



Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 18-Feb-2021 | Report No: PIDISDSC25868

**BASIC INFORMATION****A. Basic Project Data**

Country China	Project ID P162178	Project Name China Food Safety Improvement Project	Parent Project ID (if any)
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date 28-Jan-2021	Estimated Board Date 25-Mar-2021	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) People's Republic of China	Implementing Agency State Administration for Market Regulation, Guangdong Provincial Department of Agriculture and Rural Affairs, Ministry of Agriculture and Rural Affairs, Yantai Municipal Ocean Development and Fishery Bureau	

Proposed Development Objective(s)

The PDO of the proposed project is to improve food safety management at the national and targeted subnational levels and reduce food safety risks in selected value chains

Components

- Institution building and regulatory performance
- Food Safety Supervision Process
- Whole value chain food safety control
- Project Implementation Support

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	735.00
Total Financing	735.00
of which IBRD/IDA	400.00
Financing Gap	0.00

**DETAILS****World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	400.00
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Non-World Bank Group Financing

Counterpart Funding	85.00
Borrower/Recipient	85.00
Commercial Financing	250.00
Unguaranteed Commercial Financing	250.00

Environmental Assessment Category

B-Partial Assessment

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **China's development has entered a new phase.** Double-digit annual growth based on resource-intensive manufacturing, exports, and cheap labor has largely reached its limits and led to economic, social, and environmental imbalances. Reducing these imbalances requires shifting the economy's structure from low-end to higher-end manufacturing and services and from investment to consumption. China's key medium-term challenge is to manage an orderly transition to slower but more balanced, equitable, and environmentally sustainable growth. This requires the development of institutions that support more environmentally conscious, market-driven, and productive growth.
2. **After a deep fall in output and incomes during the first half of 2020 triggered by the COVID-19 pandemic, in recent months China's economy returned to pre-crisis rates of growth.** GDP growth was 2.3 percent for the year as a whole although the recovery has been uneven so far. China's COVID-19 economic policy response has been weighted towards supporting firms and banks and encouraging public investment. In relative terms, direct transfers to households have been limited. As a result, China's effort to shift from investment to consumption has been reversed, at least temporarily and external imbalances have increased. COVID-19 has also exposed critical structural weaknesses that will require persistent efforts to overcome. While China brought COVID-19 mostly under control within the first few months (and subsequent local flare-ups have been managed with targeted, localized interventions and thus limited economic costs), the initial outbreak revealed shortcomings in prevention and preparedness for Emerging Infectious Diseases



(EIDs). It will take time and investments to establish a well-functioning multisectoral approach involving public health, environment, and agriculture and food systems that can identify and address risks of EIDs at an early stage. China's economic recovery makes it possible to focus policy attention on the country's structural and institutional weaknesses.

Sectoral and Institutional Context

3. Despite substantial efforts to improve food safety, China still faces significant food safety risks that are causing considerable global public health concerns and economic losses. These challenges are undermining consumers' trust at home and abroad, with negative consequences for China's agriculture and food sector. COVID-19 has made the weaknesses in China's animal health management systems and the related global public health risks more evident.

4. Improving food safety standards in China has important global public health and climate co-benefits and can thus be considered a global public good.

- (a) **China is a global hotspot for zoonoses, animal disease outbreaks, and antimicrobial resistance (AMR).** The combination of high human population density, intensive livestock production systems with dense animal populations, wildlife abundance, changes in land use leading to fragmentation and habitat loss, and wildlife trade has increased the risk of the emergence of new zoonosis in China. Other risk factors are inadequate sanitary and hygiene practices and lax enforcement of zoning regulations in China's agricultural markets, where around three-quarters of agricultural produce are sold. The large and intensive livestock and aquatic industries with still suboptimal biosafety and biosecurity practices make China's food animals particularly susceptible to diseases. For example, the African Swine Fever (ASF) outbreak in 2018-2019 killed almost 30 percent of the Chinese pig population. The spring of 2019 decapod iridescent virus 1 (DIV1) outbreak affected two-thirds of shrimp farms in the Pearl River Delta. These outbreaks illustrate significant gaps in the animal health management and disease prevention systems. The widespread use of antimicrobials (about five times the international average in the pig and broiler sectors) to prevent and manage diseases, and also to promote growth, has probably contributed to increasing AMR incidence in China. AMR represents a serious foodborne public health threat as antimicrobial residues are transmitted to humans through animal products and could reduce annual global Gross Domestic Product (GDP) by 1.1 to 3.8 percent by 2050. Effective food safety regulatory frameworks and implementation can mitigate these public health and economic risks and generate substantial national and global benefits.
- (b) **China is also a large food exporter and improvements in food safety standards are thus important for China's trading partners and China's own agricultural export competitiveness.** China is one of the largest producers and exporters of aquatic products, fruits and vegetables in the world. At the same time, China is among the countries with the highest share of agro-food rejections in the United States of America (USA) and European Union (EU) markets, frequently related to microbial hazards or toxins in aquatic products. Improving food safety regulations to meet US and EU standards would increase global supplies of safe food and create new opportunities for Chinese agricultural producers to enter higher-value markets, thus improving conditions for the introduction of more sustainable production systems.
- (c) **Improving food safety in China would reduce food loss and waste and generate large climate co-benefits.** Discarding food that is deemed unsafe because of perceived or actual physical, chemical, or microbial contamination is causing significant food loss or waste. Food that is either lost or wasted generates about eight percent of annual global greenhouse gas (GHG) emissions from decomposing organic matter, fertilizer, and the production and processing of food that is not consumed. Data from



China's State Administration of Grain indicates that, in 2014, 35 percent of China's annual food produced was lost or wasted, mostly at the consumption stage. According to some estimates, reducing food loss and waste could lower China's yearly agricultural GHG emissions by up to 30 percent.

5. China's food safety challenge is exacerbated by rapid changes in domestic demand for food, the highly fragmented nature of domestic value chains, the predominance of intensive farming practices and the impact of a changing climate.

- (a) **Urbanization, rising incomes, and digitization are shaping China's food system, with implications for food safety and the regulatory framework.** Today about 58 percent of the Chinese population live in urban areas, and by 2030 over 70 percent are expected to live in cities. Rapid urbanization, rising incomes and technological progress are transforming the food system in China. First, there has been a shift in consumption from staples to more processed and animal source foods. Second, China is witnessing a rapid growth of supermarkets, which now account for about 23 percent of the sales of fresh food, fruit and vegetables, meat and poultry products. Third, in major cities, up to 90 percent of Chinese consumers eat their meals away from home. Fourth, digital technologies are driving e-commerce as an essential food trading platform, and this trend has accelerated during the COVID-19 pandemic as consumers have avoided visiting crowded markets. Fifth, affluent urban consumers are demanding safer, healthier, and greener food. These trends highlight the need for agile regulatory frameworks capable of addressing the food safety challenges in a rapidly shifting marketplace.
- (b) **Highly fragmented food value chains and intensive farming practices make it challenging for China to produce safe, green, and healthy food.** China's food supply chain is particularly complex, involving close to half a million food production and processing companies, with 98 percent small and medium enterprises. Upstream of this value chain, there are at least 200 million small scale farmers who tend to have insufficient knowledge of safe production. Poor, intensive farm management practices include: (i) excessive use of synthetic fertilizers and pesticides; (ii) extensive use of plastic mulch to retain soil moisture; (iii) poor livestock waste management and insufficient aquaculture water treatment; (iv) intensive livestock production practices with low biosecurity and elevated risks of animals diseases, including zoonoses and EIDs; and (v) excessive use of growth enhancers/promoters and anti-microbials, and other chemicals in aquaculture and livestock production systems. Poor hygiene practices in production, handling, and distribution also create food safety risks, as does abuse of food additives in food processing and poor regard to food contact materials. Addressing food safety in China requires a whole value chain approach that pays attention to the needs of the producers to adopt good agricultural practices (GAP) to protect the environment (minimize wildlife-livestock-human interactions), control pollution, and minimize contamination along the agro-food supply chains. Leveraging private sector initiatives will be critical.
- (c) **Climate change exacerbates food safety risks.** Floods increase environmental risks that bring about toxic contamination and foodborne diseases. Changing rainfall patterns, extreme weather events, and the rising annual average temperature affect the occurrence of animal pathogens and plant pests. The increased incidence of harmful algae blooms, which produce natural toxins that contaminate seafood, is linked with extreme weather events and the changing sea surface temperatures in coastal areas. Climatic changes affect aquaculture systems and increase fish vulnerability to diseases. Warming of oceanic water facilitates methylation of mercury as well as its uptake in fish and mammals. Heat stress can also have adverse effects on animal welfare, and hence food safety. Projections indicate that the project areas are



particularly prone to future coastal floods, cyclones, extreme heat waves, and wildfires due to climate change, as well as river flooding (Guangdong and Shandong). As food safety risks increase with climate change, effective food safety management becomes even more important.

6. The Government has passed several food safety related laws. Over the years, China has built a modern framework of legislation viz. Law on Quality and Safety of Agriculture Products (2006) and Food Safety Law (2015) and derived standards that reflect the principles of food safety developed by the international standard-setting bodies recognized by the World Trade Organization (WTO) in relation to the Sanitary and Phytosanitary (SPS) Agreement, i.e., Codex Alimentarius Commission (CAC), World Organization for Animal Health (OIE), and International Plant Protection Convention (IPPC). Its latest Food Safety Law of 2015 was modeled on the EU's Food Law and created the legal framework for establishing a science and risk-based food safety management process along the entire food supply chain. It also established the social co-governance approach in food safety management, building on a partnership between the government, enterprises, and consumers. Both the 2009 and the 2015 Food Safety Laws refer to the risk analysis principle defined by CAC in 'Working principles for risk analysis for application in the framework of the Codex Alimentarius'.

7. However, important challenges that remain relate to the legal and institutional framework and implementation. Recent legislative and regulatory progress demonstrates the government's determination to improve food safety, but regulatory capacity and enforcement remain weak. Often, national, regional, and local government levels interpret and implement the regulations differently. Institutional fragmentation has resulted in poorly delineated responsibilities and competition among regulatory authorities, and the coordination between various institutions involved in regulating and surveilling food safety along the food supply chain is inadequate. Even though the national framework stipulates a science-based risk-assessment approach to food safety, the practical focus remains on monitoring and testing of food products to detect unsafe food rather than managing food safety risks along the value chain. There is also an excessive focus at the production level versus the subsequent stages in the supply chain. Limited data availability and quality hamper the implementation of the science-based risk management approach. Furthermore, China's laboratory system for chemical and microbiological hazard and foodborne disease monitoring is not yet effective because of inadequate equipment, challenges with data exchange among laboratories, data analysis and capacity limitations. Food safety education is limited for both regulators and practitioners.

8. Enterprise investments in food safety management systems are hampered by the absence of suitable financial products. Private sector demand for food safety investments has been increasing for various reason: (i) emerging consumer demand for safe food with premium prices and higher market shares; (ii) higher liability and penalties stipulated in the 2018 revision of the Food Safety Law; and (iii) stronger enforcement of food safety standards with increased sampling and inspections. However, financial sector institutions are generally reluctant to finance agriculture investments, which are perceived as high risk with low returns.

9. To address the multiple food safety challenges, this project focuses on the improvement of regulations, their enforcement and private sector compliance in specific value chains. It builds on and complements the Emerging Infectious Diseases (EID) Prevention, Preparedness and Response Project (P173746), but with a narrower focus on foodborne health and safety risks, which introduced the One Health approach to assess, monitor and prevent EID in two provinces (Hainan and Jiangxi) in China. Here, the emphasis is on foodborne health and safety risks. The focus is on specific value chains in another two provinces (Guangdong and Shandong) and on the agricultural and food producers whose practices need to change.

10. Yantai Municipality, Shandong Province (seafood). Seafood is an essential sector for Yantai's economy. It accounts for over one-third of the combined total production value for agriculture, forestry, livestock and fishery in Shandong province. The sector also exhibits considerable national and international growth potential. The consumption



of seafood in China is expected to grow by 43 percent by 2030. Yantai's seafood exports account for 20 percent of the country's seafood exports, and world demand for fish is projected to increase by 19 percent by 2026 (compared to the 2014-2016 average). The sector engages a large number of small and medium enterprises (SMEs), cooperatives, and family farms and has the potential to generate equitable growth. However, for this potential to be realized, Yantai's producers will have to address the food safety challenges in seafood production, storage, and distribution. The main food safety hazards result from chemical hazards such as toxicity from polluted water and misuse of veterinary drugs, and microbial hazards from cross-contamination from poor cold chain services and unhygienic practices. Commercial banks in Yantai have limited exposure to the agricultural sector and specifically, lending to family farms, cooperatives and SMEs is very small.

11. **Guangdong province (pork, seafood, fruit and vegetables).** Guangdong is an important agricultural province in China. It is a major pork producing province, contributing over 5 percent to the national output. Guangdong's share in national pork consumption is about 10 percent. Approximately 39 percent of its consumption comes from other provinces. Guangdong accounts for 76 and 100 percent of the mainland's supply of pork to Hongkong Special Autonomous Region (SAR) and Macau SAR respectively. Like other provinces, Guangdong's pork industry was heavily affected by the ASF outbreak. Aquatic products are equally important, with Guangdong contributing 13 percent to China's total output of aquatic products. Guangdong is also a major producer of fruit and vegetables. Despite the rapid concentration in value chains, SMEs still dominate these three sectors, although traditional backyard farming is declining. Food safety risks are primarily centered around animal and plant health, originating from the misuse or improper use of veterinary drugs and pesticides in production. The Greater Bay Area Development Plan that covers Guangdong, Hong Kong, and Macao envisages strengthening cooperation on food safety, including traceability, emergency linking mechanisms, exchange of risk information, and establishing a certification scheme. In this context, as a major agricultural province, Guangdong wants to demonstrate that their agriculture and food producers can comply with higher food safety standards. Given the considerable lending potential, large banks as well as rural financial institutions have expressed interest in participating in the Guangdong project. These types of banks have ample liquidity but have so far shied away from agriculture lending risks. For Guangdong, risk sharing arrangements are thus more appropriate than the provision of long-term financing sources to catalyze the development of a new food-safety related business line.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

12. The PDO is to improve food safety management at the national and targeted subnational levels and reduce food safety risks in selected value chains.

Key Results

- Risk-based food safety management instruments developed (Number)
- Proportion of food safety events reported on subnational bigdata/traceability platforms for which mitigation measures are initiated (Percentage)
- Proportion of participating enterprises that comply with standards on biological hazards, contaminants, including pesticides and veterinary drug residues, and flavorings and food additives (Percentage)

D. Project Description

13. **Project Summary.** China's national food safety standard system will be strengthened with risk-based preventive approaches and further harmonized with international standards. Guided by the One Health approach, the project takes multidisciplinary approaches for coordinating and delivering prevention, detection and control of food borne diseases along selected food value chains. The project will support food safety primarily in three dimensions viz. regulatory,



enforcement and compliance. The regulatory framework will be strengthened under component 1, mainly at the national and provincial level in close cooperation with the State Administration of Market Regulation (SAMR) and the Ministry of Agriculture and Rural Areas (MARA). Amongst others, the project will support the implementation of the Law on Quality and Safety of Agriculture Products (LQSAP) and Food Safety Law (FSL) at the national and subnational levels. Enforcement and supervision will be primarily supported under component 2 at the provincial and municipal levels by integrating local standards and regulations covering ‘farm to table’ in specific value chains and aligning them with national regulations. The respective project components will be implemented in Huizhou, Guangzhou, Jiangmen, Zhaoqing municipalities in Guangdong with a focus on pork, seafood, fruits and vegetables value chains and in Yantai municipality in Shandong with focus on the seafood value chain. Successful experiences and good practices will be replicated in other value chains and in other municipalities. Finally, compliance will be promoted at the enterprise level through component 3 interventions. The project will closely work with commercial banks to provide financing for food safety related investments of agriculture and food producers. A detailed project description is given below.

14. **Component 1 - Institution building and regulatory performance (IBRD loan USD 49.5 million).** This component will be implemented at the national and sub-national levels, i.e., national, provincial, and municipal levels.

15. **Subcomponent 1.1 - Food safety programming guidance.** The project will finance: (i) the review of primary and secondary legislation, including agriculture product quality and food safety management strategies, policies and guidelines, and benchmarking them with best international practice in developed countries such as the USA, Canada, EU, Australia, or New Zealand; (ii) formal partnerships and collaborations with reputed universities, academic or research institutions; and (iii) a young professionals scheme for recent graduates and an internship program for graduate students in senior years for attracting young talent to food safety. The reviews and research will have a climate lens to support knowledge development on the nexus between food safety and climate adaptation and mitigation.

16. **Subcomponent 1.2 - Multi-sector coordination and food safety governance.** The subcomponent will finance activities that support the One Health approach through strengthening collaboration on surveillance of hazards, risk assessment, risk management, and standards development between institutions with a food safety related mandate. These include MARA, SAMR, and the National Health Commission (NHC) at the provincial level, and collaborations with the National Forestry and Grassland Administration (NFGA) on managing public health and food safety risks from interactions between wildlife and domestic animals.

17. **Subcomponent 1.3 - Risk based regulatory frameworks.** At the national level, this subcomponent will finance activities undertaken by MARA and SAMR. These will include the food safety risk assessments for the prioritized value chains; updating of food safety standards; piloting of the revised food safety standards; and developing a catalog of solutions that will enhance producers' compliance.

18. **Subcomponent 1.4 – Risk management capacity building.** The subcomponent will be implemented at the national and subnational levels. It will finance the design and implementation of comprehensive capacity building activities for both practicing and aspiring food safety professionals. Besides the food safety objective, these activities will improve climate knowledge and build stakeholders' capacity to increase resilience to climate change.

19. **Component 2 - Food safety supervision process (IBRD loan USD 142.9 million).** This component will primarily be implemented at the provincial and municipal level and support regulatory authorities to develop and demonstrate innovative food safety supervision models which will: (i) ensure the continued safety of food as it passes along the entire value chain, and (ii) build consumers' confidence in Chinese food and in the institutions engaged in ensuring its safety. The component will improve the surveillance capacity of the participating local jurisdictions based on a scientific and risk-based approach. It will upgrade laboratories, invest in improving the availability and analytics for food safety



risk detection, and finance measures that enhance risk communication among all players. This component will have three subcomponents:

20. **Subcomponent 2.1 - Food safety surveillance systems.** This subcomponent will finance activities that improve food safety control and the public system's capacity for detection and early warning about food safety risks. The financed activities include: (i) civil works and equipment for food safety laboratories and other testing centers; (ii) creating a network of reference laboratories with specialization in specific food safety hazards; and (iii) training and consulting services for strengthening laboratory information systems through linkages with a centralized big data platform for risk profiling and analytics. Investments in laboratories were identified through benchmarking that considered food safety risks in the prioritized value chains, best international practice, international accreditation requirements, and the existing laboratory landscape in the project areas.

21. **Subcomponent 2.2 - Food safety information analytics.** This subcomponent will finance tools that enhance the availability, integration, and analysis of food safety data to enable data driven decision making for improved food safety governance. It will finance consulting services to develop a comprehensive data policy for food safety. At the farm and enterprise level, the project will finance pilots on the use of digital control systems for smart food safety supervision. Technologies to be piloted support 'clean', 'green', and 'blue' production systems, increase the utilization efficiency of natural resources, reduce pollution (N, P, COD) and GHG emissions, while ensuring the production of high quality and safe food products. The pilots will include the use of 5G, artificial intelligence, surveillance systems, blockchain, Internet of Things sensor applications, and cloud computing for process automation, resource optimization, and supervision. At the value chain level, the subcomponent will finance the development of comprehensive food safety traceability systems, that allow tracking food safety at various stages of the value chain. For public regulatory systems, this subcomponent will finance the linking of existing traceability platforms that are currently 'layered' (national, provincial, and municipal level) and 'siloed' (public and private). Further, this subcomponent will finance consulting services and hardware needed to develop integrated IT platforms, technical protocols, and data analytics to identify and report in real-time food safety risks along the whole value chain.

22. **Subcomponent 2.3 Risk communication.** This subcomponent will support activities that contribute to increased transparency in risk management decisions and accountability of risk managers necessary for building trust in food safety. The subcomponent will finance: (i) developing a comprehensive and differentiated food risk communication strategy that encourages the efficient exchange of risk assessment information, surveillance data triage and risk management decisions between the scientific community, government/regulatory authorities, private enterprises, consumers, and extended stakeholders; (ii) developing long-term food risk communication programs for enterprises and consumers, using a variety of communication tools; (iii) developing and implementing an inclusive community engagement model to encourage risk management at the source and promote the project's preventive approach; (iv) an interactive online communication tool for consumers; (v) establishing a food recall management mechanism; (vi) training food safety managers on critical food incident management and developing approaches for consumer involvement in these; (vii) activities for promoting the WHO's 5 Keys to Safe Food and for healthy lifestyle advocacy; (viii) strengthening spokesperson mechanisms; and (ix) conducting biennial surveys for analyzing consumer confidence and trust in China's food safety. This subcomponent will also support effective communications to farmers and other value chain actors on climate hazards.

23. **Component 3 - Whole Value Chain Food Safety Control (IBRD loan USD 186.5 million).** This component is implemented at the subnational level in the participating municipalities aiming to promote investments along the selected value chains for reducing food safety risks. The project will also demonstrate a combination of market based instruments such as lines of credit (LOC), risk sharing facilities (RSF), and food safety insurance innovations (not all of these applied in each single location/geography) for creating enterprise level incentives to meet agriculture product



quality and food safety standards, besides modernizing marketing and distribution infrastructure through public investments. This component will finance Yantai (\$ 80 million) for a line of credit (US\$ 60 million) and upgrade of agriculture markets (US\$ 20 million) and Guangdong (\$90 million) for establishing a RSF (US\$ 40 million), food safety insurance (US\$ 30 million) and for market modernization (US\$ 20 million).

24. **Sub-component 3.1 - Investment support.** The project will support participating financial institutions (PFIs) to finance clean, green, and blue technologies and business solutions for helping producers take increased responsibility and improve compliance with modern food safety regulations. The engagement with PFIs aims to help them develop a new business line for financing food safety and agro-product quality investments and building their capacities to lend to this sector in a sustainable manner. The sub-loan arrangements under the LOC and RSF (not in the same location/geography) are detailed below.

25. **Value-chain innovation financing:** The project will take a value chain financing approach, targeting farms and enterprises with formal supply or buying collaborations, contracts, or service agreements with the leading enterprise or other enterprises in the value chain. Within the financed value chain, food safety standards for each participating farm enterprise will be defined and monitored on a traceability platform besides following up on loan (and client) performance, which will reduce the information asymmetry for the PFIs and consequent financing risk.

- (a) **Financing solutions:** The banks will adapt their current product offering for long term investments in food safety solutions.
- (b) **Inclusive finance:** The project will specify sub-allocations of the aggregate capital mobilization (from IBRD and PFIs' own resources) to encourage PFIs to lend to enterprise segments that they perceive as riskier.
- (c) **Maturity of sub-loans:** The working capital loans will have a loan maturity of one year, and the term loans will have a maximum tenor of 5-8 years.
- (d) **Pricing of sub-loans:** The pricing model considers the current macroeconomic conditions in China. The participating financial institutions will charge the end borrowers with market determined interest rates, benchmarked to the Loan Prime Rate (LPR) according to the established policy of the People's Bank of China (PBOC).¹

26. **Line of credit.** The participating municipality Yantai will implement LOCs under the project that will provide local currency loans to the PFIs. The municipality will select more than one PFI. The project will allocate funds to the selected PFIs based on their proposed amounts and fund utilization. The Project Management Office (PMO) of the project will monitor the disbursements and if a PFI does not effectively disburse as planned, their allocation can be reallocated to other PFIs. The provincial/municipal governments will shortlist the PFIs based on agreed criteria, such as regulatory compliance; financial soundness; strength of risk management systems; geographical coverage and prior exposure to target sectors; track record of good governance and anti-corruption measures; willingness to contribute own resources (matching LOC by at least two times); willingness to allocate at least 60 percent of the LOC resources (IBRD + own funds) to family farms, cooperatives and SMEs; willingness to comply with social and environmental safeguards and fiduciary frameworks agreed with IBRD. Yantai has initiated a competitive process for selecting PFIs and completed the evaluation

¹ Loans will be priced according to the PBOC guidelines and benchmarked with Loan Prime Rate (LPR). Currently the LPR is 3.85 percent Annual Percentage Rate (APR) +/- for loans less than 1 year tenor and 4.75 percent APR for loans above 5 years. The interest rates follow pricing methodologies accounting for cost of funding, cost of risk, and operating (or administrative) costs for the different types of investments and beneficiaries.



of Expressions of Interest (EOI) from qualified PFIs. Based on its due-diligence, IBRD will provide no-objections to the qualified commercial banks recommended by the project.

27. The project will finance technical assistance for PFIs on food safety improvement technologies and design appropriate financing solutions under Component 1.4. PFIs will have the managerial autonomy to decide on sub-loan appraisal and disbursement based on their own established credit management procedures and commercial practice. The on-lending terms of the PFIs' sub-loans (using their own funds) to the targeted value chain enterprises will follow PBOC/CBIRC guidelines for the agriculture sector and meet the entities' actual cash flow needs. A separate project implementation manual for the LOC will determine eligibility criteria, eligible activities, appraisal methods, monitoring and reporting arrangements, loan withdrawal procedures, and responsibilities of all parties implementing the LOC.

28. **Risk sharing facility.** The project will establish a risk sharing facility (RSF) in Guangdong for providing partial guarantees as additional collateral for loans within portfolios of food safety loans developed by the PFIs using their own funding. PFIs will be competitively selected according to the criteria and procedure described above for the LOC. IBRD funds will be utilized for risk-sharing to mitigate the risk perceived by the financial sector in providing such loans due to their lack of experience in financing food safety investments. The business plan for RSF will detail the institutional aspects of the RSF, legal position, fund set-up and management, financial model, business procedures, accounting standards, auditing requirements, and monitoring and evaluation systems. The RSF will be administered by a third-party service provider (TSP) selected competitively according to the criteria agreed with the IBRD. The RSF will be managed based on the terms and procedures established by IBRD and the project in compliance with the relevant principles for guarantees developed by the World Bank and detailed in the dedicated project implementation manual for the RSF (RSF manual), accompanying the business plan. The RSF manual will determine eligibility criteria, eligible activities, size of loans, portfolio risk management, risk-based pricing mechanism, safeguards management, the Management Information System (MIS) and reporting requirements, detailed claim procedures, and responsibilities of all parties implementing the RSF. Selected PFIs will need to sign agreements with the RSF which will outline all of the above.

29. **Sub-Component 3.2 - Food safety insurance services.** This component will develop and pilot a comprehensive insurance and risk management solution in Guangdong province. It focuses on food quality and safety risks in Guangdong province and applies to the four value chains supported by the project, i.e., pork, seafood, fruit and vegetables.² The composite product covers the end-to-end process from production risks such as animal health and crop failures to business interruption risks as well as liability to consumers due to food quality and safety related issues, thereby creating and monitoring risk profiles of each value chain player and enhancing the brand of insured enterprises. The intervention will provide a market-based ex-ante safety regulation, which supplements government supervision and leverages the surveillance systems supported by project component 2.

30. **Sub-component 3.3 - Modernizing marketing and distribution systems.** This subcomponent will support prevention, early detection, rapid response, and control measures for animal diseases, food safety, and public health risks in public value chain infrastructure, including agriculture markets, cold chains and e-commerce hubs. To mitigate food safety hazards originating in agricultural markets, including zoonoses and EIDs, the project will improve markets' infrastructure and risk management practices. The project will upgrade market infrastructure and facilities and use a HACCP approach for transforming selected markets into *healthy marketplaces*.

31. **Component 4 - Project implementation support (IBRD loan USD 21.1 million).** This component strengthens project implementation. It is organized into two subcomponents: project management and monitoring, evaluation, and learning.

² Specific products in each of the value chains will be identified during implementation



32. **Component 4.1 - Project management.** Under this component, the project will finance the operation of the project management units (PMUs), including consultancies, training and related material, office equipment, operational costs, establishing financial management systems, environment and social safeguards management systems, procurement management, governance and accountability systems, and knowledge management systems.

33. **Component 4.2 - Monitoring, evaluation, and learning.** The project will support (i) management information systems, results tracking and reporting systems; (ii) after-action reviews; (iii) systematic review of lessons learned; (iv) qualitative studies, quantitative research surveys; (v) the development of national innovation marketplaces and case study competitions; and benchmarking activities to international standards and good practices. This subcomponent will also finance Mid-Term Review and Final Evaluation reports and underlying analytical work.

E. Implementation

Institutional and Implementation Arrangements

34. **Project Steering Group at the National Level.** A Steering Group will be established at the national level. It will be responsible for overall project direction and coordination and will facilitate project review and policy dialogue. The Steering Group will consist of representatives of the National Development and Reform Commission, Ministry of Finance, Ministry of Agriculture and Rural Affairs, State Administration of Market Regulations, and the two project provinces. A Secretariat within the State Administration of Market Regulations will provide support to the Steering Group including coordinating meetings and serving as a liaison among group members. The Steering Group will meet semi-annually to be informed of the project implementation progress, provide guidance on the overall direction of the project and facilitate project review and policy dialogue based on emerging evidence from project implementation. The National Food Safety Committee will be kept informed of the project achievements and invited to project events such as annual forums and high-level project seminars/workshops.

35. **Project Management Offices at the National Level.** A National PMO will be hosted by SAMR and act as Secretariat of PSG for coordination, compilation and reporting the project progress, as well as developing and operationalizing the MIS. A Project Leading Group (PLG) will be set up at SARM and the PLG will be headed by the Director General of the Department of International Cooperation and will consist of representatives of the Departments of the Food Coordination, the Food Production, the Business Operations, the Standards and Technology, the Food Sampling Inspection, the Certification Supervision Department, the China Academy for Inspection and Quarantine (CIAQ) and the China Entry-Exit Inspection and Quarantine Association (CIQA). A Project Management Office will be established at the Department of Food Safety Supervision, MARA. The PLG and the PMO will be responsible for overall coordination, reporting, implementation, management, monitoring and evaluation of project activities at the national level. Key staff in the PMO will include a Project Director, Project Coordinator, Safeguards Specialist, Lead Technical Specialist, and Monitoring and Evaluation Officer.

36. **Project Implementation Units (PIUs) at the National Level.** PIUs within SAMR and MARA will act as executing agencies and be responsible for the day-to-day operation of the project. In SAMR, the PIUs will be housed in the China Academy for Inspection and Quarantine (CIAQ) and the China Entry-Exit Inspection and Quarantine Association (CIQA). In MARA, the PIU will sit in the Institute of Quality Standard and Testing Technology for Agro-products (IQSTTA). The PIUs will manage project procurement, including signing of contracts, project designated account, financial management, safeguards, monitoring and evaluation. The PIUs will also be responsible for preparing annual workplans, the procurement plan, and the financial reports, organizing trainings and seminars, coordinating and arranging for the Bank's supervision missions, and drafting communications with the Bank.



37. **Technical Expert Groups.** Technical expert groups will be set up at the national and subnational levels to provide technical expertise and support to the implementation agencies. The experts could be contracted as consultants using the loan and counterpart funding.

38. **Coordination arrangements at the provincial level.** In project provinces, project preparation has been coordinated by the Department of Finance (DOF) and the Department of Development and Reforms (DRC) in close cooperation with the relevant provincial departments. A Steering Group will also be established at the provincial level. It will be responsible for overall project direction and coordination and facilitate policy dialogue. The Steering Group will consist of representatives of the Provincial Development and Reform Commission, Department of Finance, Department of Agriculture and Rural Affairs, Administration of Market Regulations, Health Committee, and Department of Ecology and Environment.

39. **Project Management in Guangdong province.** A Project Leading Group (PLG) and provincial project management office (PPMO) will be set up in the provincial Department of Agriculture and Rural Affairs (DARA). The PLG will be headed by the Director General of DARA and responsible for overall project direction and coordination and will facilitate project review and policy dialogue. The PPMO will be responsible for implementation, overall coordination, consolidated reporting, monitoring and evaluation of the project activities, coordination and arrangement for the Bank's supervision missions, and drafting communications with the Bank. The PPMO will manage project procurement, financial management and safeguards. The PPMO will also be responsible for preparing the annual work plan, the procurement plan, and the financial reports, and organizing trainings and seminars. Any additional implementation structures at the municipal or county level may be set up based on needs during the project implementation period and with prior agreement with the Bank.

40. **Project Management in Yantai Municipality, Shandong Province.** The project will be implemented by Yantai municipality in Shandong. A PLG will be set up in Yantai and will be responsible for overall project direction and coordination and will facilitate project review and policy dialogue. The PLG will be headed by the deputy mayor of Yantai Municipal Government and consist of representatives of the Municipal Development and Reform Commission, Finance Bureau, the Marine Development and Fisheries Bureau, Agriculture and Rural Affairs Bureau, Market Regulations, Health Commission, Big Data Bureau, and Bank of Yantai. A municipal project management office (MPMO) will be set up in the Marine Development and Fisheries Bureau and responsible for the coordination, reporting, management, implementation, and monitoring and evaluation of their respective activities specified in the Annual Work Plans. The MPMO will also be responsible for overall coordination, consolidated reporting, and monitoring and evaluation of the project activities. Any additional implementation structures at the provincial or municipal level may be set up based on the needs during the project implementation period and the Bank's prior agreement.

41. **LOC and RSF interventions.** The provincial and municipal PMOs will be responsible for implementing the LOC and RSF interventions. The PMOs will be responsible for selecting PFIs and monitoring PFIs' compliance with the eligibility criteria throughout the project period. The PMOs will hire senior banking experts experienced in agriculture finance for supporting LOC/RSF operations and food safety standard experts to support PFIs in: (i) building a pipeline of project proposals by engaging with lead enterprises of the eligible value chains; (ii) verifying the borrowing enterprises' food safety compliance; and (iii) portfolio review and follow-up. The PMOs will ensure that LOC and RSF manuals are prepared acceptable to the Bank and adhered to throughout the project period. PFIs will be responsible for building the systems required to ensure compliance with World Bank fiduciary and environmental and social (E&S) requirements, as well as effective monitoring and reporting on project activities, including on the loan performance. The PFIs will be expected to have dedicated teams to support the project activities.



- (a) **LOC:** On the advice of the Yantai MPMO, the local Finance Bureaus will enter into subsidiary loan agreement with selected PFIs. The fiduciary aspects of the LOC are elaborated in the Financial Management (FM) section.
- (b) **RSF:** Guangdong PPMO will hire an RSF administrator (a financial services firm with experience in managing credit guarantees) through a competitive selection process. The RSF governance committee will comprise representatives of DARA, SAMR, provincial DOF, and provincial DRC, and reputed experts in rural finance and banking. The fiduciary functions will remain with the provincial PMO, and the RSF administration will be guided by the RSF business plan and RSF manuals.

42. **Insurance interventions.** The implementation of the component activities will be anchored by an insurance (or financial sector) expert hired in the Guangdong PPMO and supported by one or more insurance company, and a third-party service provider providing the technical support. Selection of both the insurance company and the third-party service provider will be on a competitive basis. The third-party service provider could be an insurance or reinsurance company.

43. The detailed responsibilities and arrangements at the national, provincial, municipal, and county level will be further developed and included in the Project Operations Manual (POM), which will need to be acceptable to the Bank prior to the effectiveness of the legal agreements.

44. The project design is complex as it aims to transform food safety management systems by strengthening the risk-based supervision systems and the private sector's regulatory compliance. But this is necessary for reducing the regulatory load and allowing regulatory agencies to focus supervision on value chains and businesses that carry high risk profiles with significant impact for food safety. The complexity is, however, resolved by clarifying roles and responsibilities of different agencies participating in the project, sequencing the project implementation and front loading analytical assessments, activity planning and training and capacity building activities, and putting in place robust monitoring and coordination mechanisms under the project. The World Bank's implementation support strategy combines periodic supervision with timely implementation and technical support and policy advice, as necessary.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The project will be implemented at both the national level and in two provinces (Guangdong province and Yantai city of Shandong province). The provinces are selected considering their high population density, large quantities of agricultural production and high degree of rejection of exported food items. The exact locations of project activities will be determined during implementation, but the scope of activities has been agreed. Yantai Municipality, Shandong Province (focusing on seafood). With 100.5 million people, Shandong is China's second-largest province in China by population. It has a comparative advantage in seafood production as it borders the Bohai Sea and the Yellow Sea with a total coastline length of 909 km. Yantai, with its 227 fishery villages, is the backbone of the industry. Yantai's marine aquaculture area spans 2.84 million hectares, and its seafood exports to over 70 countries, accounting for 1/3 of the province's seafood exports and 1/5 of the country's. Despite governmental efforts for consolidation, Yantai's fishery industry is still fragmented and dominated by SMEs, cooperatives, and family farms. The main food safety hazards in the aquaculture sector result from chemical hazards such as toxicity from polluted water and misuse of veterinary drugs, and microbial hazards from cross-contamination from poor cold chain service and unhygienic practices. Guangdong Province (pork, seafood, fruit and vegetables). Guangdong is an important



agricultural province in China and with 113.5 million people as the most populated province. It is a major pork producing province, contributing over 5% of the national output. Guangdong's share of the national pork consumption is about 10 percent. Approximately 39% of its consumption comes from other provinces. Meanwhile, Guangdong accounts for 76 and 100 percent of the mainland's pork supply to Hongkong and Macau, respectively. As other provinces, Guangdong's pork industry was heavily affected by the ASF outbreak. Aquatic products from Guangdong are equally important, contributing 13 percent to China's total output of aquatic products. Guangdong is also a major producer of fruit and vegetables. Despite the rapid concentration in value chains, SMEs still dominate these three sectors, although the traditional backyard farming is declining. Food safety risks are primarily centered around animal and plant health, originating from mis-use or improper use of veterinary drugs and pesticides in production.

G. Environmental and Social Safeguards Specialists on the Team

Aimin Hao, Social Specialist

Xiaodan Huang, Environmental Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>OP 4.01 is triggered for the project and the project is assigned as Category B - partial assessment based on the analysis below.</p> <p>The project is designed to improve food safety management and to reduce food safety risks in selected value chains. The whole value chain food safety control model is adopted by the project and will be implemented with four components. Component 1, 2, and 4 will focus on capacity building, technical studies, and upgrading of testing equipment and labs at both the national and subnational levels, while Component 3 will support the investments along the selected value chains (e.g., aquaculture in Yantai of Shandong, and fruit, vegetable, pork and aquaculture in Guangdong province), consisting of two parts: a) investment supports to producers and processors (largely SMEs) through a combination of market-based instruments (namely, Line of Credit, Risk Sharing Facility and Food Safety Insurance innovations) to upgrade their</p>



facilities to meet required food safety standards, and b) use of the HACCP approach for transforming selected markets into healthy marketplaces to mitigate food safety hazards originating in agricultural markets. Based on the environmental and social risk screening, the project will have apparent Environmental and Social (E&S) benefits with the improvements of environmental management and food safety management throughout the food production, processing, and distribution process. The physical investments to be supported are mostly upgrading of existing facilities (including labs under Component 2 and production, processing, and marketing facilities under Component 3), which are not expected to have permanent and significant negative impacts during construction. For the operation phase, there will be some environmental pollution (e.g., odor, wastewater, noise, solid waste, etc.) and negative impacts on surrounding communities caused by the production/processing facilities (e.g., pig farms, coastal fish/shellfish farms, abattoirs and agricultural markets), but to a lesser extent compared to before with facility upgrading and management improvement. The E&S assessment conducted during preparation also paid attention to the possible investments in new offshore aquaculture systems in Yantai and Guangdong which could have significant impacts on marine habitats during construction and operation. Accordingly, a clear exclusion list has been developed to rule out any activity with high E&S risks, including large-scale new investments, potential damage to critical natural habitat, and any inconsistency with local sector development plans. With the application of this exclusion list, the negative E&S impacts of selected investments will not be significant and will be mitigated with appropriately designed measures during project implementation.

As the exact investments and their locations will not be determined until implementation, the Environment and Social Management Framework (ESMF) has been prepared as the safeguard instrument, one by each IA. Thus, two at the national level (MARA and SAMR) and two at the



subnational level (Guangdong and Yantai). The ESMFs prepared also include the PMO capacity building plan and the generic Environmental and Social Management Plans (ESMPs) for proposed activities in selected value chains.

On the other hand, for the sub-component of investment supports under Component 3 (involving Guangdong and Yantai), the selection of competent and responsible PFIs and their E&S performance is also an important issue affecting the E&S risk rating of the whole project. Since the PFIs are not yet determined, specific requirements/procedures are included in the corresponding subnational ESMFs (Guangdong and Yantai) on the selection criteria of PFIs and the commitments of selected PFIs to establish and maintain their own Environmental and Social Management System (ESMS) tailored to the risk profile of their investment portfolio and consistent with OP4.01 and the ESMF requirements.

RPFs have been prepared for project cities/provinces (Guangdong and Yantai). Brief SIAs include screening for social impacts and opportunities for improving social development outcomes (inclusion, benefit-sharing, disabled and other vulnerable people, etc) as well as for screening social risks associated with specific social groups including ethnic minorities. The findings of these brief SIAs have been included in the four ESMFs to inform future design and implementation activities. It is proposed that further social assessment be carried out to allow informed decision-making during implementation based on guidance established by the ESMFs.

Data governance, risks associated with the influx of labor, and GBV/SEA have been incorporated in the ESMFs.

Performance Standards for Private Sector Activities OP/BP 4.03	No	Although private sector will be involved, the PIUs will still play a core role in the project implementation.
Natural Habitats OP/BP 4.04	Yes	During ESMF preparation, attention is given to the ecological sustainability of proposed aquaculture projects in Yantai and Guangdong. Therefore, this policy is triggered to ensure the conservation of



		marine habitats during project implementation. Necessary and adequate mitigation measures have been included in the ESMFs to avoid or minimize potential damage to natural habitats, including the application of exclusion list and the preparation and implementation of project-specific ESIsAs when required by the World Bank safeguards policies and the national EIA regulations.
Forests OP/BP 4.36	No	The project is not expected to directly or indirectly impact forests.
Pest Management OP 4.09	Yes	The project is not expected to directly or indirectly impact forests. To enhance food safety control from the production end, the investments proposed by MARA and two subnational PMOs (Guangdong and Yantai) will involve agriculture activities to further promote the Integrated Pest Management (IPM) approaches in the farming of vegetables, fruits, pigs, and aquatic products. Following the policy requirements, the Pest Management Plans have been prepared as an annex to the ESMFs involving agricultural activities, namely, the ESMFs for MARA, Guangdong, and Yantai.
Physical Cultural Resources OP/BP 4.11	No	The physical activities under the project are largely upgrading of existing facilities. The project investments are not expected to have any impact on cultural and historical heritage sites. Clear exclusion criteria are included in the ESMFs to rule out any subproject with potential impacts on PCRs.
Indigenous Peoples OP/BP 4.10	Yes	Initial assessment by the borrowers indicated that there might be ethnic minority presence in Guangdong as defined by OP4.10. This policy is triggered. The ESMFs prepared by all four institutions at national and provincial levels provided guidance for screening for ethnic minorities at the implementation stage. An Ethnic Minority Development Framework has been prepared by Guangdong PMO as part of the ESMF.
Involuntary Resettlement OP/BP 4.12	Yes	The project involves pig farms and aquaculture and will require small-scale facilities such as processing, storage, and transporting of food products. Exact locations will be decided during implementation to confirm whether land acquisition or resettlement is unavoidable. ESMFs prepared by national and provincial borrowers provide guidance on screening



		impacts related to OP4.12. Procedures including preparation and implementation of RAPs will be followed when a land acquisition or resettlement and impact on local communities' livelihoods is identified. RPFs have been prepared by provincial/municipal level borrowers. All RAPs to be prepared by Yantai and Guangdong if required will be reviewed by the Bank to ensure quality and compliance with Bank requirements. The ESMFs and RPFs have been disclosed locally on November 19 and December 30, 2020, and will be disclosed by WBG.
Safety of Dams OP/BP 4.37	No	There are no dam-related activities in the project.
Projects on International Waterways OP/BP 7.50	No	This policy is not triggered as the project does not involve trans-boundary rivers.
Projects in Disputed Areas OP/BP 7.60	No	This policy is not triggered as the project does not involve any disputed areas.

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

Environment: The project is classified as Category B under OP4.01 and triggers three environmental safeguards policies, as elaborated below.

Environmental Impact Assessment (OP/BP4.01). Through coordinated interventions in the public and private sectors and consumer engagement, the project will improve food safety management and reduce food safety risk in selected value chains with overall positive environmental and social benefits. The selected value chains are pork, vegetables, fruits, and aquaculture. The whole value chain food safety control model is adopted by the project and will be implemented with four components. Component 1, 2, and 4 will focus on capacity building, technical studies, and upgrading of testing equipment and labs at both the national and subnational levels, while Component 3 will support the investments along the selected value chains (e.g., aquaculture in Yantai of Shandong, and fruit, vegetable, pork and aquaculture in Guangdong province), consisting of two parts: a) investment supports to producers and processors (largely SMEs) through a combination of market-based instruments (namely, Line of Credit, Risk Sharing Facility and Food Safety Insurance innovations) to upgrade their facilities to meet required food safety standards, and b) use of the HACCP approach for transforming selected markets into healthy marketplaces to mitigate food safety hazards originating in agricultural markets. The physical investments to be supported are mostly upgrading of existing facilities (including labs under Component 2 and production, processing, and marketing facilities under Component 3), which are not expected to have permanent and significant negative impacts during construction. For the operation phase, there will be some environmental pollution (e.g., odor, wastewater, noise, solid waste, etc.) and negative impacts on surrounding communities caused by the production/processing facilities (e.g., pig farms, coastal fish/shellfish farms, abattoirs and agricultural markets), but to a lesser extent compared to before with facility upgrading and management



improvement. The E&S assessment conducted during preparation also paid attention to the possible investments on new offshore aquaculture systems in Yantai and Guangdong which could have significant impacts on marine habitats during construction and operation. Accordingly, a clear exclusion list has been developed to rule out any activity with high E&S risks, including large-scale new investments, potential damage to critical natural habitat and any inconsistency with local sector development plans. With the application of this exclusion list, the negative E&S impacts of selected investments will not be significant and will be mitigated with appropriately designed measures during project implementation.

Regarding the institutional capacity, the Borrowers under the project largely lack adequate experience in implementing bank-funded IPF projects and are not familiar with the World Bank's safeguards policies. In particular, the subcomponent of investment support proposed under Component 3 will be financed in two provinces (Guangdong, and Shandong (Yantai)) through a combination of market-based instruments such as lines of credit (LOC), risk-sharing facilities (RSF), and food safety insurance innovations (not all of these applied in every single location/geography). Each province/city would select more than one Participating Financial Institutions (PFIs) to implement the subcomponent. The PFIs will be selected during implementation through a transparent process based on the LOC manual to be developed after project approval. Although a list of potential PFIs has been proposed by each province/city during project preparation as the basis of E&S assessment, the final PFIs remain to be determined during project implementation. Therefore, the selection of competent and responsible PFIs and their E&S performance is also an important issue affecting the E&S risk rating of the whole project. Selection criteria have been included in the Yantai and Guangdong ESMFs to manage the E&S risks associated with this selection process.

Natural Habitat (OP/BP4.04). The project will not negatively impact critical natural habitats by applying the exclusion criteria developed as part of the ESMFs and to be applied during subproject screening. During ESMF preparation, attention has been given to the ecological sustainability of proposed marine aquaculture projects in Yantai and Guangdong, considering their potential impacts on marine habitat at different stages of the project cycle including design, construction, and operation.

Pest Management (OP4.09). To enhance food safety control from the production end, the investments proposed by MARA and two subnational PMOs (Guangdong, and Yantai) will involve agriculture activities to further promote the Integrated Pest Management (IPM) approaches in farming of vegetables, fruits, pigs, and fishes. Thus, the policy is triggered to support and enhance the achievement of anticipated benefits in this regard.

The project triggered OP4.12 because land acquisition or resettlement or negative impact is anticipated from activities such as pig farming, aquaculture, and food products processing and storage. An initial assessment has not identified confirmed sites where land acquisition or resettlement will occur. Future project implementation will require screening of these impacts at the local level in the two provinces. ESMFs and RPFs prepared by the clients provide guidance for the screening of such impacts and proper procedures when impacts are identified.

Initial assessment by the borrowers indicated that ethnic minority presence as defined by OP4.10 cannot be ruled out in Guangdong province. This policy was triggered. ESMFs prepared by all four IAs included provisions for the screening of ethnic minorities at the implementation stage once exact locations are decided. An Ethnic Minority Development Framework has been prepared by Guangdong as part of the ESMF.

ESMFs prepared by all IAs included risk control for data governance to ensure the project only collects data for food safety activities. Risks associated with the influx of labor and GBV/SEA are also incorporated in the ESMFs.



2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
The ESMFs prepared also reviewed the existing industry master plan in China and project province/city. During project implementation, the proposed investments (Component 3) on MSMEs in selected value chains will be screened to confirm their consistency with applicable sector development master plan to avoid any long-term negative E&S impacts.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
n/a

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

Environment. Based on the project's institutional arrangements, four implementation agencies are preparing separate Environmental and Social Management Frameworks (ESMFs) for their respective project activities, namely two national ESMFs by MARA and SAMR and two sub-national ESMFs respectively by Guangdong PMO and Yantai PMO. These ESMFs include clear E&S screening criteria to exclude activities with high E&S risks and outline the specific E&S issues and necessary mitigation measures associated with all project activities at national and provincial levels. These ESMFs have been developed with reference to the international good practice currently available, including relevant WHO technical guidance, World Bank Environmental, Health and Safety (EHS) Guidelines, and other Good International Industry Practices. A capacity assessment was undertaken during ESMF preparation to inform customized capacity building plans as an integrated part of the ESMFs. At least one dedicated E&S staff will be appointed in each national/subnational PMO for coordinating the ESMF implementation, and external E&S consultancy services will be purchased under Component 4 to support the E&S management of each national/subnational PMO. The ESMFs have also included the plans and budget for necessary E&S training.

Regarding the project activities to be supported through the LoC/RSF mechanisms, some potential PFIs are shortlisted by Guangdong and Yantai PMO based on the agreed criteria, including the willingness to conform to the environmental and social safeguards, fiduciary and other frameworks agreed with IBRD. However, the PFIs will be determined during project implementation. Based on the provided PFI shortlist, From each shortlist, one candidate PFI was selected for the assessment of its existing E&S risk management system, based on which specific requirements/procedures were included in the corresponding subnational ESMFs (Guangdong and Yantai) on the E&S selection criteria of PFIs. Also, the selected PFIs should establish and maintain their own Environmental and Social Management System (ESMS) to identify, assess and manage E&S risks based on their respective investment portfolio. The ESMS of each selected PFI should be developed during the due diligence process subject to the satisfaction of the World Bank and applied before any investment decision is made. PFIs to be selected are expected to have dedicated E&S teams to enhance their capacity during the management of project activities.

The project will also support scientific research, analytical studies, and policy reviews for making science-policy nexus. Those TA activities with potential downstream E&S implication will be screened during implementation and the quality control process has been established in the ESMFs to ensure the incorporation of E&S considerations during the proposed studies.

Natural Habitat (OP/BP4.04). The project will not negatively impact critical natural habitats by applying the exclusion criteria currently developed as part of the ESMFs and to be applied during subproject screening. The ESMFs include the assessment of potential ecological impacts on non-critical natural habitat and necessary and adequate mitigation measures have been included in the ESMFs to avoid or minimize potential damage to natural habitats, including the application of exclusion list and the preparation and implementation of project-specific ESAs when required by the



World Bank safeguards policies and the national EIA regulations.

Pest Management (OP4.09). Following the policy requirements, the Pest Management Plan has been prepared as an annex to three ESMFs (MARA, Guangdong and Yantai) involving agricultural activities.

On capacity building, the tailored capacity building plans have been developed as part of the ESMFs, including the requirement of internal and external E&S management staffing in each national/subnational PMO, and training on environmental and social safeguards to PMOs/PIUs at all levels.

Indigenous Peoples (OP4.10). The preliminary social assessment indicated that ethnic minority presence cannot be ruled out in Guangdong, because project activities will cover 100 counties. Guangdong prepared an EMDF to guide further screening of ethnic minority presence at the implementation stage. Guangdong province has experience in managing Bank-financed projects with OP4.10 management. ESMFs prepared by all four players also incorporated screening for ethnic minorities once exact locations of project activities are decided. Capacity building to IAs other than Guangdong will be needed if ethnic minority presence in Yantai and other places were identified.

Involuntary Resettlement (OP4.12). The preliminary social assessment indicated that the impact from land acquisition and resettlement is expected to be limited. RPFs have been prepared by Yantai and Guangdong. In case land acquisition and/or resettlement is unavoidable, RAPs will be prepared guided by the RPFs. To ensure proper quality and compliance, all RAPs to be prepared by the borrowers will be reviewed by the bank task team. Both Yantai and Guangdong agreed to commission independent monitoring teams to manage the implementation of OP4.12 and OP4.10.

ESMFs prepared by all IAs incorporated risk management associated with data governance, the influx of labor, and GBV/SEA. Capacity building will be necessary to manage risks in these aspects.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

To date, no specific sites, areas or communities which will definitely be included in the project activities have been identified.

Broader consultation has been undertaken at a higher level including direct engagement with relevant Government Agencies such as local Natural Resources (including land local land bureaus), Ethnic Minority Commissions, Environmental bureaus and Poverty offices. Interviews were also completed with industry groups, businesses and other participants in the respective value chains to understand the key technical and E&S issues to be addressed by the project. The matters identified have been addressed in the respective ESMFs.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
03-Jan-2021	14-Jan-2021	

**"In country" Disclosure**

China

26-Dec-2020

Comments

Comments

SAMR ESMF, Dec. 11th, 2020 <http://www.caiqtest.com/news/show-2942.html>

MARA ESMF and corresponding PMP, Dec. 17th, 2020

official website of the Ministry of Agriculture and Rural Affairs (<http://www.moa.gov.cn/>)

Yantai ESMF, Nov. 24th, 2020

Yantai Marine Development and Fisheries Bureau website
(http://hyj.yantai.gov.cn/art/2020/11/24/art_1643_2878783.html)

Guangdong ESMF, Dec. 26th, 2020

Official website of Guangdong Provincial Department of Agriculture and Rural Affairs

Resettlement Action Plan/Framework/Policy Process

Date of receipt by the Bank

03-Jan-2021

Date of submission for disclosure

14-Jan-2021

"In country" Disclosure

China

26-Dec-2020

Comments

SAMR ESMF, Dec. 11th, 2020 <http://www.caiqtest.com/news/show-2942.html>

MARA ESMF and corresponding PMP, Dec. 17th, 2020

official website of the Ministry of Agriculture and Rural Affairs (<http://www.moa.gov.cn/>)

Yantai ESMF, Nov. 24th, 2020

Yantai Marine Development and Fisheries Bureau website
(http://hyj.yantai.gov.cn/art/2020/11/24/art_1643_2878783.html)

Guangdong ESMF, Dec. 26th, 2020

Official website of Guangdong Provincial Department of Agriculture and Rural Affairs

Indigenous Peoples Development Plan/Framework

Date of receipt by the Bank

Date of submission for disclosure



03-Jan-2021

14-Jan-2021

"In country" Disclosure

China

26-Dec-2020

Comments

SAMR ESMF, Dec. 11th, 2020 <http://www.caiqtest.com/news/show-2942.html>

MARA ESMF and corresponding PMP, Dec. 17th, 2020

official website of the Ministry of Agriculture and Rural Affairs (<http://www.moa.gov.cn/>)

Yantai ESMF, Nov. 24th, 2020

Yantai Marine Development and Fisheries Bureau website (

http://hyj.yantai.gov.cn/art/2020/11/24/art_1643_2878783.html)

Guangdong ESMF, Dec. 26th, 2020

Official website of Guangdong Provincial Department of Agriculture and Rural Affairs

Pest Management Plan

Was the document disclosed prior to appraisal?

Yes

Date of receipt by the Bank

03-Jan-2021

Date of submission for disclosure

14-Jan-2021

"In country" Disclosure

China

26-Dec-2020

Comments

MARA ESMF and corresponding PMP, Dec. 17th , 2020

official website of the Ministry of Agriculture and Rural Affairs (<http://www.moa.gov.cn/>)

Yantai ESMF, Nov. 24th, 2020

Yantai Marine Development and Fisheries Bureau website (

http://hyj.yantai.gov.cn/art/2020/11/24/art_1643_2878783.html)

Guangdong ESMF, Dec. 26th, 2020

Official website of Guangdong Provincial Department of Agriculture and Rural Affairs

If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.



If in-country disclosure of any of the above documents is not expected, please explain why:

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)**OP/BP/GP 4.01 - Environment Assessment**

Does the project require a stand-alone EA (including EMP) report?

Yes

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?

Yes

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?

Yes

OP/BP 4.04 - Natural Habitats

Would the project result in any significant conversion or degradation of critical natural habitats?

No

If the project would result in significant conversion or degradation of other (non-critical) natural habitats, does the project include mitigation measures acceptable to the Bank?

Yes

OP 4.09 - Pest Management

Does the EA adequately address the pest management issues?

Yes

Is a separate PMP required?

Yes

If yes, has the PMP been reviewed and approved by a safeguards specialist or PM? Are PMP requirements included in project design? If yes, does the project team include a Pest Management Specialist?

Yes

OP/BP 4.10 - Indigenous Peoples

Has a separate Indigenous Peoples Plan/Planning Framework (as appropriate) been prepared in consultation with affected Indigenous Peoples?

Yes

If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?

Yes

If the whole project is designed to benefit IP, has the design been reviewed and approved by the Regional Social Development Unit or Practice Manager?



Yes

OP/BP 4.12 - Involuntary Resettlement

Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?

Yes

If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?

Yes

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

Yes

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

Yes

Have costs related to safeguard policy measures been included in the project cost?

Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

Yes

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