

PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA62352

Project Name	Jiangxi Farm Produce Distribution System Development (P147009)
Region	EAST ASIA AND PACIFIC
Country	China
Financing Instrument	Investment Project Financing
Project ID	P147009
Borrower(s)	People's Republic of China
Implementing Agency	Foreign Capital Project Office, Jiangxi Provincial Department of Agricultural
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	25-Sep-2017
Date PID Approved/Disclosed	25-Sep-2017
Estimated Date of Board Approval	14-Dec-2017
Appraisal Review Decision (from Decision Note)	
Other Decision	

I. Project Context

Country Context

With an estimated population of 1.4 billion in 2015, China has experienced an average real GDP growth of about 9.7 percent per annum during the period of 1978-2015. Since the early 1980's, China has been shifting towards a market-based economy, resulting in rapid economic and social transformations that have lifted more than 800 million people out of poverty. In 2015, China's GDP was estimated at close to US\$11 trillion, making it the second largest economy in the world. China achieved all the Millennium Development Goals (MDGs) by 2015 and made a major contribution to the achievement of the MDGs globally.

Despite significant economic and social accomplishments and rapid development of produce markets in China, farm produce logistics remain a bottleneck in efficient farm produce distribution, which in turn hindered producers' potential for more efficient production and improved income. Poor market locations; inadequate physical infrastructure; poor market information services; outmoded transaction processes; and poor market management skills were identified as major constraints in the Ministry of Agriculture's (MOA) "Outline on the National Agricultural Origin Market Development" (May 2015).

Recognizing the challenges, the Chinese government provided various policy guidance and has endeavored to develop modern, more effective farm produce distribution systems to improve agriculture competitiveness, and meet key objectives related to consumer welfare, rural development,

and farm incomes. A State Council policy on the “Transformative Change of Agricultural Development” (July 30, 2015), called for “the creation of new types of agricultural marketing services; a strengthening of national and regional wholesale market development; supporting e-commerce in rural areas; and encouraging farmer cooperatives to be engaged in agricultural processing”. The MOA’s “Outline on the National Agricultural Origin Market Development” called on local authorities to address these issues, to promote brand building of local produce, and integrate physical markets more with e-commerce. The Outline also stressed the importance to improve the distribution system from post harvesting handling to the market. Both National and Jiangxi Provincial 13th Five Year Plans (FYP, 2016-2020) also prioritized agricultural produce distribution.

Sectoral and Institutional Context

Jiangxi province accounts for only 2.3 percent of China’s farmland, but makes a disproportionate contribution to the country’s food security and domestic food market through its sale of about 6 million tons of grain, 12 million head of pigs and 1.3 million tons of fish to other parts of the country. The agricultural sector represents 13.8 percent of Jiangxi’s GDP yet involves 54.3 percent of its population. Jiangxi is still a low-income province. Its increased agro-food surplus has not translated into higher regional economic growth or major income growth among farmers. The average income among Jiangxi’s 35.3 million farmers is one of the lowest in the country, with 5.8 percent of farm households living below the national poverty line.

Jiangxi is well located geographically close to the major urban markets of Shanghai, Guangzhou and Hong Kong with well developed transportation routes by road, air and the Yangtze River. There is potential for growth through accessing these high value urban markets if bottlenecks in the distribution system can be minimized. The demand from these high value urban markets also has the potential to drive the transition from low value and low quality products to higher value and higher quality products, and the use of information technology for buying and selling agro-products.

Jiangxi is also one of China’s important cotton producing and textile industry bases. In contrary to a general declining trend in total cotton production and cotton growing area since 2007 in China driven by increasing cost of production and scarcity of land, both cotton production and cotton growing area in Jiangxi increased during the same period. While production of cotton yarn in China increased by about 75 percent from 2007 to 2013, the increase was almost tripled (over 295 percent) in Jiangxi. Pengze county is a historically key cotton county in Jiangxi in terms of growing acreage, total production, processing capacity, and geographic location for distribution. While both total cotton production and cotton growing area in Pengze have experienced a decline since 2007 (by 4 percent and 16 percent respectively), cotton yarn production increased dramatically by more than 320 percent. As such, demand for cotton is expected to continue to grow in the foreseeable future in Jiangxi (in particular in Pengze and surrounding cluster counties) as the textile industry and related service sectors are already moved or expected to move from coastal provinces, due to increasing cost and shortages of labor to provinces such as Jiangxi with comparative advantages – traditional textile industrial base, skilled labor with relatively lower cost. While Jiangxi produces an annual average of 134,000 ton of lint cotton, the annual circulation through Pengze reaches about 500,000 ton. With only 20,000 ton of current storage capability without a modernized cotton trading market/distribution center, services to cotton farmers, regional textile industry and users along the lower reach of Yangtze River have been seriously restrained. Expanding cotton storage capacity in Pengze is an integral part of the national strategy for cotton distribution network.

At present, about 70 percent of Jiangxi’s agricultural commodities and raw materials are channeled through two to four intermediaries between farm-gate and the end-users. The result of these distribution chains, which are not closely coordinated, has generally been low farm-gate prices, little

incentive for farmers to improve product quality, and low levels of food hygiene. Factors and gaps contributing to this have included:

(a) Inefficient wholesale markets. In Jiangxi, about 90 percent of wholesale markets do not have refrigeration and nearly half do not have equipment and systems to monitor food quality and safety. They usually provide limited market information to farmers and traders. These markets tend to be far from key producing areas, giving rise to the multiple handling. Market buyers and sellers are generally unregulated. The markets' locations and physical design, together with their weak management have often resulted in patterns of congestion and the overflow of produce onto side-streets and pavements, thus contributing to physical losses, quality deterioration and added food safety risks.

(b) Limited transportation from farm to the market. Most individual farmers do not have vehicles (or proper vehicles to handle highly perishable products—e.g. live fish), nor the financial resources to hire good transport services. As a result, 75 percent of rice, 70 percent of oranges, 70 percent of fish and 50 percent of tea are sold to intermediary dealers at the farm gate.

(c) Inadequate storage and serious post-harvest losses. Most individual farmers have inadequate storage facilities or capacity, especially for perishable commodities. This leads them to sell their produce just after harvest, when prices are generally lowest, and eliminates any bargaining power that they may have. Lack of proper storage also contributes to high post-harvest losses. Based on various recent studies, there are about 20-30 percent post-harvest losses from farm gate to local markets. For example, for oranges - which have a short harvest season - up to 20 percent of harvested output goes to waste (or composting) when there is not enough immediate demand from buyers.

(d) Under-developed off farm preliminary processing and grading. Some produces require initial processing prior to their sale. For example, tea leaves need to be dried and most fruits need to be washed and packed. The proper grading of produce can facilitate efficient distribution, reduce transaction costs, and add value to the farm product. For tea, grading and packing after drying the leaves can increase profit by 30-40 percent when compared with unprocessed tea. For oranges, profit can increase generally by 25-30 percent after grading, packing and waxing.

(e) Small volume of production. In many cases, farmers are not organized in groups and their individual production is smaller than what is acceptable by wholesale markets. The absence of collective action inhibits the ability of farmers to realize any economies of scale in post-harvest preparation, storage, transport and marketing.

(f) Food safety risks. The current fragmented system is fraught with food safety risks. Buyers do not know what practices the farmers have and multiple handling of produce exposes it to further hygiene, adulteration, and/or cross-contamination risks. The capacities of wholesale market and enforcement officials to undertake food safety inspection and surveillance are limited in general and such late efforts in the food supply chain can hardly assure adequate food safety. Improved food safety measures need to be applied earlier in the chain, enabling inspectorate services to focus on relatively high risk commodities. Food product traceability should be encouraged. Even if improved testing could be developed, it is likely to confirm that there are major problems at multiple steps along the chain.

(g) Lack of market price information. Farmers often have no or limited access to real-time price information and end up selling the product at the price informed by the intermediary dealer at the farm-gate. Jiangxi has made some progress in rural information and communication technology (ICT), in particular availability of mobile and broadband access and public Internet access facilities for farmers and agriculture-related applications development. There is a need to further develop and improve mechanisms for real-time, location-based pricing information to farmers, and also for food safety/quality and traceability.

(h) Poor coordination of development efforts. Various programs have been initiated in Jiangxi for different aspects of farm produce distribution funded by different Government agencies. These have been initiated without a well-coordinated effort.

The above listed factors and gaps all combine to inhibit Jiangxi's ability to: (a) improve its farm produce distribution system within its boundary; and (b) compete in the high value urban markets of the adjacent regions. This is well recognized by the Jiangxi provincial government which is making on-going and planned investment in farm produce markets/distribution centers to mitigate these constraints. The private sector is also investing in this area.

The supply chain linkage between the producers (through the farmer cooperatives) and the consumers comes through the role that the markets/distribution centers can play to:

- (a) facilitate farmer cooperatives to process, store and sell their products;
- (b) increase the buyer-seller interactions providing farmer cooperatives with more sales opportunities;
- (c) aggregate standardized and certified products for larger volume sales;
- (d) reduce wastage of farmer cooperative products through storage and cool/cold chain facilities;
- (e) act as a warehouse for farmer cooperative e-commerce sales; and
- (f) be a source of market information which farmer cooperatives can access online.

II. Proposed Development Objective(s)

The Project Development Objective (PDO) is to improve the distribution systems of selected farm products in participating counties of Jiangxi.

III. Project Description

Component Name

Component 1: Strengthening production logistics

Comments (optional)

Component Name

Component 2: Improving Distribution Logistics

Comments (optional)

Component Name

Component 3: Support Services for the Whole Distribution System

Comments (optional)

Component Name

Component 4: Project Management, Monitoring and Evaluation

Comments (optional)

IV. Financing (in USD Million)

Total Project Cost:	198.28	Total Bank Financing:	150.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			48.28
International Bank for Reconstruction and Development			150.00

Total	198.28
-------	--------

V. Implementation

A. Institutional and Implementation Arrangements

Project Steering Committee (PSC) and Project Leading Groups (PLGs). At the provincial level, a PSC has been established that is headed by the Director-general of the DOA and composed of members from the departments of agriculture, development and reform, finance, land, urban construction, environmental protection, audit and Women's Federation. The eight Project county governments serve as the Project owners and implementers. PLGs at county level have all been established that are headed by county government leaders in charge of agriculture with members from those agencies similar to the composition of the PSC. Key responsibilities of the PSC and PLGs include setting policy guidance; approval of project's overall design; ensuring availability of counterpart funds; decision-making on major Project issues; facilitating inter-agency coordination; evaluating and monitoring Project implementation; and providing guidance under their respective jurisdictions.

Project Management Offices. Under the PSC at the provincial level, the provincial PMO (PPMO), located in the Rural Social Development Bureau under the provincial DOA, is responsible for overall Project coordination and management during Project preparation and implementation. The county PMOs (CPMOs) are located in the corresponding county agriculture bureaus. The CPMOs are responsible for Project management and general coordination on a daily basis; supervising Project design and implementation; monitoring Project activities; preparing annual work plans; monitoring and reporting on Project progress, outputs, results; and supervising practical market development facilitators.

Technical Support. The Project would recruit two levels of consultant services. At the provincial level, a Technical Expert Group (TEG) has been established to provide technical support to ensure overall soundness of Project designs and implementation. At the county level, the technical support would be provided through recruitment by each CPMO of: (a) two full time practical marketing development facilitators (one for Pengze) and one each for legal and accounting advisory services to support the implementation of Component 1: Strengthening Production Logistics, in particular marketing efforts of farmer cooperatives; and (b) a team of market specialists to provide specific technical review and support to implementation of Component 2: Improving Distribution Logistics.

B. Results Monitoring and Evaluation

The Results Framework describes the PDO-level outcome indicators and the component-specific intermediate indicators, including core sector indicators, and respective baselines and targets (Annex 1). Monitoring and evaluation arrangements and responsibilities are described in detail in the Project Implementation Manual (PIM). Project M&E will be the responsibility of the PPMO and CPMOs. On-going Project progress monitoring shall be carried out by the PPMO and CPMOs and all reporting requirements for physical progress monitoring, contract-based procurement management, and financial management reporting are to be satisfied by the PPMO and CPMOs. The PPMO will engage qualified institution(s) to carry out an independent Project baseline survey at Project start-up, an impact assessment, environmental and social safeguards compliance assessment at mid-term and at the end of the proposed Project. Detailed terms of reference will be reviewed by the Bank during implementation prior to commencement of the specific M&E assignments. Bank financing for the M&E assignments has been budgeted.

C. Sustainability

Project sustainability is largely to be ensured by strong government commitments to and Jiangxi's increasing demands for development of farm produce distribution systems; practical technical support to farmer cooperatives and markets/distribution centers; and proven operation and management arrangements to improve efficiency and competitiveness of the markets/distribution centers.

Both the central and provincial governments are committed to an enhanced farm produce distribution system which is critical for improving the competitiveness of the agricultural sector, and meeting other key objectives related to consumer welfare, rural development, and farm incomes. Strategies to address some of these challenges were made in the 12th Five-Year Plan (2011-2015) which incorporates the 'agro-produce distribution' as an integral part of the agricultural social service system. The 12th Five-Year Plan of Jiangxi Province also gives priority to strengthening agricultural logistics and distribution channels as a key part of agricultural modernization. The 2016 Document #1 calls for, among others, "creating new types of agricultural marketing service; accelerating transformative change and upgrading of agricultural product marketing system nationwide; strengthening development of origin market for agricultural products; and supporting e-commerce in rural areas". It is confirmed that the next National and Jiangxi Provincial Five Year Plan (2016-2020) also put "agricultural produce distribution" as a top priority area.

China's population is rapidly becoming more affluent with increasing demands for greater quantity and improved quality of foods. This population is also rapidly urbanizing, thereby increasing the distances between areas of production and consumption. These aspects all underscore the importance of, and need for, innovation in agricultural logistics. The proposed Project will support development of the farm produce distribution system in Jiangxi which has been in increasing demands by all actors involved. In addition to establishing modern markets/distribution centers, the Project activities are designed to focus on the overall efficiency of the value chain by addressing key bottlenecks in each of the distribution chains to benefit all market participants (i.e. producers, consumers, traders, service providers, policy regulators etc.). The proposed Project would also pilot and demonstrate farm production from Jiangxi to meet market and official standards for quality and food safety. By resolving these bottlenecks, the proposed Project will assist the value chains to operate more effectively and profitably.

Consultant Services. A two-level consultant services would be recruited to provide practical technical support to Project preparation and implementation. At the provincial level, a Technical Expert Group (TEG) has been established to provide technical support to ensure overall soundness of Project designs and implementation. At the county level, the technical support would be provided through recruitment by each CPMO of: (a) facilitators and advisors to support the implementation of Component 1: Strengthening Production Logistics; and (b) a team of experienced market specialists to provide specific technical review, functional design, advice for proper operation and management model of the market/distribution centers under Component 2: Improving Distribution Logistics. Annex 3 provides details of the technical support arrangements.

Operation and Management Arrangement of Market/Distribution Center. To ensure market efficiency, competitiveness and sustainability, two proven operation and management models will be introduced by the Project counties i.e. (i) outsourcing to a third party professional market management firm or a group of professional market specialists through performance based contracts, which may include number or volume of the trading/transaction in the market; and (ii) recruiting senior market professional to assist government management team in market operation and management.

D. Public Consultation and Disclosure

In accordance with OP4.01 and OP 4.12, public consultations have been conducted during the safeguards preparation process, including meetings with project affected people and local Environmental Protection Bureau. The consultation on the draft safeguards documents was undertaken from 2014 to 2016. Feedback and concerns from the consultation have been addressed in the project design and in the safeguards documents. The safeguards documents were locally disclosed at the governmental website on November 24, 2016 and November 21, 2016 respectively for environmental and social safeguards documents; and disclosed on the Bank InfoShop on December 1, 2016. The updated environmental safeguards documents were re-disclosed locally on January 10, 2017 and on the Bank InfoShop on July 14, 2017 and the final Resettlement Policy Framework was re-disclosed on the Bank InfoShop on September 20, 2017.

E. World Bank Grievance Redress

Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints 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 WB non-compliance with its 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.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04		X
Forests OP/BP 4.36		X
Pest Management OP 4.09	X	
Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10		X
Involuntary Resettlement OP/BP 4.12	X	
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X

VII. Contact point

World Bank

Contact: Xiaolan Wang
Title: Senior Operations Officer
Tel: 458-8747
Email: xwang@worldbank.org

Borrower/Client/Recipient

Name: People's Republic of China
Contact: Ms. Ye Jiandi
Title: Director, Intern. Eco. & Financial Cooperation Dep., MOF
Tel: 861068552836
Email: yeduanluo@sina.com

Implementing Agencies

Name: Foreign Capital Project Office, Jiangxi Provincial Department of Agricultural
Contact: Mr. Chen Longxiang
Title: Director
Tel: 079186213789
Email: hello6302@163.com

VIII. For more information contact:

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>