain. 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 support the development of value chains for key commodities through new organizational arrangements, such as farmer cooperatives – agro-enterprise cooperation agreements and by supporting value-addition investments, such as quality improvement, establishing standards, storage and basic processing, branding of products, product marketing.

- **Roles and responsibilities of government, cooperatives and households.** Many counties lack clarity on the respective roles of cooperatives, farmer households, agro-enterprises, 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.

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

6. **Component A: Farmer Cooperative and Value Chain Development** (*US\$93.41 million, of which IBRD US\$46.99 million*). This component aims to support the improvement of value chains for selected agricultural products with local competitive advantage (key commodities), establish new farmer cooperatives or strengthen existing cooperatives to become effective business entities and strengthen forward and backward linkages. The specific activities supported under this component are arranged in two sub-components:

- a) *Cooperative Development.* This sub-component will provide conditional grant financing support to business operation of eligible new or existing cooperatives. As noted in both the 2015 World Bank study and the Shaanxi DOA report, cooperatives have great difficulty in getting access to commercial credit. Access to capital is one of the major constraints to cooperative development. Banks are generally reluctant to provide cooperatives with credit because the ownership of the cooperative assets (and hence collateral) are generally unclear, they lack credible investment and business plans and their management capacity is limited. Financial support from the project will enable the cooperatives to undertake investment and expansion activities, while at the same time technical support from the project will strengthen the management capacity of cooperatives, enabling them to access commercial credit over the longer run.

Providing resources as a grant is intended to address failures in rural markets which hinder small-holder farmers and the poor from intensifying and commercializing their operations, namely asymmetries in: access to services and information; access to financial resources from the formal financial sector and; access to inputs and technical support. Moreover, small holder farmers, and especially the poor, tend to be very risk averse, and without such support they are unlikely to venture into trying new products, new technologies or new organizational forms. Project support is intended to help reduce the risks to project beneficiaries, smoothing their transition to sustainable, commercially based production.

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. To be eligible for project support cooperatives must be officially registered with the local Industry and Commerce Bureau and must comply with the requirements of China's Law on Farmer Professional Cooperatives. A minimum of 30

percent of the members must be women. The Board of Directors must include at least one women's representative and one representative of poor households. The cooperative must practice democratic management and the constitution of the cooperative must stipulate that voting in general meetings will be done on the basis of one member one vote. The cooperative must include a significant number of poverty households, and must have a credible plan to enroll at least 75 percent of the poverty households in its coverage area into the cooperative before the end of the project. The cooperative must also agree that financial support provided through the project will be recorded as member-shareholdings, with the allocation of project funds to member share-holding accounts biased in favor of poverty households. Distribution of a maximum of 40 percent of the cooperative profit will be made on the basis of shareholdings, with the distribution of at least 60 percent of the profit done on the basis of member transactions with the cooperative. The principles and operating mechanisms have been developed and described in the POM.

Grants would be used to implement cooperative investment plans that are formulated by the cooperatives with the support of project facilitators, technical experts, enterprises, and county government line agencies. The county PMO and county TAG will assess the investment plans and refer the plans to the municipal PMO. The municipal PMO will review the plans, and if it agrees with the county PMO's assessment, the plans will be submitted to the provincial PMO. At the provincial level, the investment plans will be reviewed by the PMO and the provincial TAG, and if approved, the plans will be submitted to the Bank for no-objection.

Upon approval of the investment plans by the county government, cooperatives would invest the cooperative development funds in: new production systems for improved/high quality seedlings and improved breeding stock; facilities and goods for pre-processing and processing of agricultural and related products at the cooperative level; facilities and goods related to rural tourism development (in counties where rural tourism is a key industry), and related civil works and goods; storage and marketing facilities at the cooperative level; technical services for market analysis and market development to access new and higher-value markets; and civil works, goods and services related to upgrading quality standards, labeling, certification, branding, logistics, food safety and other investments at the cooperative level. It will also support improving management facilities and basic office equipment, as well as training in cooperative management including technical and financial, and business operations to improve cooperative effectiveness, and other training related to the establishment of new or improvement of existing farmers cooperatives; training and capacity building for other community economic groups.

Through training and advisory support, the project will support cooperatives to increase the degree of member engagement in cooperative governance and decision making. This is fully in accord with the *Chinese Cooperative Law*, which requires that cooperatives practice democratic management. Increased member engagement entails giving women and the poor a voice in the operations and strategic decision making of the cooperative, which in turn contributes to enhancing the poverty alleviation impact of the project and strengthening the communities in which the cooperatives are based.

- b) *Competitive Grant for Enterprises (CG)*. This sub-component would provide matching grants to finance enterprise investments, which have prepared investment and business expansion plans jointly with farmer cooperatives. It is expected that some 10 percent of project investment could be awarded to eligible enterprises in partnership with farmer cooperatives. The number of poor farmers linked in the targeted value chains, the amount of income accruing to farmers and fair benefit sharing arrangements would be key selection criteria for making such matching grants. The grants would be provided based on an application process which includes transparent evaluation and competitive selection. Interest from the enterprises would be solicited through several rounds of public advertisement. To ensure ownership and to demonstrate commitment, the applying enterprises would need to match the grant amount with their own funds at a cost-sharing requirement of some 80 percent, which would come from the enterprises own resources and/or from commercial lending. Grants would focus on the investments which improve product quality, processing and marketing, production of value added agricultural products, food safety promotion and improvement, income-generating activities for poor farmers, new product development, and provision of services in the selected project areas. The management and implementation of this subcomponent would be done at the county level or beyond. The procedure of selecting and implementing this subcomponent is detailed in the POM.

7. **Component B: Economic Infrastructure and Services Support** (*US\$ 35.84 million, of which IBRD US\$32.22 million*). This component aims to improve the economic infrastructure connecting the communities to large value chains. It would provide investments for: (i) improving connectivity within selected villages, inter-villages, between villages and central small towns; (ii) upgrading production infrastructure, including construction and rehabilitation of irrigation and drainage infrastructure; establishment of communications and information infrastructure; provision of cold storage and other post-harvest facilities, market facilities, etc.; and (iii) strengthening other infrastructure serving the farmers income increasing activities.

8. The selected investments demonstrated strong linkages to the aim of improving and strengthening value chains. Improved roads between and within villages will improve accessibility for larger and heavier vehicles, thereby reducing transport costs, reducing spoilage of products during shipping and reducing the time between harvest and sale. Production roads will enable access by tractors and wagons to farmers' fields, reducing the transport and labor costs for carrying seeds, seedlings, fertilizer and equipment to the fields and also reducing costs and spoilage when bringing produce to collection points. Irrigation infrastructure will serve to increase yields, reduce susceptibility of crops to vagaries of weather and contribute to improving product quality. Construction of markets will provide outlets for farmers and cooperatives to sell their products.

9. **Component C: Technical Assistance and Capacity Building Support** (*US\$4.17 million, of which IBRD US\$4.17 million*). This component aims to support both technical and institutional capacity building for participating farmers, village committee members, community economic groups, farmer cooperatives and advisors, agricultural technicians, agro-enterprises and companies, etc. This will be achieved through training, extension services, study tours, skill development programs, consultations and project awareness raising campaigns and dissemination of project lessons at relevant project levels. Recruitment of cooperative facilitators and support for the TAGs to review and improve the CAIPs will also be included under this component. Training

and capacity building will include but not be limited to production related knowledge and skills. Equally important will be training and capacity building on management knowledge and skills as well as on cooperative awareness and understanding. Applied research and analysis will also be carried out to facilitate achievement of the project objectives, including the study of key commodity value chains and policies related to poverty reduction through industrialization and modernization.

10. **Component D: Project Management, Monitoring and Evaluation (M&E)** (*US\$4.39 million, of which IBRD US\$4.39 million*). This component aims to strengthen and develop the administrative and technical capacity of staff of the PMO through: (i) capacity building for the provincial, municipal, county PMO and cooperatives to strengthen project management; and (ii) development of Management Information System (MIS) and an M&E system for project activities which includes monitoring physical project progress, compliance with environmental and social safeguards, and project impact monitoring. The M&E system will also assess the relative performance of project-supported cooperatives compared to cooperatives not benefiting from project support to demonstrate the impact of project interventions and the pro-poor value chain strategy.

## ANNEX 3: IMPLEMENTATION ARRANGEMENTS

### China Shaanxi Poor Rural Areas Community Development Project (P153541)

#### A. Project Institutional and Implementation Arrangements

- 1. Provincial Steering Committee.** A provincial steering committee, chaired by the general director of Shaanxi Provincial Poverty Alleviation and Development Office (PPADO), with representatives from the senior management of the provincial Finance Department, Development and Reform Commission, Agriculture Department, Auditor's Offices, Civil Affairs Bureau, Women's Federation, and other departments will provide leadership, policy guidance, and direction for project implementation within their respective jurisdictions. Project Leading Group at county level, comprising authorities of relevant expertise will also be formed to provide overall guidance.
- 2. Project Management Offices** A provincial Project Management Office (PMO) has been established in the Shaanxi 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.
- 3.** County PMOs have been established with the primary responsibility for project management at the local level, including reviewing investment proposals, carrying out supervision and initial acceptance checking for construction and procurement activities, recruiting cooperative facilitators and providing technical support to farmer cooperatives. The County PMO will also play a key role in coordinating project activities with other relevant government agencies as well as local enterprises involved in value chains supported by the project.
- 4. Town/Township Government and Administrative Village Committee (AVC).** Town/Township government and AVC will be responsible for local public information dissemination, community mobilization, planning and implementation of economic infrastructure investments assigned to the administrative village level, and coordination of any land adjustments for infrastructure construction, as needed.
- 5. Beneficiary Farmer Cooperatives.** About 80 beneficiary Farmer cooperatives will be selected based on the agreed principles, criteria and approval procedures during the project cycle. These cooperatives shall be legally established as economic entities and registered in accordance with *China's Farmer Professional Cooperative Law* under local Bureaus of Industry and Commerce. They will have implementation responsibility for all agreed activities financed under the Component A (a) in accordance with the signed implementation agreement.

6. **Farmer Cooperative Facilitators.** Farmer cooperative facilitators will be recruited and trained by the provincial and county PMOs to assist in the establishment and operation of new cooperatives, provide guidance to cooperative operations, and assist the county PMOs in conducting acceptance checks, monitoring and reporting of cooperative activities, and handling cooperative complaints.

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

## **B. Financial Management, Disbursements and Procurement**

### ***Financial Management***

8. 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, the on-lending agreement will be signed between MOF and SPDF on behalf of Shaanxi Provincial Government.

9. **Budget.** The annual project implementation plan, including the funding budget and the resources, will be prepared by the county PMOs based on their annual work program. Relevant local finance bureaus will review such annual budget and release project funds based on actual implementation progress. Budget variance analysis will be conducted regularly thus enabling timely corrective actions.

10. **Funds Flow.** One designated account (DA) of the Bank loan will be opened and managed by SPDF. SPDF will be directly responsible for the management, maintenance and reconciliation of DA activities of the project. To ensure proper usage of project funds, disbursement requests will be prepared by each county PMO, reviewed by their county and/or municipal finance bureaus, and then passed to the PPMO for review and finally approved by SPDF. The Bank loan proceeds will be disbursed from the DA in SPDF to county finance bureaus and then directly to contractors or to the PMOs if they pre-finance.

11. The proposed funds flow arrangement and related processing period should ensure contractors receive payments within the dates stipulated in the signed contracts. The Bank will closely monitor disbursement efficiency during implementation. If significant payment delays occur, the Bank will guide the project to explore more streamlined funds flow arrangements.

12. **Accounting and Reporting.** The administration, accounting, and reporting for the project will be set up in accordance with Circular #13: “Accounting Regulations for World Bank-financed Projects” issued in January 2000 by the MOF.

13. All the county PMOs will manage, monitor and maintain project accounting records, either by manual or accounting software, in accordance with Circular 13 for its implemented project activities. Original supporting documents for project activities will be retained by each PMO respectively. The PPMO will consolidate project financial statements submitted by all the PMOs and incorporate its transactions and DA information maintained by SPDF to prepare consolidated



project financial statements. The unaudited semi-annual project financial reports will be prepared and furnished to the Bank by the PPMO as part of the Progress Report no later than 60 days following each semester (the due dates will be August 31 and February 28).

14. **Internal Control.** The related accounting policy, procedures and regulations have been issued by MOF and will be followed by all the PIUs. Detail internal controls procedures including segregation of duties, review, approval, and reporting procedures as well as the safeguard of assets have been established and documented in project financial management manual.

15. Since many activities are carried out by county PMOs and farm cooperatives, for the purpose of strengthening the financial management, the following specific financial controls will be incorporated into the FMM which is an integrated part of Project Operational Manual;

- a) First, the provincial level should enhance their guidance and supervision to county level from FM aspects by establishing FM supervision policy to make sure the FMM is complied with. It has been agreed that PPMO should carry out semi-annual FM supervision to county PMOs in the first year of project implementation with the support of SPDF and consultants if needed. Such supervision should at least cover but not be limited to the following topics: (1) review of semi-annual project financial statements; (2) review of project accounts; (3) examination of the project expenditure eligibility and related supporting documents; (4) sampling check of cooperatives' project accounts and supporting documents; and (5) variance analysis between the approved annual work plan and actual expenditures. The supervision results should be documented in a written report and filed in sequence. The frequency of such supervision could be reduced to an annual basis in the second year and the following years of project implementation in cases where there were no significant FM issues arising in the previous supervisions.
- b) Second, each cooperative should comply with National Accounting Regulation for Rural Cooperatives to maintain its financial records and accounts which subject to PPMO, county PMO and Bank's review. Additionally, the cooperative's annual audit should include the Bank loan proceeds receiving and usage status, and such audit report should be publicly disclosed in related village/community annually.

16. Under Component A, around 80 farmer cooperatives and 30 participating enterprises will be involved in the project implementation. According to the project operational manual, the county PMOs should sign an implementation agreement with farm cooperatives and participating enterprises based on its approved investment proposals on terms and conditions acceptable to the Bank. Such implementation agreements should be reviewed and approved by the PPMO and obtain the Bank's no objection before signing. The content of implementation agreement should include but not be limited to the following: (1) Scope of work to be carried out; (2) Total cost of said work, the amount of Bank loan proceeds to be used to finance said work, and the amount of financial contribution to be made by the counterpart funds; (3) Works implementation schedule; (4) Technical standards to be followed; (5) Supervision, verification and acceptance procedures to be followed; (6) Schedule of payments to participating enterprises and the conditions for such payments.

17. The farmer cooperatives will claim actual expenditures incurred for Component A (a), except for office facilities, green product certification, e-commerce platform and agro-product display kiosk etc., in accordance with the implementation agreement. The farm cooperatives will claim lump sum output based subsidies for its improvement of office facilities, green product certification, e-commerce platform and agro-product display kiosk etc., as approved by the Bank and specified in the implementation agreement. The supporting documents for payments to farm cooperatives at least include: signed implementation agreement, procurement contracts, copies of invoices, acceptance and verification report, etc. The participating enterprise will claim lump sum expenditure for Component A (b) as specified in the schedule of payments and conditions in implementation agreement. The supporting documents for payments to participating enterprises at least include: signed implementation agreement, acceptable and verification report etc.

18. Under Component A, farmer cooperatives should (i) carry out the work with due diligence and efficiency, in accordance with sound financial and technical practices, following procurement procedures acceptable to the Bank for the Bank financed contracts as approved procurement plan; (ii) maintain and manage the tangible assets upon completion of works; (iii) maintain adequate records and accounts including financial and accounting records using accounting software developed by Ministry of Agriculture especially for cooperatives and in accordance with cooperatives accounting regulations; (iv) enable county PMOs and Bank to inspect the work; and (v) provide all such information as the county PMOs or Bank may reasonably request regarding the work.

19. **Audit.** The Shaanxi Provincial Audit Office (SPA0) will be the project auditor. Annual audit report on the project financial statements will be due to the Bank within 6 months after the end of each calendar year. According to the agreement reached with MOF and China National Audit Office, the audit reports and audited financial statements will be made publicly available in both World Bank and SPA0's official websites.

### **Disbursement**

20. Four disbursement methods: advance, reimbursement, direct payment and special commitment are available to the project. The primary Bank disbursement method will be advances to the DA. Withdrawal Applications (WAs) will be prepared to request Bank disbursements and to document the use of Bank financing. WAs will include supporting documents in the form of Statement of Expenditures (SOEs) to be prepared on cash basis, and source documents identified in the Disbursement Letter issued by the Bank.

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

### **Disbursement Categories and Percentages**

<b>Category</b>	<b>Amount of the Loan Allocated (expressed in USD)</b>	<b>Percentage of Expenditures to be financed (inclusive of Taxes)</b>
(1) Goods, works, non-consulting services, consultants' services, Training and Output-based Subsidies under Cooperative Development Grants under Part 1.1 of the Project	36,990,000	100% of amount disbursed
(2) Goods, works, non-consulting services, consultants' services under Enterprise Matching Grants under Part 1.2 of the Project	10,000,000	100% of amount disbursed
(3) Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs under Parts 2, 3, and 4 of the Project	45,330,000	100%
(4) Interest and other charges on the Loan accrued on or before the last Payment Date immediately preceding the Closing Date.	7,430,000	Amount payable pursuant to Sections 2.05 and 2.04 of the Loan Agreement, respectively, in accordance with Section 2.07 (c) of the General Conditions
(5) Interest Rate Cap or Interest Rate Collar premium	0	Amount due pursuant to Section 2.08(c) of the Loan Agreement
(6) Front-end Fee	250,000	Amount payable pursuant to Section 2.03 of the Loan Agreement in accordance with Section 2.07 (b) of the General Conditions
<b>TOTAL AMOUNT</b>	<b>100,000,000</b>	

## **Procurement**

22. **Capacity Assessment.** The procurement capacity assessment identified that project procurement institutional arrangements have been established at provincial, county and cooperative levels; institutional responsibilities and procurement procedures have been defined and described in the POM; full-time procurement staff at provincial, county and cooperative levels are appointed and in place; procurement staff of the provincial PMO and those in a number of county PMOs have experience with Bank-financed projects, including the Qinba Mountains Poverty Reduction Project (1997-2004), the Poor Rural Communities Development Project (2005-2011), and are familiar with Bank procurement procedures. The key project procurement risks are: (a) some of the County PMOs and their newly appointed procurement staff lack experience with Bank-financed projects; (b) all beneficiary farmer cooperatives have no procurement experience and are normally located in remote places, which will make supervision a challenge; and (c) County PMOs may follow domestic procurement practices, which may lead to non-compliance with Bank procurement guidelines. These risks will be addressed through: (a) preparation and implementation of a procurement training plan to train all procurement staff at provincial, county and cooperative levels periodically during project implementation; (b) participation of

procurement staff in the regular procurement training program offered by some universities 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 and clearly defined responsibilities of procurement at provincial, county and cooperative levels; (d) a procurement agent will be hired by PPMO and county PMOs to assist in the execution of procurement activities; and (e) cooperative facilitators will be hired by county PMOs to assist cooperatives in carrying out procurement activities. Overall procurement risk is rated as 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, revised July 2014; “*Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers*”, dated January 2011, revised July 2014; 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 some activities such as improvement of cooperative facilities, green product certification, e-commerce platform and agro-product display kiosk, which will be output based subsidies under Component A. Community Participation in Procurement would apply to some procurement activities under Component A (a) “*Cooperative Development*” which would be carried out by cooperatives. Commercial Practices would apply to investment activities carried out by private sector enterprises under Component A (b) “*Competitive Grant for Enterprises*”. Detailed procedures for Community Participation in Procurement are defined in the procurement section of the POM.

24. **Procurement responsibilities.** Procurement for investment activities, such as office equipment, project management information system, recruitment of technical advisory groups and applied research and analysis under component C and D, at provincial level will be implemented by the PPMO; and procurement for investments for Component B, Economic Infrastructure and Services Support construction located in project area and recruitment of cooperative facilitators, as well as hiring technical advisory group at county level under component C will be under the responsibility of the respective county PMOs. The Bank procurement procedures will be applied. Those activities to be implemented by farmer cooperatives under Component A (a), Cooperative Development, Community Participation procedures (identified by 3.19 of Procurement Guidelines) will be applied. Under component A (b), Competitive Grant for Enterprises, the selected enterprises will be responsible for procurement activities following commercial practice. The detailed implementation procedures are defined in the procurement section of POM. No ICB procurement would be needed in this project.

25. **Procurement of Works.** The project will finance construction of management facilities (small buildings and offices, exhibition halls for farm products) for cooperatives under component A; roads construction in project areas for improving connectivity within selected villages, inter-villages, between villages and central small towns and transport networks; upgrading production infrastructure, including construction and rehabilitation of irrigation and drainage infrastructure; small civil works for improving crop farming, etc. under component B. The procurement will be managed by the county PMOs and cooperatives respectively in line with Procurement Plan (the

Bank has agreed) depending on the contract size, NCB (National Competitive Bidding) or shopping procedures will be adopted. The Chinese Model Bidding Document for Procurement of Works issued by MOF in 2012, revised November, 2015 shall be used for all NCB contracts. In case of any ICB, Bank's SBD will be adopted.

26. **Procurement of Goods and Non-consulting Services.** Goods to be procured under the project include: (a) establishment of communications and information infrastructure; (b) office equipment for provincial PMO, municipal PMOs and County PMOs; and (c) facilities or equipment for agricultural development. NCB, Shopping, Community Participation and Direct contracting procedures could be adopted. Non-consulting service contracts will be procured for the purposes of: (a) public awareness; (b) knowledge management and scale-up activities; and (c) organization of workshop, training and study tours, as needed. The Chinese Model Bidding Document for Procurement of Goods issued by MOF in 2012, revised November, 2015 will be adopted for all NCB contracts. In case of any ICB, Bank's SBD will be used.

27. **Selection of Consultants.** Consulting services will be needed to execute the activities included in Component C and D aimed at supporting technical and institutional capacity building activities for PPMO, municipal PMOs, county PMOs, participating farmers, cooperative facilitators, farmer cooperatives, agricultural technicians, agro-enterprises and companies, project management, monitoring and evaluation (M&E), etc. QCBS, QBS and CQS would be followed for the selection of firms to undertake these consulting services; Individual consultants would be selected in accordance with the provisions of paragraph 5.1~5.3 of the Consultant Guidelines, and Single-Source Selection (SSS) for firm and individuals could be adopted in exceptional cases and shall be specified in the Procurement Plan. A sufficiently detailed justification, including the rationale for SSS rather than competitive selection process, and the basis for recommending a particular firm or individual, will be required.

28. **Procedures for Community Participation in Procurement.** Activities under Component A (a), including building new production systems, improving seedlings and breeding stock, facilities for processing agricultural products, facilities and goods related to rural tourism development, storage and marketing facilities, and civil works, goods and services related to upgrading quality standards, labeling, certification, branding, logistics, food safety and other investments at the cooperative level would be procured with community participation. Farmer cooperatives would carry out the procurement under the following procedures, which are elaborated in the POM:

- (a) *Local Shopping for Procurement of Works.* Quotations would be obtained through the invitation of at least three qualified contractors to submit quotations on the basis of simplified quotation requests. Quotations should be opened at the same time and to the extent possible in the presence of community. As a general rule, the contractor who offers the lowest price and meets the technical requirements should be awarded the contract. The threshold for local shopping for civil works is below US\$200,000 per contract.
- (b) *Local Shopping for Procurement of Goods.* Quotations would be solicited from at least three qualified suppliers on the basis of simplified documents specifying the goods to be procured. Quotations should be opened by the cooperatives at the same time. As a general

rule, the responsive supplier who offers the lowest price should be awarded the contract. The threshold for local shopping for goods is below the equivalent of US\$100,000 per contract.

- (c) *Community Force Account*. Communities will mobilize their own labor and equipment to carry out the works. Works to be constructed under force account should have a detailed description of the works, a set of technical specifications, and a supervision team to check quality and quantities. Payment would be made based on pre-estimated unit costs for works specified in the signed implementation agreement against completed works, as certified by communities and approved by the county PMO.

29. **Procurement Thresholds**. Procurement thresholds for procurement methods and Bank prior review are presented below:

Expenditure Category	Contract Value Threshold (US\$)	Procurement Method	Prior Review Threshold (US\$)
1. Goods and Non-Consulting Services	≥10,000,000	ICB	All
	<10,000,000	NCB	≥2,000,000
	<250,000	Shopping	N/A
	None	Direct Contracting	≥2,000,000
2. Works and Supply and Installation of Plant and Equipment	≥40,000,000	ICB	All
	<40,000,000	NCB	≥10,000,000
	<300,000	Shopping	N/A
3. Consultants Services	≥300,000	QCBS/QBS	≥1,000,000
	<300,000	CQS	N/A
		Individual consultant	≥300,000
		Single source selection (firm)	≥1,000,000
	Single source selection (individual)	≥300,000	
4. Component A (a)	<US\$100,000 for Goods <US\$200,000 for Civil Works	Community Participation Procedures are to be described in Project Operations Manual and finalized before negotiation	N/A
5. Component A (b) Competitive Grant for Enterprises	N/A	Commercial Practice	N/A

30. **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.

31. **Procurement Plan.** A Procurement Plan, dated December 16, 2016 acceptable to the Bank, has been prepared by the PPMO. This 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. Meanwhile, cooperatives would prepare annual investment plans after the cooperatives have been established and their investment proposals would be approved by the county PMOs and provincial PMO, and reviewed by the Bank.

32. **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 and one out of fifteen contracts for procurement activities carried out by the provincial and county PMOs. Given the large number of parties and transactions involved, the small value and multiplicity of contracts, and the scattered locations of the subprojects, which present a challenge to verifying all individual sub-projects, various accountability mechanisms including community participation, public announcement of community activities and funds received and spent have been built into the local governance system and included in the POM.

33. **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 expenditure up to an aggregate amount not to exceed US\$ 10 million may be made for payments within 12 months prior to the date of the Loan Signing, but on or after August 10, 2016. Relevant activities for which retroactive financing is being sought are subject to post review on a sample basis.

### *Environmental and Social (including safeguards)*

#### **Social**

34. **Project Social Impact.** The proposed project is located in 11 counties in northern Shaanxi Province, contiguous poverty-stricken areas of the Liupan Mountain, Luliang Mountain, Qiangba Mountains and the hilly areas along Yellow River as designated by the national or provincial authorities. The project aims to increase income opportunities of targeted beneficiaries in selected poor rural communities. The positive social impacts of the project are to directly promote agriculture-related income, increase physical, human, and social capital of the rural people, empower rural communities and poor households, and improve institutional capacity and services. At the same time, land use and some activities may have some minor adverse impacts on local communities, such as land acquisition.

35. **Project beneficiaries.** The social assessment found that a total of 45,357 households with 177,578 villagers in the project area will benefit from the project, including 21,644 households with 83,847 villagers for the first tranche. Among the beneficiaries, 48,665 villagers representing 27.4 percent of the whole project are designated as poor, while 20,649 villagers (24.6 percent) in

the first tranche are poor. The number of women is 83,480 making up 47 percent in the project area and for the first tranche of activities 39,267 making up 46.8 percent.

36. The SA also identified that the main potential benefits of the project includes: i) obtaining productive materials like seedlings, fertilizers and agrochemicals for free or at a lower price; ii) farmers income gained from leasing out or transferring their land; iii) obtaining shares and dividends through the investment of productive materials such as land and fruit trees, etc.; iv) working at the production base of cooperatives and earning wage income; v) getting free technical guidance and training; vi) selling products to the cooperatives at a higher price; vii) getting dividends based on the volume of their transaction and other ways.

37. The social assessment team concluded that there are no minority groups in the project areas, therefore **OP 4.10, Indigenous Peoples**, is not triggered. The project may permanently or temporarily acquire some land for construction of infrastructure and facilities, such as construction of road, storage, market, etc., therefore the **OP4.12, Involuntary Resettlement**, will be triggered. Since most sites of these activities, serving rural communities and local agricultural related enterprises, and specific locations can only be clearly determined during project implementation, a Resettlement Policy Framework (RPF) was developed for potential resettlement impacts for regulating resettlement planning preparation, review, approval and implementation, where needed. Further, the project involves many stakeholders related to agricultural and community, and will have wide social impacts. Implementation will rely on participation from individual farmers and cooperatives, so a standalone social assessment (SA) was needed.

38. **Involuntary Resettlement (OP4.12)**. The project activities are relatively small scale and with flexible locations, so will not result in any demolition or the relocation of structures or facilities. However, project implementation will entail land use for agricultural production, processing, and marketing, which depends on land transfer and commercial renting among farmers and cooperatives based on written agreements, relying mostly on land transfer and rural land rental markets. Following detailed investigations with government line agencies, for the first tranche, it was found that 63 construction projects involve land use of 4,797 mu. According to the No.127 document *Notice About Further Supporting the Healthy Development of Facility Agriculture* issued by Ministry of Land and Resources in 2014 and its classification of land for agricultural facilities and for construction, 4760 mu of this land falls into the category of facility agriculture which can be obtained through land transference or renting without the need for expropriation. Nine investments involve land use in the category of construction, covering an area of 36.97 mu which will have to be converted or expropriated. Construction for subsequent project tranches is not clear at this stage in terms of construction items, location or land use.

39. Land acquisition may be necessary for minor land use on construction of relatively larger activities such as storage, large markets, road extensions, etc., which are non-agricultural related. All the types of activities which might involve land acquisition were clearly identified but specific locations for these activities can only be clearly determined during project implementation, therefore the RPF was prepared.

40. For addressing the potential land acquisition activities the RPF defined, among other regular elements, land compensation rates, social security programs, procedures of resettlement plan



preparation, review, approval, and arrangements for resettlement plan implementation, monitoring and grievance redress. The RPF was well prepared in line with the OP 4.12 and domestic regulations through full consultation with local land authorities, village leaders and farmer representatives. It was disclosed locally on May 6, 2016.

41. **Social Assessment.** The SA was conducted in the project areas with assistance from Shaanxi Academy of Social Sciences Institute (SASS). Based on sampling and field work, the SA identified diverse stakeholders including poor households and women; surveyed the roles, demands and opinions of the relevant stakeholders on planning, design, construction and operation related to cooperatives and economic infrastructure; discovered social risks related to project activities and further identified measures for minimizing adverse social risks and enlarging social benefits. The findings and recommendations of the SA were discussed with the feasibility study team and reflected in the project design. The SA also covered gender and poverty issues, through a social and economic baseline survey covering women and the poor. The attitudes and opinions from female and poor participants were integrated into the project design.

42. The SA focused on how to ensure project activities target the right beneficiaries, how to design standards and mechanisms to ensure appropriate involvement of and benefit for common households, poverty households and women, and to enable long term sustainable operation of the mechanisms after project completion.

43. **Gender.** The SA indicated that the female population in the project area amounts to 83,480 or 47 percent of the total population, in which 39,267 or 47 percent are in the first tranche. Based on a survey of 112 female farmers the SA provided for gender-disaggregated social and economic baselines, consulted with women on their social and economic concerns and needs, as well as on potential positive and negative project impacts, and further integrated their attitudes and opinions into the design of activities to support cooperatives, training programs, etc. The survey showed that 14 percent of women possess the basic skills for the project agricultural activities, 60 percent expressed interest in receiving training in the project, and 89 percent would like to participate in cooperatives. No less than 40 percent of women will be provided with training opportunities during project implementation. The following indicators are integrated into the project monitoring plan: i) Number of cooperative members trained, by gender; ii) Direct project beneficiaries satisfied with access to economic infrastructure disaggregated by gender; iii) Female beneficiaries.

44. **Poverty Issues:** There are 13,621 poverty households with total of 48,665 persons in the project area, with an overall poverty ratio of 27 percent. According to the poverty investigation of 213 poor households, in the project areas, poverty classification includes mainly disability and disease (25 percent) and shortage of skill or funds (40 percent). On the demands of poor households, the social assessment found that 70 percent are aware of cooperatives and 90 percent intend to participate in cooperatives if possible. Poverty population prioritized activities such as building agriculture-related infrastructure facilities and participating cooperatives. The project will engage about 70 percent of the total poverty households to participate in cooperatives and directly benefit from the project. Poor households will receive an additional 20 percent allocation of investment shares in cooperatives. No less than 80 percent of poverty households will receive training during project implementation. The following indicators are integrated into the project

monitoring plan: i) Number of poor beneficiaries; ii) Number of cooperative members lifted out of poverty; iii) Percentage of poor households participating in farmer cooperatives.

45. **Citizen Engagement:** The project is characterized by a high reliance on participation from farmers, cooperatives, and service providers. The project planning and design had to be done in a participatory way, and a participatory implementation manual was prepared to guide farmer participation. The key areas of participation include the following: i) full information disclosure at each stage; ii) reflecting the real demands from farmers/the poor/women, agricultural producers and service providers; iii) establishing and operating standard cooperatives in line with the Cooperative Law; iv) engaging farmers, especially poverty groups, in cooperatives and other project activities to enable their sharing of project benefits; v) linkage mechanisms between the standard cooperatives and beneficiaries especially, poor households; and vi) Activity selection and design.

46. On consultation, in addition to extensive desk work during the RPF and SA preparation stage, eight meetings with local authorities and 14 village group discussions including women groups and poverty groups were undertaken. Moreover, 623 questionnaires were completed, including 112 from women (16.2 percent), and 213 from poverty households (30.7 percent). During implementation stage, it is required that 90 percent of the rural households and 100 percent of the registered poor households must be informed of the purpose and conditions of the cooperative development funds; and each cooperative shall set a target to achieve at least 70 percent participation of the village's poor households in the cooperative over the life of the project as a condition for accepting its investment proposal.

47. Information sharing and participation of villagers and other local stakeholder was conducted thoroughly in the project areas during the RPF and the SA preparation. 91.1 percent of the people surveyed are aware of the project, and 92.5 percent of the people said they would like to participate in the project. The SA and the RPF were disclosed locally on May 9, 2016, with an announcement in the *Sanqin Newspaper*, and through Bank's Infoshop on May 30, 2016 and June 21, 2016, respectively.

48. A grievance redress mechanism was designed in the RPF. Villages and individuals who believe that they are adversely affected by the project may submit complaints, via three channels: project management system, external monitoring system and the court system. In addition, complaints could be go to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of non-compliance with WB policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org.Environment](http://www.inspectionpanel.org.Environment) (including Safeguards).

49. **Social monitoring.** External monitoring mechanisms were designed in the RPF and the SA, with indicators and monitoring requirements. The Bank provided training to clients on safeguards policies and an external social monitor with extensive monitoring experience on WB-financed project should be engaged to conduct external monitoring on the implementation of the RPF and SA actions, and especially on land acquisition, gender, and poverty issues.

### **Environmental safeguards**

50. The project is classified as Category B due to the type, location, sensitivity, and scale of the project and the nature and magnitude of its potential environmental impacts. Based on the specified selection criteria, no ecologically sensitive site (e.g. natural habitat, nature reserves) or Physical Cultural Resources will be influenced by the project. Although not anticipated, any sub-project screened that triggers OP 4.04 on Natural Habitats or OP4.11 on Physical Cultural Resources is not eligible for financing under the project. Applicable environmental safeguard policies for the project include: Environmental Assessment (OP4.01) and Pest Management (OP4.09).

51. **Environmental Assessment (OP4.01):** The project will bring about positive impacts and benefits on the environment and the targeted communities in the project areas, and have limited adverse impacts. At the same time, the project will cause short-term construction nuisance associated with the construction/rehabilitation/upgrading of basic infrastructure (e.g. rehabilitation of village roads and construction of small bridges in rural areas) and livelihood intervention activities (e.g. improvement of fruit gardens by installation of irrigation facilities such as irrigation pipeline, boreholes, and rainwater storage tanks, provision of small scale crop storage and processing facilities, livestock farms including household livestock farms and bio-gas tanks, vegetable greenhouses, agricultural produce trade markets and cooperative offices etc.). The adverse impacts may include disturbance to local communities and traffic, noise, dust, wastewater, soil erosion and disposal of spoil etc. But these construction impacts are mostly temporary, site specific, limited and local in nature, and can be readily mitigated with well-known good construction management practices. During operation some livelihood improvement interventions would generate waste, wastewater, air emission, noise etc. However, these impacts are not expected to be significant given that these investments are of small scale and scattered in eleven counties in the Province.

52. An Environmental Management Plan (EMP) has been prepared for the first batch of investments in thirteen communities in accordance with Environmental Assessment Policy OP4.01. The EMP identified potential environmental impacts mentioned above and proposed mitigation measures including (i) Environmental Codes of Practice (ECOPs) for construction activities; and (ii) mitigation measures for livelihood improvement facilities and infrastructure; and (iii) social impact management plan. ECOPs will be entered into bidding documents and civil works contracts. Waste/wastewater to be generated by livelihood improvement facilities (e.g. crop processing workshops, livestock farms) will be collected and reused/treated/sent to designated sites for proper disposal. To reduce the use of chemical fertilizer, balanced fertilization will be promoted, and livestock waste collected and reused as organic fertilizer. The EMP also proposes the monitoring plan, institutional arrangement and capacity building activities, and EMP implementation budget etc.

53. **Environmental and Social Management Framework (ESMF):** Since the project will take a phased approach for the implementation of community activities, the detail of specific investment activities for the second phase investments cannot be identified prior to project appraisal. As such an Environmental and Social Management Framework (ESMF) has been prepared following the relevant Chinese policies, laws and regulations and the Bank's safeguards policies. The ESMF identifies potential types of investments which are similar to the first batch of investments, sets out guidelines and procedures to assess the environmental and social impacts, and contains measures and plans to reduce, mitigate and avoid adverse impacts and enhance positive impacts. Each subproject proposal will be screened for potential negative environmental impacts. The ESMF includes due diligence for existing processing facilities, mitigation measures, monitoring, institutional arrangements, grievance-handling mechanisms and capacity building activities.

54. **Pest Management (OP4.09):** The project will support the diversification of crop systems and increase greenhouse area by 12 hectares, and improve existing fruit gardens (approximately 389 hectares) which may increase pesticide use by approximately 0.25 tons/year. To mitigate the impact, a Pest Management Plan (PMP) was developed for the project. The PMP incorporates the existing good pest management practices and proposes a number of activities such as: (i) promoting Integrated Pest Management (IPM) to reduce the use of toxic pesticides, e.g. improvement of pest forecasting, bait lamps, crop rotation, pest resistant varieties; (ii) training and capacity building for local farmers and governmental agencies; (iii) introducing and promoting biological and botanical pesticides; (iv) strengthening monitoring; and (v) reinforcing regulatory aspects. Implementation of the PMP will be undertaken by the County PMOs, and farmer cooperatives, with assistance of consultants, County Plant Protection Stations and County Agricultural Technology Extension Services Stations.

55. **Public Consultations and Disclosure:** The EA safeguard documents were prepared through consultation with key stakeholders during the project preparation process from April-May 2016. The EA safeguard documents were locally disclosed through announcements published on the PMO's website and local newspaper on May 9, 2016. They were subsequently disclosed at the Bank Infoshop on June 21, 2016 (for EMP), June 22, 2016 (for PMP), and August 25, 2016 (for ESMF).

## **Monitoring & Evaluation**

56. The primary tool to monitor and evaluate project results will be the Results Framework detailed in Annex 1. A result-based monitoring and evaluation system (M&E) will be developed and established under the Project to monitor and evaluate the Project implementation progress, and analyze Project results towards achieving the project development objective. The PPMO with support from project counties will be responsible for data collection and analysis of results.

57. A qualitative self-assessment cooperative performance assessment tool will be used to measure the management effectiveness and governance performance of farmer cooperatives supported by the project. This tracking tool is described in the POM and would be applied on an annual basis during the project. This 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. The performance evaluation will serve to identify areas of weakness in cooperative performance which can in turn inform the preparation of plans for training and capacity building.

58. **Project Impact Assessment.** Assessment of the project impact on target beneficiaries shall include all contributions of cooperatives for lifting members out of poverty besides dividends. A comprehensive assessment of the farmer income categories shall be carried out during the project implementation through valid control groups located in Baiyu mountain areas, hilly areas along the Yellow River and the dry highland area north of Weishui River.

59. **Reporting.** The PPMO will provide semi-annual progress reports and, impact assessments to the Bank on the basis of indicator data collection, verification and analysis. The reports should include the agreed key outcome and output indicators in coordination with financial and physical progress reporting. The reports should also include overall procurement, construction and disbursement progress against agreed targets/plan and identification of any issues that need special attention and follow-up. The environmental monitoring and evaluation report, the social evaluation report, and the resettlement monitoring and evaluation report, all carried out by the external consultants, should be included in the Annexes of the reports, with a summary of main issues in the main text.

## ANNEX 4: IMPLEMENTATION SUPPORT PLAN

### China Shaanxi Poor Rural Areas Community Development Project (P153541)

1. The Project will require extensive implementation support and continuous dialogue with the client at provincial, county and cooperative levels. It is expected that the early implementation phase, in particular, will face some significant start-up and support challenges that will require close and frequent Bank implementation support and guidance:

- a. **Achieving the awareness and learning objective.** Achievement of the project's awareness and learning objective will depend on an implementation support strategy that combines awareness building, dialogue, partnership, and hands-on implementation guidance in the field. Continuous interaction with all stakeholders will require consistency in the composition of the core team, technical expertise, and, critically important, country knowledge and familiarity with the provincial, country and local situations.
- b. **Changing perceptions of local government offices.** The process of preparing business oriented investment proposals for cooperatives and defining their specific content poses significant challenges to the stakeholders at local levels. Local governments are inclined to use the project to continue pursuing government-driven strategies with limited business and market orientation, limited focus on the poor, and neglect issues of private sector participation and equitable organizational arrangements. The team will allocate significant time and resources to interact with county governments and leaders to help change perceptions, with a particular focus on community-based approaches and the needs of women, and other vulnerable groups.
- c. **Technical review of cooperative and enterprise investment proposals.** The first set of cooperative-level investment plans will need careful technical review of the business aspects and financial viability, as well as attention to the PDO. For subsequent proposals later during implementation, technical and economic post-reviews will 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, learning.** Coordination of M&E and capturing of project outcomes and results will need professional guidance from a monitoring expert in the team.
- f. **Financial Management and procurement.** The proposed funds flow through various DAs brings challenges for financial management. The team will provide hands-on guidance in FM reviews and audit, and reporting procedures. Similarly, procurement activities will be spread widely among entities, types of procurement, and size of contracts, which will require intensive implementation support. The project should provide support for cooperatives to put in place accounting systems based on the accounting software developed by the Ministry of Agriculture and available for free to all legally registered cooperatives, so that project funds are properly and fully reflected in the cooperatives'

financial accounts. The use of standardized software across all cooperatives will greatly facilitate benchmarking and performance comparisons between cooperatives.

- g. **Safeguards.** M&E and mitigation of social risks requires experienced expertise in the team with a good understanding of the rural transformation process in China. Sufficient staff time and resources will be provided to review site specific environmental management measures during the investment planning process for cooperatives.

## Implementation Support Plan

2. The implementation support Plan below describes Bank support for the implementation of risk mitigation measures and provides the technical advice necessary to facilitate achieving the PDO (linked to results/outcomes identified in the result framework). The 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 PIM is being followed.</p> <p>Familiarize the PMOs with all relevant administrative and operational aspects of project implementation.</p> <p>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>Social Development/ Institutional Development:</i> Ensure attention and support PMOs in the establishment of equitable, transparent arrangements for cooperatives.</p> <p><i>Environment and Social Safeguards.</i> Ensure that the related safeguard documents are well understood and the provisions are implemented.</p>	<p>TTLs,</p> <p>Agricultural Economist</p> <p>Social Development/ Institutional Specialist</p> <p>Agro-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.</p> <p>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>Social Development/ Institutional Development:</i> Ensure attention and support PMOs in the establishment of equitable, transparent cooperative arrangements and monitor benefit sharing arrangements and poverty impact.</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>TTLs,</p> <p>Agricultural Economist</p> <p>Social Development/ Institutional Specialist</p> <p>Agri-business</p> <p>Procurement</p> <p>FMS</p>	<p>US\$ 90,000 per year</p>	

	<p><i>Financial Management.</i> Implementation support will include: (a) review the implementation of Project's FM 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><i>Environment and Social Safeguards.</i> Review environmental and social impact.</p>	<p>Environmental Safeguards</p> <p>Social Safeguards</p>		
48-60 months	<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>Social Development/ Institutional Development:</i> Ensure attention and support PMOs in the establishment of equitable, transparent cooperative arrangements and monitor benefit sharing arrangements and poverty impact.</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>	<p>TTL,</p> <p>Agricultural Economist</p> <p>Social Development/ Institutional Specialist</p> <p>Agri-business</p> <p>Procurement</p> <p>FMS</p> <p>Environmental Safeguards</p> <p>Social Safeguards</p>	US\$ 90,000 per year	

### 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 Development / Institutional Specialist	6 SWs annually	Fields trips as required.	Consultant
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 5: ECONOMIC AND FINANCIAL ANALYSIS**

### **China Shaanxi Poor Rural Areas Community Development Project (P153541)**

#### **I. Project's Development Impact**

1. The project aims to adopt the pro-poor value chain approach to capture the opportunities for poverty reduction arising from China's growing domestic urban market. It promotes participation of smallholder farmers in such value chains and improves their access to markets through investment in the development of farmer cooperatives and partnerships with agribusinesses. The project will also help improve economic infrastructure, facilitating better market access and extending the existing value chain for the poor villages. The project is to increase income opportunities and improve access to economic infrastructure in selected poverty communities of Shaanxi province. The main expected impacts include the following: (a) improved livelihood opportunities for the participating farmers, the rural poor in particular, through various livelihood improvement activities; (b) improved project sustainability through introduction of the cooperative development grant and enterprise fund for farmer cooperatives, strengthened management and operations of participating farmer cooperatives; and improved operations and competitiveness of participating agro-businesses through public-private partnership; (c) improved livability through enhanced access to economic infrastructure for the residents in the participating communities; and (d) improved institutional capacity for project management entities, and other relevant government agencies at all levels involved in project management and implementation.

#### **II. Rationale for the Involvement of Public Financing**

2. The project supports the government strategy in eliminating remaining hunger and ensuring basic needs are met by 2020 and providing public services coverage across rural and urban areas to narrow disparities in the basic public service gap and income gap as specified in the "Outline for Development-oriented Poverty Reduction for China's Rural Areas (2011-2020)". Without the project, the candidate communities as they are to be selected among most vulnerable communities, would remain in a disadvantageous position in achieving the two targets and be exposed to an increasing risk of social exclusion.

3. The project is also aligned with the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity. As project counties are designated national-level poverty counties, the project is appropriately targeting the extreme poverty areas in China including poorest rural population with average income less than US\$1 per day. The project will assist the GOC in its efforts to end extreme poverty for these vulnerable groups, address rural-urban disparity and boost shared prosperity in these selected project areas.

#### **III. Value Added of the Bank Support**

4. Over the past three decades, the Bank has successfully introduced international experience to and developed best practices from a series of poverty reduction and rural-urban integration

project lending operations in China. The proposed project is an integral part of the Bank's program on rural urban integration and poverty reduction. For this specific project, the Bank's added value would be to incorporate the integrated key experiences from both urban development and poverty alleviation interventions in project preparation and implementation in participating communities. In addition, the project builds on a global body of project experience and knowledge that has been accumulated in recent years on pro-poor value chain development, emphasizing the complementary roles of the public and private sectors in the following main areas: (a) helping to understand the roles of stakeholders and the rationale of using public funds for value chain investments; (b) optimizing the use of funds without distorting markets; and (c) ensuring the sustainability and effectiveness of project investments.

#### **IV. Project Benefits and Costs**

5. Direct benefits accruing from project interventions would include increased incomes through improved productivity, value-addition, and development of new market opportunities. Specifically, these benefits will be generated 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 grading, 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., through product certification, brand building etc.), and (g) advantages gained from economies of scale.

6. The spillover benefits from the farmer cooperative development under the project include: (a) strengthening the capacity and raising the organizational level of producers and marketing groups; (b) facilitating upstream and downstream linkages of farmers to both inputs suppliers and product markets and higher-up value chain operators; (c) improved physical and financial assets management of cooperatives; (d) public and private sector partnership in delivering quality services in a more efficient and targeted way for the rural poor; and (e) new models of cooperatives and enterprises working together. In addition, the project is expected to provide important lessons from its implementation experience on the role of agriculture for poverty reduction and on improving the policy and implementation framework for improved the outreach and inclusiveness of agro-investments for poverty reduction.

7. A framework approach has been adopted to streamline project preparation and implementation and provide lessons which will benefit the design and implementation of the remaining investments. A Project Operational Manual (POM) has been prepared and agreed with Shaanxi Province which sets out the key principles and criteria for preparation, appraisal, approval, and implementation arrangements for the farmer cooperatives investments. For the first tranche for implementation of 12 communities specific project activities have been identified and appraised. To incorporate lessons learned while the project activities for the subsequent tranche(s) of 16 communities will be selected in accordance with the POM after or during the implementation of the first tranche.

8. Based on the proposed site-specific key value chains and types of agricultural investment, crop budgets and activity models have been prepared to gauge the incremental income

generated from alternative crops and good farming practice by comparing with “without project situation” income. The analysis has included, but not been limited to, the following: (i) annual crops/tree crops; (ii) livestock sector covering goats, sheep, pig and donkey; and (iii) agribusiness, including agricultural storage and processing.

9. The current stage of trade liberalization in China does not suggest significant price distortion. As such, no conversion factors have been used to adjust financial prices to economic prices.

10. Project costs cover establishment/enhancement and operation of farmer cooperatives; targeted and tailored investments for various income opportunities; the cooperative development grant and enterprise fund; economic infrastructure; training and consulting services; as well as project management. For crop budget and activity models, operational costs are also included in the analysis.

## V. Financial Analysis

11. **Financial Returns of Cropping and Household Activity Models.** The crop and household activity models indicate good financial returns and provide attractive income opportunities for the poor farmers and cooperatives in the project areas. The results (see table below) show that major activities under livestock, crop/tree crop production and post-harvest handling will generate FIRR ranging from 19-46 percent, indicating the operations are financially viable.

<b>Activities</b>	<b>FIRR (percent)</b>
Pig Raising (indigenous species)	38
Cattle Raising (indigenous species)	46
Donkey Raising	19
Apple trees	26
Mushroom	37
Chili	20
Bee-keeping	40
Cold Storage	25
Persimmon drying and processing	23

## VI. Economic Analysis

12. **Economic Internal Rate of Return (EIRR).** Economic analysis has been conducted by the community. No separate benefits are calculated for project investments in public infrastructure, institutional capacity building 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 generate benefits mainly at the household and cooperative levels. However, there will likely be spill-over effects as production roads, tractor roads and field tracks will benefit other non-project farmers and users, and institutional capacity building will have a wider impact beyond the project. The economic benefit calculation is therefore

considered conservative and overall project benefits are likely to be significantly higher than estimated.

13. The aggregated economic cash flow of the project, including all supporting investments, shows an Economic Rate of Return (EIRR) for the 12 communities ranging from 9-25 percent, with the weighted average for the province at 14 percent, indicating the project is economically viable at community level and as a whole. Details of the analysis and cash flow tables are in the project files.

<b>Communities</b>	<b>ERR</b>
Changfeng in Linyou County	9.27%
Liangquan in Long County	25.29%
Shiguan in Beishui County	10.12%
Lingao in Baishui County	10.50%
Caocun in Fuping County	11.90%
Ganjing in Heyang County	11.29%
Tingkou in Changwu County	17.65%
Shiyao in Yanchuan County	9.63%
Leichi in Yanchang County	16.31%
Heerchuan in Yichuan County	20.42%
Yangjing in Dingbian County	9.26%
Longzheng in Mizhi County	16.37%
Whole Project	13.78%

14. **Sensitivity Analysis.** Per latest Bank guidelines, the opportunity cost of capital (OCC) is set at 6 percent, which is in line with NDRC’s established discount rate for poverty reduction projects. As noted above the, the EIRR calculations are very conservative without taking into account “spillover” effects and beneficial externalities of the infrastructure works. Therefore, no sensitivity test has been conducted for economic analysis. Nevertheless, the sensitivity test was done for the financial analysis, showing the FIRRs are less sensitive to the increases of project investment costs than to decreases of agricultural produce prices. Most operations would still be financial attractive to farmers (FIRR at 10 percent) with a cost increase of 25 percent or 20 percent reduction of product prices.

## **VII. Fiscal Analysis**

15. A lion’s share of counterpart funding (some US\$40 million out of a total of 50 million) will be provided by enterprises to match the provision of competitive grant. The Loan Agreement will be signed between the World Bank and MOF. On-lending agreements will be signed by MOF and the provincial government of Shaanxi, which will be the final debtor and responsible for repayment of IBRD loan funds. The loan proceeds will flow from the Bank into Designated Accounts (DA) to be set up at and managed by the Provincial Finance Bureau. Advances from the DA will be made into the Operating Accounts (OAs) managed by local finance bureaus at the county levels. Each OA will be maintained in RMB with a pre-defined ceiling documented in the Disbursement Letter. Transfers/payments will be made to project farmer cooperatives, or contractors based on funding requests (also referred to as withdrawal

applications) submitted by county PMOs. The funding requests will be supported by contractor and supplier invoices and other necessary documents processed by county PMOs. The limited government counterpart funds ( some US\$ 10 million) will be provided from county fiscal budgets that are earmarked for poverty alleviation programs. This arrangement will significantly decrease the fiscal burden of poor counties and likely contribute to the timely availability of such funds for project implementation. According to current national regulations, earmarked poverty alleviation funds are expected to increase annually by 20 percent. Nationally designated poor counties may qualify for additional subsidies for poverty reduction. Earmarked counterpart funds will be managed by the Provincial and County Finance Bureaus and appropriated in two tranches: approximately 70 to 80 percent will be available by April of each year while the remaining funds would be made available during the second half of the year.

# ANNEX 6: PROJECT AREA MAP 42206

