

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC974

<b>Project Name</b>	Poverty Alleviation and Agriculture Development Demonstration in Poor Areas Project (P133326)
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Country</b>	China
<b>Sector(s)</b>	Crops (30%), Irrigation and drainage (20%), Animal production (20%), Agro-industry, marketing, and trade (20%), Agricultural extension and research (10%)
<b>Theme(s)</b>	Rural markets (40%), Rural services and infrastructure (40%), Rural policies and institutions (20%)
<b>Lending Instrument</b>	Specific Investment Loan
<b>Project ID</b>	P133326
<b>Borrower(s)</b>	International Department, Ministry of Finance
<b>Implementing Agency</b>	State Council's Leading Group for Poverty Reduction(LGPR), Foreign Capital Project Management Center
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/ Updated</b>	28-May-2013
<b>Date PID Approved/ Disclosed</b>	28-May-2013
<b>Estimated Date of Appraisal Completion</b>	20-Feb-2014
<b>Estimated Date of Board Approval</b>	20-Aug-2014
<b>Concept Review Decision</b>	Track II - The review did authorize the preparation to continue

## I. Introduction and Context

### Country Context

The Chinese Government has always made poverty reduction an important goal and task of national development and China's success in reducing poverty has been remarkable, an achievement that is acknowledged worldwide. In the mid-1980s, the Government started the development-oriented poverty reduction programs in rural areas. Subsequently, the Government formulated and implemented the Seven-year Priority Poverty Reduction Program (1994-2000) and the Outline for Poverty Reduction and Development of China's Rural Areas (2001-2010). After three decades of successful poverty alleviation and strong economic growth that has lifted some 600 million people out of poverty, the rate of poverty reduction, however, is beginning to show signs of becoming less

responsive to broad-based growth. In addition, with increasing rural-urban disparities and diverging living standards, the Government recognized that the number of remaining rural poor was likely to be underestimated and adjustments to the previous poverty reduction policy were needed to better understand the patterns of the remaining rural poverty and to integrate traditional rural poverty reduction with rural-urban transformation and urbanization policies.

Consequently, in 2011, the Government revised the rural poverty line from CNY1,196 (2009) to CNY2,300 (US\$361) which increased the number of rural poor from 27 million in 2010 to 128 million in 2011. In addition, the State Council's Leading Group for Poverty Reduction and Development released the Outline for Development-oriented Poverty Reduction for China's Rural Areas (2011-2020) to provide a new strategic direction for addressing rural poverty. The strategy complements the traditional geographical targeting of designated poverty counties with the concept of adjacent destitute mountain areas of which 14 are prioritized for comprehensive regional development investments. The new strategy aims to eliminate hunger and elementary needs by 2020, achieve a growth rate in rural per-capita income in poor areas that is above the national average, and promote the convergence of human development indicators and public services coverage across rural and urban areas. To narrow the rural-urban gap, the strategy lays out a broad approach that includes rural industrialization based on comparative advantage, infrastructure development, relocation and village consolidation, rural-urban integration, comprehensive public service provision and expansion of household-based social protection programs, such as the minimum living allowance (dibao), rural pension, and healthcare, and education, family planning, and environmental management.

### **Sectoral and Institutional Context**

The project is proposed to be implemented in Gansu, Sichuan, and Guizhou provinces. The three provinces face the common challenge of persistent rural poverty in remote rural areas. Many of the project areas are traditional semi-subsistence areas where the poverty rate ranges between 30 to 50 percent. Agriculture remains an important source of local employment and income but geographic and climatic conditions, labor migration, underinvestment, and underdeveloped infrastructure pose challenges to future agricultural development. In all three provinces, a gradual restructuring of the agricultural sector is needed to allow productivity and farm income to increase and to overcome constraints to agriculture modernization.

**Gansu Province.** Project counties are situated in the Liupan Mountains of Gansu in northwestern China. Project areas have comparative advantages in horticulture, and several counties have successfully developed advanced production and marketing bases for apple, pear, grapes, medicinal herbs, and potato. Still, rural poverty is high, often above 40 percent. Poverty appears not so much rooted in poor production potential but more in the dominance of enterprises in the horticulture sector which appear to capture a considerable share of revenue in the value-chain while relatively little value is reaching the household or farm level. One of the challenges in Gansu under this project is to strengthen the institutional environment for smallholders through the promotion of effective farmer cooperative arrangements that allow farmers to participate effectively in the modernization of the sector and to benefit from the high-value agricultural production chains.

**Sichuan Province.** Project areas are located in the Wumeng and Wuliang Mountains of southern Sichuan. They are characterized by high mountains, narrow and steep valleys, and very limited flat or terraced land for farming. Per capita farmland is often less than half a mu or about 0.03 hectares. Altitudes within one county range from several hundred to over 4,000 meters above sea level and

agro-climatic conditions vary widely. Alpine meadows and shrublands are generally used of livestock grazing, often in unsustainable ways with visible degradation of vegetation and soils. At lower elevations, steep slopes and narrow valleys are used for cropping and erosion risk is high.

Local communities belong nearly exclusively to the Yi Minority. Yi language is used widely while only few people speak Mandarin Chinese in rural areas. Due to the remoteness of these areas, the unique cultural background of the population, as well as low education levels, communities are not well integrated into the mainstream society and labor mobility is limited as compared to other areas. Development opportunities are limited as well; and investments in public service expansion appear to be prohibitively expensive in many remote locations. The development challenge in Sichuan is to identify and focus on those project areas with long-term development potential and to promote agricultural production systems that can generate income and are environmentally sustainable. Opportunities exist for producing and primary processing of higher value and niche-market products, such as walnuts, medicinal herbs, and fruits, and for restructuring the high altitude livestock sector to become environmentally and economically sustainable.

Guizhou Province. Guizhou Province is located in southwest China. Out of Guizhou's total population of 40 million, 11.5 million live below the national poverty line. About 80 percent of the province belongs to the limestone and karst areas of the Wuling and Wumeng Mountains in which sixty-five poor counties and 85 percent of Guizhou's poor are located. These areas are characterized by relatively fertile but often shallow soils and are subject to severe water and soil erosion and management problems. The unique geographic conditions and the limited availability of productive farmland, combined with inaccessibility and underdeveloped infrastructure, represent significant challenges to agricultural development. Recent improvements in transportation infrastructure, both highways and village access roads, however, are providing potential opportunities to reach large urban markets in Chongqing and Guiyang. These remain un-tapped to date because of the limited investment into the agricultural sector itself. For the future, modern agricultural production systems that build on: (a) more sustainable land use; (b) improvements of the organizational level of farmers, and (c) carefully designed land consolidation programs offer promising ways to overcome technology constraints, attract investment, and link agricultural value chains to urban markets.

### **Relationship to CAS**

The project would support the CPS' strategic theme two: promoting more inclusive development, by geographically focusing on lagging regions and small towns and by supporting policies and demonstration projects that address inequalities. It would contribute to the CPS outcome 2.3: enhancing opportunities in rural areas and small towns, by piloting new ways to boost rural incomes and reduce poverty under the umbrella of the new Poverty Reduction for China's Rural Areas Strategy (2011-2020) and by promoting inclusive innovation to decrease disparities.

## **II. Proposed Development Objective(s)**

### **Key Results (From PCN)**

The achievement of the Project Development Objective would be measured through the following key performance indicators, namely the:

- a) The generation of incremental net value of agricultural production through project investments;
- b) The fair and equitable distribution of the net production value among the various stakeholders in the value chain;
- c) Additional private sector investment leveraged through project investments; and
- d) Viability and sustainability of the project models and potential for up-scaling.

Additional component-specific performance indicators as well as sector core indicators will be formulated and included into the results framework during project preparation

### III. Preliminary Description

#### Concept Description

The proposed project seeks to assist the Government in developing models to advance the rural-urban integration and rural sector modernization agenda in representative destitute rural and mountain areas. The focus of the project would be on demonstrating approaches to rural income generation that are based on the modernization of selected agricultural sub-sectors and value-chain development, institutional farmer cooperative development, the provision of grant funds for poor farmer households and cooperatives to support their participation in agricultural value chains, and capacity building for rural households, cooperatives, enterprises, and local governments.

The project would seek to achieve the development objective through the implementation of the following components and activities:

Component 1: Integrated Value Chain Development. The objective of this component would be to develop more efficient agricultural value chains focusing on 2 to 4 agricultural or rural pillar industries in each project county. This would be achieved through the restructuring and modernization of the current production patterns and by supporting the enabling institutions in each pillar industry. The modernization would aim at creating or supporting larger, economically more viable and long-term sustainable production arrangements, for example cooperatives, household groups, or enterprises, which are capable to use better technologies and can capture value added in the up-stream processing and marketing value chains. The component would also support the establishment of socially acceptable models of cooperatives, household groups, company-farmer household, and company-farmer household-cooperative organizations through a business and market-based approach.

Component 2: Public infrastructure and services support. The objective of this component would be to improve public infrastructure and public services in order to enable and facilitate restructuring of the agricultural sub-sectors under Component 1. The component would support investments in: (a) production road infrastructure; (b) irrigation and drainage, terracing, etc. (c) communications and information and telecommunications (ICT) infrastructure and equipment; and (d) public market facilities, electricity supply and other infrastructure necessary to facilitate and complement farmer and private investments. In addition, the component would provide investment in other supporting public services, such as food safety testing and control, public extension and training services, marketing systems and agriculture research and technology transfer.

Component 3: Rural and Agricultural Business Development Support. The objective of this component would be to provide business development services to farmer households and

cooperatives in support of the agriculture-value chain development under component 1. Specific investments would include: (a) a conditional grant program to poor households and households groups to encourage the self-organization of households and provide means for the purchasing of agricultural and other inputs to allow them to participate in new production arrangements; (b) training and mentoring for new and existing enterprises and cooperatives and for community-based economic groups in ethnic minority areas; (c) training for government officials on the roles of government and private sector and on how to build public-private partnership arrangements; in addition, training on appraisal guidelines for public sector support in rural areas; (d) technical assistance to value-chain operators; (e) policy studies on how to improve investment climate, good governance, and fair benefit-sharing in cooperative-enterprise arrangements; and (f) marketing studies for selected products, analytical studies related to poverty reduction and agricultural sector development, policy guidelines, and the development of appraisal guidelines for public sector support in rural areas.

Component 4: Project management, monitoring and evaluation (M&E). The component would establish the project management and M&E system of the project and provide office equipment, transportation and technical assistance services. It would support the coordination between implementation agencies at all levels and with other government programs and institutions and the capture of implementation lessons from value chain development. It would also include support to establishing and operating the project's progress and impact M&E system.

#### IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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	

#### V. Financing (in USD Million)

Total Project Cost:	300.00	Total Bank Financing:	150.00
Total Cofinancing:		Financing Gap:	0.00
Financing Source		Amount	
Borrower		150.00	
International Bank for Reconstruction and Development		150.00	
Total		300.00	

#### VI. Contact point

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