

Document:	EB 2015/114/R.10
Agenda:	6(c)(i)
Date:	18 March 2015
Distribution:	Public
Original:	English

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President's report

Proposed loan and grant to the People's Republic of China for the Qinghai Liupan Mountain Area Poverty Reduction Project

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Executive Board — 114th Session
Rome, 22-23 April 2015

For: Approval

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Annex

Negotiated financing agreement (to be tabled at the session)

Appendix

Logical framework

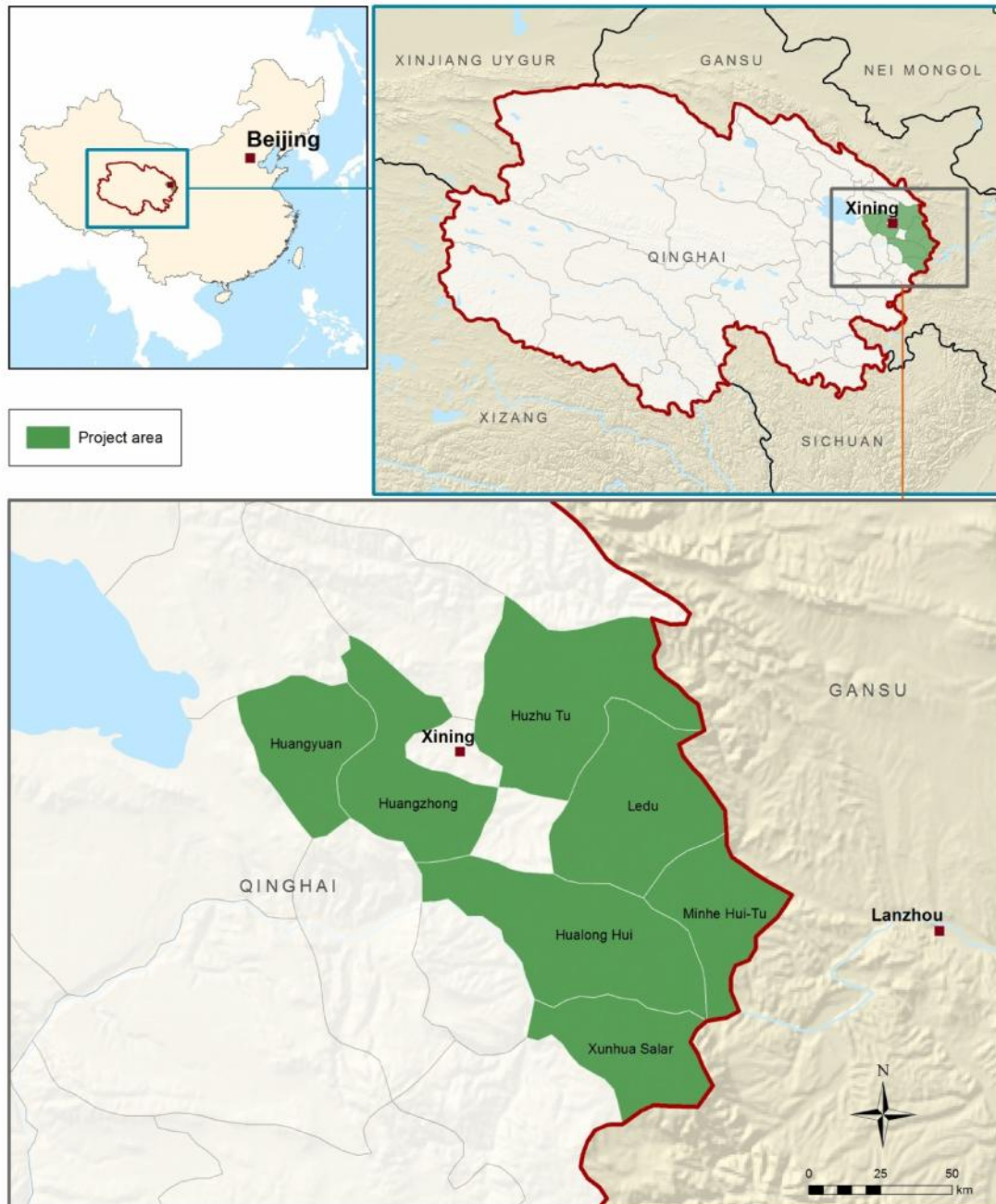
Abbreviations and acronyms

ASME	agricultural small and microenterprise
AWPB	annual workplan and budget
BPA	Bureau of Poverty Alleviation
DOF	Department of Finance
DOF/BOFs	Department/Bureaux of Finance
GEF	Global Environment Facility
M&E	monitoring and evaluation
PMOs	project management offices
WUAs	water users' associations

Map of the project area

People's Republic of China

Qinghai Liupan Mountain Area Poverty Reduction Project



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 08-01-2015

People's Republic of China

Qinghai Liupan Mountain Area Poverty Reduction Project

Financing summary

Initiating institution:	IFAD
Borrower:	People's Republic of China
Executing agency:	Bureau of Poverty Alleviation of Qinghai Province
Total project cost:	US\$125.25 million
Amount of IFAD loan:	EUR ... million (equivalent to approximately US\$42.48 million)
Amount of IFAD grant:	SDR ... million (equivalent to approximately US\$1.0 million)
Terms of IFAD loan:	18 years, including a grace period of 5 years, with an interest rate equal to the reference interest rate per annum as determined by the Fund semi-annually
Cofinanciers:	Global Environment Fund (GEF), cooperatives and agricultural small and microenterprises (ASMEs), banks and financing institutions
Amount and terms of cofinancing:	GEF grant: US\$7.15 million Cooperatives and ASMEs: US\$3.45 million Banks and financing institutions: US\$15.10 million
Contribution of borrower:	US\$42.48 million
Contribution of beneficiaries:	US\$13.59 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the People's Republic of China for the Qinghai Liupan Mountain Area Poverty Reduction Project, as contained in paragraph 42.

Proposed loan and grant to the People's Republic of China for the Qinghai Liupan Mountain Area Poverty Reduction Project

I. Strategic context and rationale

A. Country, rural development and poverty context

1. Economic context. Since opening up to foreign trade and investment and implementing market reforms in 1979, China has been among the world's fastest-growing economies, with real annual GDP growth averaging nearly 10 per cent through 2013.
2. Poverty context. China is the first developing country to achieve the United Nations Millennium Development Goal (MDG) of reducing the number of people living in extreme poverty and hunger by half. China is widely recognized for its outstanding achievements in reducing poverty since the reform of the rural economy. Broad participation in the subsequent reform-driven economic growth, together with well-funded national poverty reduction programmes, has brought about a tremendous reduction in rural poverty during the past 30 years.
3. While impressive progress has been made in poverty reduction, China still faces an uphill task. Pockets of extreme poverty persist in rural areas. An increasing share of the remaining rural poor are now concentrated in the western provinces/regions, reflecting the regional economic disparities. The Government is pursuing a development-oriented poverty reduction strategy, focused on improving infrastructure, promoting ecologically sound agricultural development, strengthening marketing and financial services for the poor, encouraging private entrepreneurs and farmer organizations, and developing off-farm economic activities including through migration.
4. Key government priorities in the agriculture and rural sector. At the second session of the Twelfth National People's Congress on 5 March 2014, the Premier of the State Council of the People's Republic of China presented the major tasks for 2014 in the agricultural and rural sector as follows: (i) make agriculture, rural areas, and farmers the number one priority and accelerate agricultural modernization in order to ensure China's food security and increase farmers' incomes; (ii) strengthen policies for supporting and protecting agriculture; (iii) strengthen the foundation of agricultural and rural development; (iv) push forward rural reform; and (v) explore new ways to alleviate poverty through development and move faster to promote development of contiguous poor areas and reduce poverty.

B. Rationale and alignment with government priorities and RB-COSOP

5. Rationale for investing in the Liupan mountain area, Qinghai. The Liupan mountain area in the eastern part of Qinghai Province is a transition area between the Qinghai-Tibetan Plateau and the Loess Plateau and one of the priority focus areas outlined in the China Poverty Reduction Outline 2011-2020. The area is

characterized by (i) dependency on agriculture and livestock production; (ii) the presence of a significant percentage of disadvantaged but economically capable people; and (iii) degraded land resources.

6. Rationale for supporting the transformation of the current fragmented farming system into a market-oriented system based on production of quality products. In spite of the constraints in the project area, local inhabitants have developed specialized and concentrated crop and livestock farming that is suitable for the arid and semi-arid climatic and soil conditions, this is referred to as "featured agriculture". The opportunities identified in the Government's agricultural strategy are to develop locally featured crop and livestock products that show market potential for economies of scale. These include the market-oriented production of various types of annual and perennial crops such as vegetables, medicinal plants, fruits and locally adapted varieties of livestock (landrace livestock). Agricultural sector activities need to be transformed into business ventures that can respond adequately to market opportunities. This will require transforming the current fragmented farming into market-oriented production of quality goods with economies of scale to enhance the market competitiveness of products; upgrading on-farm infrastructure and facilities; adopting environmentally sound farming practices, water-saving technologies, low-carbon energy-efficient technologies; and addressing constraints in value chains to connect farmers to markets.
7. Alignment with the RB-COSOP 2011-2015. This is the last project to be designed under the current 2011-2015 COSOP, and it reflects the recent trend of focusing IFAD support on enhancing income opportunities and increasing resilience, improving access to markets and value chains, and strengthening resilience to climate change. The proposed project will promote strategic objectives 1, 2 and 3 of the 2011-2015 COSOP, particularly in relation to improved productivity, increased access to physical assets and to market and financial services for income generation, and greater resilience to economic and market risks. The project design will take into account the experience gained from previous and ongoing IFAD projects in China, particularly the Shiyang Smallholder Agribusiness Development Project (SSADEP) and Jiangxi Mountainous Areas Agribusiness Promotion Project (JiMAAPP).

II. Project description

A. Project area and target group

8. Project area. The project area comprises seven counties under the jurisdiction of two prefecture-level municipalities in the eastern part of Qinghai Province. These counties are: Huangzhong, Huangyuan, Minhe, Ledu, Huzhu, Hualong and Xunhua. The project area is a multi-nationality region, including the Han, Hui, Tu, Salar, Tibetan and Mongolian ethnic groups. Ethnic minorities account for about 31 per cent of the total population in the province and about 47 per cent of the total population of the project area.
9. Target groups. The project will target: (i) poor smallholder farmers with potential for high-value/locally featured products, and (ii) disadvantaged, vulnerable but economically capable poor people (women, young people, disabled people, ethnic minorities, etc.). Specific emphasis will be placed on targeting women (an estimated 60 per cent of all direct beneficiaries will be women) and ethnic minorities.
10. Estimated beneficiaries. The project has the potential to benefit approximately 128,000 poor and vulnerable rural households (460,000 people) living in 683 poor villages, within 82 townships of the seven poverty-stricken counties in Qinghai Province.

B. Project development objective

11. The overall goal of this project is to contribute to achieving sustainable and equitable poverty reduction and improving the livelihoods of rural households in Qinghai Province. The development objective is to sustainably increase the incomes of poor and vulnerable rural households residing in selected poor areas in Qinghai Province. This will be achieved by (i) enhancing agriculture and livestock productivity, focusing on high-value/locally featured products; (ii) enhancing the opportunities for targeted farmers to access markets by linking them to strengthened cooperatives and enterprises; (iii) strengthening the capacity of vulnerable groups to engage in off-farm income-generating activities; and (iv) improving the provision of ecosystem services through sustainable land resources management.

C. Components/outcomes

12. The project is organized around four mutually reinforcing components: (i) climate-resilient infrastructure and integrated land resource management; (ii) market-oriented agriculture; (iii) off-farm livelihood support; and (iv) project management and coordination.
 - (i) Climate-resilient infrastructure and integrated land resource management (approximately US\$32.9 million; 26 per cent of project total costs). This component aims at enhancing agricultural productivity and the resilience of rural poor people to climate change through improved irrigation systems and sustainable land and water management. It includes two subcomponents: (a) irrigation infrastructure enhancement, which aims at improving irrigation systems and enhancing irrigation water use efficiency in four schemes through combined physical, institutional and technical support, and (b) integrated land resources management, which aims at restoring environmental services within the Huang river catchment by implementing a sustainable approach to natural resource management.
 - (ii) Market-oriented agriculture (approximately US\$73.7 million; 59 per cent of total project costs). This component aims at increasing the income of farmers in poor areas by developing market-oriented production of cash crops, economic tree crops and livestock, and linking farm producers to relevant farmers' cooperatives and agricultural small and microenterprises (ASMEs) to enhance market access. This will be implemented through four subcomponents: (a) cash crop development to support farmers in developing crops with high market value; (b) economic tree crop development, to promote the rural economy and increase farmers' income through sustainable development of economic tree crops and nurseries; (c) livestock development and rural biogas plants, to support farmers in increasing the production of livestock with good market potential and mitigating the environmental impact of livestock farming; and (d) market access enhancement, to enhance the opportunities and capacity of the producers targeted under the other subcomponents to access end-markets. This will be achieved by (i) developing sustainable business linkages between producers and cooperatives and ASMEs and the related value chains; and (ii) strengthening the capacity of selected cooperatives and ASMEs to access the market, including through increased access to rural finance.
 - (iii) Off-farm livelihood support (approximately US\$8.2 million; 6 per cent of project total costs). This component aims to strengthen the capacity of vulnerable but economically capable groups (i.e. women, ethnic minorities, disabled people and young people) to engage in off-farm income-generating activities.
 - (iv) Project management and coordination (approximately US\$10.53 million; 8 per cent of project total costs). This component will support the

establishment and operation of project management offices (PMOs) at the province, municipal and county levels.

III. Project implementation

A. Approach

13. The project will adopt a two-pronged strategy to reduce poverty in the project area and to sustainably increase the incomes of vulnerable poor people and poor farmers with the potential to produce high-value/locally featured goods through activities to: (a) enhance and sustain agriculture and livestock productivity, particularly high-value/locally featured products and create opportunities for targeted farmers to access the markets by linking them to strengthened cooperatives; and (b) sustainably enhance opportunities for vulnerable but economically capable groups to engage in off-farm income-generating initiatives. Project implementation will create synergies by building linkages between project activities, particularly the activities within and between the first and second components to boost the incomes of rural men and women.
14. Furthermore, environmental considerations will be mainstreamed into project design by developing a partnership with the Global Environment Facility (GEF). This will enhance the sustainability of project benefits through activities such as sustainable land resource management; introduction of good practices and new technologies, conservation of niche medicinal plants and indigenous economic trees; and promotion of renewable rural energy.

B. Organizational framework

15. The Bureau of Poverty Alleviation (BPA) of Qinghai Province will be the lead project agency and will be responsible for the overall project coordination and supervision. Project lead groups will be established at the province level and within each project county to provide overall guidance on project implementation. The Qinghai Provincial Department of Finance will have primary responsibility for the administration of project resources while the Department of Finance and Bureaux of Finance (DOF/BOFs) at the provincial and county levels respectively will be responsible for financial management.
16. PMOs will be established by the project lead groups at provincial, municipal, and county levels and located at the BPAs at the respective level. The PMOs will be responsible for planning, coordinating, monitoring and reporting on project activities. The provincial PMO will be responsible for coordinating project implementation across the seven counties. The county PMOs will be responsible for coordinating project implementation across sectors at county level. Village implementation groups will be established in the target villages to ensure appropriate targeting, participatory planning, implementation and monitoring of the project activities.
17. Implementation of project activities will be carried out by relevant technical agencies at county level on the basis of their mandate and technical expertise. The implementing agencies will include the BPA, Bureau of Water Resources, Bureau of Agriculture and Livestock, Forestry Bureau, Women's Federation and Disabled Persons' Federation.

C. Planning, monitoring and evaluation, and learning and knowledge management

18. Planning. The annual workplans and budgets (AWPBs), reflecting activities and capital budgets, will be prepared by county PMOs based on draft AWPBs prepared by implementing agencies. These will then be consolidated by the provincial PMO.
19. Monitoring and evaluation (M&E). The project will establish an effective and efficient M&E system encompassing the provincial PMO, county PMOs and village

implementation groups. The system will operate in line with IFAD's M&E guidelines. The M&E officers of the provincial PMO and county PMOs will be responsible for M&E project implementation and sharing the lessons learned. Monitoring will focus on the project outputs, and physical and financial progress of activities. Where applicable, data will be presented disaggregated by gender and household category.

20. Knowledge management. The project knowledge management strategy will draw on the experiences of previous and ongoing IFAD projects as well as introduce other developments. The provincial and county PMOs will be responsible for capturing and documenting experiences, successful cases and innovations resulting from project activities and organize semi-annual and/or annual workshops to disseminate lessons and innovations. Project management staff will actively participate in regional knowledge networking activities on topics related to the project. Exchange of experiences with other IFAD-funded projects sharing similar design features – particularly with SSADeP and JiMAAPP – will be facilitated.

D. Financial management, procurement and governance

21. The Qinghai provincial DOF will have primary responsibility for the administration of project resources. The DOF/BOFs at the provincial and county levels respectively will be responsible for: (i) opening and management of the project accounts; (ii) administering project resources including the IFAD loan and grant, GEF funds and counterpart funds; (iii) review and approval of the financing needs of project implementation; (iv) overseeing the use of project resources; (v) ensuring effective flow of funds for project implementation; (vi) providing appropriate financial management training to the financial officers of PMOs; and (vii) preparing withdrawal applications and ensuring reimbursement of eligible project expenditures on a timely basis.
22. Retroactive financing. As an exception to the General Conditions for Agricultural Development Financing, provision is made for retroactive financing for the loan of up to EUR 800,000 incurred as from 27 October 2014 up to the entry into force of the IFAD financing agreement. The retroactive financing will mainly pre-finance start-up activities in respect of expenditures for (i) purchase of essential equipment for PMOs; (ii) establishment of M&E system; (iii) start-up training and workshops for implementation and management; (iv) exposure visits for knowledge and experience sharing; (v) field surveys and studies; and (vi) seasonally dependent crop demonstrations. Expenditures for retroactive financing will need to be specified in the first AWPB.
23. Flow of funds. Three separate designated accounts – denominated in euro for the loan and United States dollars for the GEF and IFAD grants – will be opened and maintained by the DOF of Qinghai Province in a bank acceptable to IFAD, through which all IFAD loan and grant funds and GEF grants will be channelled, respectively. At the county level, project accounts denominated in yuan renminbi (RMB) will be opened and maintained by BOFs and county PMOs, respectively, to receive funds for project implementation. The project accounts will be funded and replenished as necessary from the resources held in the designated accounts, upon request of the PMOs and in accordance with expenditures incurred under approved AWPBs.
24. The loan proceeds will be onlent from the Ministry of Finance to the DOF of Qinghai Province where the loan proceeds will be further onlent through municipal BOFs and finally to county BOFs, at the same terms and conditions and without additional charges. At the county level, the funds will be transferred from BOFs to PMOs and the latter will forward the funds to relevant implementing agencies in accordance with expenditures incurred under approved AWPBs. The flow of GEF funds will follow the same procedure as the IFAD loan. The proceeds of the IFAD and GEF financing will not be used to pay taxes.

25. **Procurement.** Procurement of goods, works and services financed by the project will be carried out in accordance with the Government Procurement Law of the People's Republic of China (2002) and its amendments, to the extent that they are consistent with the provisions of IFAD's Project Procurement Guidelines and Handbook (2010) and its amendments. The procurement methods to be applied in each case will depend on the expenditure and the estimated value of the contract. The thresholds suggested for different procurement methods, to be applied in specific cases, will be detailed in the letter to the borrower.
26. **Governance.** The overall financial risk for the project was rated as medium. The DOF of Qinghai Province and the provincial PMO will follow a financial management and accounting system in accordance with internationally recognized accounting standards to ensure accurate and timely reporting of the use of both the IFAD loan and grant and the GEF grant. Additional control measures will be put in place to mitigate possible fiduciary risks, including: (a) harmonization of a financial management guideline into the project implementation manual, specifying the budgeting, accounting, internal controls, reporting and auditing arrangements; (b) appointment of full-time financial management staff in provincial PMO and project accountants in all county PMOs; (c) installation of accounting software at the provincial and all county PMOs; and (d) a project-specific annual external audit undertaken in accordance with International Accounting Standards and IFAD Audit Guidelines by the National Audit Office, among other control measures. In addition, according to the national procurement guidelines, the following transparency principles will be applied: (a) all national competitive bidding procurement operations will be publicized on the local media and provincial procurement websites; (b) for local shopping, results will be publicized in local media, and the information boards of townships and villages. The project's procurement committee will be composed of representatives of different entities such as technical agencies, finance bureaux, and audit and supervisory bodies as well as township and villages representatives; (c) office equipment and small value items will be procured by adopting either local shopping or direct purchase methods. Goods will be examined on receipt and registered for subsequent verification and audit.

E. Supervision

27. The project will be directly supervised by IFAD. In order to facilitate project implementation and ensure the achievement of project objectives, IFAD and the Government will perform annual supervision missions, a midterm review and a completion review.

IV. Project costs, financing, benefits

A. Project costs

28. The total project cost is estimated at US\$125.25 million, including contingencies (US\$4.93 million) over a five-year implementation period. Project costs are organized into four main components: (i) climate-resilient infrastructure and integrated land management (26 per cent of baseline costs); (ii) market-oriented agriculture (62 per cent of baseline costs); (iii) off-farm livelihoods support (6 per cent of baseline costs); and (iv) project management (6 per cent of baseline costs). Investment and recurrent costs amount to 93.2 per cent and 6.8 per cent of total project costs, respectively. Recurrent cost implications for the Government beyond the life of the project are minimal.

B. Project financing

29. IFAD will contribute approximately US\$43.47 million (33.9 per cent of the total cost) to the project: US\$42.47 million as a loan and US\$1 million as a grant to finance selected technical activities and capacity-building inputs to enhance project effectiveness and sustainability. The focus will be on areas that have limited government financing but whose performance directly contributes to the

effectiveness, impact and sustainability of the overall project (i.e. capacity-building to water users' associations, capacity-building of farmers for better market linkage and access, technical support for inclusive rural finance models, and results and knowledge management for extended impact). The Government of Qinghai Province will contribute to the project in the amount of US\$42.48 million (34 per cent) in cash and sector matching funds. Through a grant, to be approved during the GEF Council in June 2015, the GEF will contribute US\$7.15 million (5.7 per cent of the project costs). Cooperatives and ASMEs will contribute in the amount of US\$3.45 million (2.8 per cent); participating beneficiaries will contribute US\$13.59 million (10.9 per cent), both in-kind and cash. A contribution of US\$15.09 million (12.1 per cent) will be leveraged from banks and financing institutions.

30. Cofinancing ratio. The ratio of IFAD contribution to Government counterpart funds is 1:1 and the ratio of IFAD contribution to total cofinancing is 1:1.9.

Table 1
Indicative project costs by component and financier
(Thousands of United States dollars)

	Government		IFAD loan		IFAD grant		GEF		Cooperatives		Banks		Beneficiaries		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
A. Climate-resilient infrastructure and integrated land management	14 997	45.6	12 447	37.8	140	0.4	4 941	15.0	-	-	-	-	365	1.1	32 889	26.3
B. Market-oriented agriculture	21 107	28.6	24 012	32.6	361	0.5	1 934	2.6	3 450	4.7	11 242	15.3	11 575	15.7	73 680	58.8
C. Off-farm livelihood support	619	7.6	2 023	24.8	-	-	-	-	-	-	3 856	47.3	1 652	20.3	8 149	6.5
D. County project management offices	3 004	72.5	847	20.5	290	7.0	-	-	-	-	-	-	-	-	4 141	3.3
E. Prefecture PMOs	626	100.0	-	-	-	-	-	-	-	-	-	-	-	-	626	0.5
F. Provincial PMO	2 130	37.0	3 143	54.6	210	3.6	277	4.8	-	-	-	-	-	-	5 760	4.6
Total	42 482	33.9	42 473	33.9	1 000	0.8	7 152	5.7	3 450	2.8	15 097	12.1	13 592	10.9	125 246	100.0

Table 2
Indicative project costs by expenditure category and financier¹
 (Thousands of United States dollars)

	Government		IFAD loan		IFAD grant		GEF		Cooperatives		Banks		Beneficiaries		Total		For. Exch.	(Excl. Taxes)	Local duties and taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. IFAD																			
1. Works	12,035	50.0	12,035	50.0	-	-	-	-	-	-	-	-	-	-	24,070	19.2	-	22,866	1,203
2. Equipment and materials	136	25.2	405	74.8	-	-	-	-	-	-	-	-	-	-	542	0.4	-	501	41
3. Training	878	14.4	4,179	68.6	1,001	16.4	-	-	30	0.5	-	-	-	-	6,088	4.9	-	6,088	-
4. Workshops	-	-	43	100.0	-	-	-	-	-	-	-	-	-	-	43	-	-	43	-
5. Goods, services and inputs	18,869	33.2	22,480	39.5	-	-	-	-	-	-	4,155	7.3	11,376	20.0	56,880	45.4	-	54,036	2,844
6. Consultancies and technical assistance	12	5.0	235	95.0	-	-	-	-	-	-	-	-	-	-	247	0.2	-	235	12
7. Credit and guarantee fund	-	-	3,096	100.0	-	-	-	-	-	-	-	-	-	-	3,096	2.5	-	3,096	-
8. Credit	1,142	6.7	-	-	-	-	-	-	3,420	19.9	10,942	63.8	1,652	9.6	17,156	13.7	-	17,156	-
9. Salaries and allowances	2,064	100.0	-	-	-	-	-	-	-	-	-	-	-	-	2,064	1.6	-	2,064	-
10. Operating costs	5,517	93.8	-	-	-	-	-	-	-	-	-	-	365	6.2	5,881	4.7	-	5,881	-
Subtotal IFAD	40,653	35.0	42,473	36.6	1,001	0.9	-	-	3,450	3.0	15,097	13.0	13,393	11.5	116,067	92.7	-	111,966	4,101
B. GEF																			
1. Works	390	20.0	-	-	-	-	1,560	80.0	-	-	-	-	-	-	1,950	1.6	-	1,852	97
2. Equipment and materials	36	17.9	-	-	-	-	165	82.1	-	-	-	-	-	-	201	0.2	-	181	20
3. Training	4	0.6	-	-	-	-	677	99.4	-	-	-	-	-	-	681	0.5	-	681	-
4. Workshops	-	-	-	-	-	-	211	100.0	-	-	-	-	-	-	211	0.2	-	211	-
5. Goods, services and inputs	820	16.8	-	-	-	-	3,865	79.1	-	-	-	-	199	4.1	4,884	3.9	-	4,640	244
6. Consultancies & technical assistance	35	5.0	-	-	-	-	674	95.0	-	-	-	-	-	-	709	0.6	-	674	35
7. Salaries and allowances	359	100.0	-	-	-	-	-	-	-	-	-	-	-	-	359	0.3	-	359	-
8. Operating costs	184	100.0	-	-	-	-	-	-	-	-	-	-	-	-	184	0.1	-	184	-
Subtotal GEF	1,828	19.9	-	-	-	-	7,152	77.9	-	-	-	-	199	2.2	9,179	7.3	-	8,782	397
Total project costs	42,482	33.9	42,473	33.9	1,001	0.8	7,152	5.7	3,450	2.8	15,097	12.1	13,592	10.9	125,246	100.0	-	120,748	4,498

C. Summary benefit and economic analysis

31. Project benefits have been estimated over a 20-year time frame using a discount rate of 6 per cent. Current calculations show that the project as a whole yields an economic rate of return of 24 per cent, a benefit-cost ratio of 1.65 and the net present value of RMB 1,981 million. A positive net present value under the current opportunity cost of capital of 6 per cent and even at a 20 per cent discounted rate indicates that the project investments are robust.

D. Sustainability

32. There are several elements in the project that ensure post-project sustainability of the supported activities and generated benefits: (i) project activities are designed in line with the government's rural development and poverty reduction strategies and priorities. It is thus foreseeable that the Government will continue supporting the overall development of the project area after the completion of the project; (ii) the Government and beneficiaries' significant contribution to project activities suggests a high level of commitment and ownership with regard to the project activities; (iii) institutional sustainability: implementation of the project activities is carried out by the relevant technical agencies at county level. Those agencies are permanent governmental institutions, and they are also the primary service providers for project-related activities in the project area; (iv) technical

¹ Final disbursement categories will be decided during negotiations based on IFAD's procedures, which will include a maximum of five cost categories for reasons of efficiency.

sustainability: staff of the technical service agencies at all levels will receive regular training on updated technology and practices with the support of the project and other government-funded programmes. Sustainable technical services to the project beneficiaries will be foreseeable since they are part of the mandate of those agencies; (v) environmental sustainability: many of the project activities directly contribute to environmental sustainability.

E. Risk identification and mitigation

33. The project is designed in response to the needs of potential beneficiaries after a full analysis of the project area in terms of constraints and opportunities for development. Project activities are aligned with stakeholders' needs and are designed in line with the Government's policy directives and poverty reduction and rural development strategies. Any risks for the project would therefore arise from a rapidly changing economic environment. These risks, however, are mitigated to a large extent by the demand-driven nature and value chain approach of the project, which will ensure continuous adjustments to address problems encountered during project implementation.

V. Corporate considerations

A. Compliance with IFAD policies

34. The project is in line with IFAD's policies, specifically: (i) a specific gender mainstreaming strategy has been designed in compliance with the IFAD gender policy; (ii) the project's poverty focus, particularly the criteria for the selection of target villages and households, is designed in line with IFAD's targeting; (iii) participatory approaches for project planning are designed in line with IFAD's anticorruption policy; (iv) the strategy for scaling-up of positive results is designed in line with IFAD's scaling-up policy; (v) climate-related risks are analysed and measures to mitigate potential negative impacts are designed in line with IFAD's climate change policy; and (vi) potential negative environmental impacts have been analysed and measures designed to mitigate such impacts in line with IFAD's environmental policy.

B. Alignment and harmonization

35. The project is in line with the government's development-oriented poverty reduction strategy, aimed at restructuring the agricultural sector towards increased production of cash and tree crops and livestock products with potential for high market value; linking farm producers to markets by building partnerships with pro-poor farmers' cooperatives; and adopting environmentally sound agricultural technologies, as outlined in the China Poverty Reduction Outline 2011-2020.

C. Innovations and scaling up

36. Innovations. There are several innovative approaches that the project is expected to introduce in the project area, including: (i) building linkages between smallholder farmers and market players/the private sector; (ii) leveraging funds to facilitate smallholder farmers, cooperatives and ASMEs in obtaining investment capital; (iii) introducing innovative financing practices on a pilot basis; (iv) introducing, on a pilot basis, an approach to WUA management that grants members full ownership by enabling them to collect and directly manage the water users' fees; (v) introducing a payment for ecosystem services mechanism on a pilot basis; and (vi) introducing new technologies to adapt biogas systems to local conditions, among other innovative approaches. The project design includes a strategy for capturing, documenting and scaling-up of innovations resulting from project implementation and management.
37. Scaling-up. Innovative approaches introduced by the project can be easily scaled-up both within Qinghai Province, and outside. The scaling-up framework includes

the following elements: (i) scaling up champions will include the BPA and other implementing agencies, likeminded cooperatives, ASMEs and beneficiaries; (ii) external factors catalysing the process include the increasing and unmet demand for high-value/locally featured crop and livestock products; (iii) local factors that would catalyse the process include the high levels of poverty, and the unexploited potential for increasing the flow of local products to the market; (iv) incentives that would drive the process include economic incentives (i.e. the desire of farmers to increase their incomes and of cooperatives/ASMEs to increase their profits); (v) the main pathway to scale up the activities and approaches introduced by the project is through the development of linkages between the smallholder farmers and the market (through cooperatives and/or ASMEs); and (vi) IFAD's role would be to facilitate, through the provision of financial and technical resources, the establishment of such linkages.

D. Policy engagement

38. Several approaches to be introduced by the project have the potential to inform policymaking at both the provincial and the national level. These include: (i) introducing, on a pilot basis, an approach in the management of the WUAs that grants members full ownership by enabling them to collect and directly manage the water users' fees; (ii) introducing innovative financing practices on a pilot basis; (iii) introducing a payment for ecosystem services mechanism on a pilot basis; and (iv) introducing an integrated approach to planning and management of the Huangshui drainage basin and the implementation of the integrated land resources management plans.

VI. Legal instruments and authority

39. A project financing agreement between the People's Republic of China and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement will be tabled at the session.
40. The People's Republic of China is empowered under its laws to receive financing from IFAD.
41. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

42. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on ordinary terms to the People's Republic of China in an amount equivalent to ... euros (EUR ...) (approximately US\$42.47 million), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the People's Republic of China in an amount equivalent to ... special drawing rights (SDR ...) (approximately US\$1.0 million) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Logical framework

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions (A) / Risks (R)
Goal:			
To contribute to achieving sustainable and equitable poverty reduction and improving the livelihoods of rural households in Qinghai Province.	<ul style="list-style-type: none"> 40% drop of under 5-year children malnutrition prevalence compared to baseline, by gender 30% reduction of poverty population compared to baseline with comparable criterion. 	<ul style="list-style-type: none"> IFAD RIMS surveys Impact assessment Government statistics 	<ul style="list-style-type: none"> Continued policy support to poverty reduction; Increased income of farmers leads to improved nutrition of children.
Project Development Objective:			
To sustainably increase the income of poor and vulnerable rural households residing in selected poor areas in Qinghai Province.	<ul style="list-style-type: none"> 30% increase of farmers' per capita net income in the project-targeted areas compared to baseline 30% of households with improved household asset ownership index compared to baseline 	<ul style="list-style-type: none"> IFAD RIMS surveys Impact assessment Government statistics 	<ul style="list-style-type: none">
Outcome 1:			
<ul style="list-style-type: none"> Enhanced productivity of irrigated farmland Improved provision of ecosystem services 	<ul style="list-style-type: none"> 30% increase in productivity due to improve on-farm water management practices 20% increase of farmland with increased crop yield as a result of improved irrigation; 10% increase of water use coefficient for project upgraded irrigation systems. 67,000 ha under sustainable land management 	<ul style="list-style-type: none"> Sector reports Household surveys 	<ul style="list-style-type: none"> Upgraded irrigation systems are operated and maintained well
Outputs:			
<ul style="list-style-type: none"> 4 selected irrigation systems upgraded 4 WUAs supported Sustainable land resources management schemes implemented. 	<ul style="list-style-type: none"> 925 ha new irrigated area developed 164.5 km of canals rehabilitated and/or upgraded; 275.5 km water delivery pipelines constructed At least 1 WUA operating sustainably by the end of the project At least 7 integrated watershed management plans prepared and implemented in 3 selected pilot areas At least 1 PES pilot scheme implemented 	<ul style="list-style-type: none"> Progress reports Project M&E reports 	<ul style="list-style-type: none"> Resources allocated are delivered; Sustainable land resources management methodology adopted communities.
Outcome 2:			
<ul style="list-style-type: none"> Cash crops, tree crops, and livestock productivity enhanced Opportunities for target farmers to access markets enhanced 	<ul style="list-style-type: none"> 30% of volume of beneficiaries' produce under component 2.1-2.3 is sold through project-supported cooperatives/ASMEs. 40% of farmers in project targeted areas reported enhanced market access. 	<ul style="list-style-type: none"> Government statistics Household surveys Sector reports M&E reports 	<ul style="list-style-type: none"> Continued policy support to market-oriented production of agriculture and livestock and to farmer cooperatives and agro-enterprises. Plan for conservation of selected threatened Tibetan medicinal plants are adopted by local communities.
Outputs:			
<ul style="list-style-type: none"> Cash crops development Tree crops development Livestock development and rural biogas plants Market access enhancement 	<ul style="list-style-type: none"> 1180 ha market-oriented cash crop production supported 9,188 hh benefiting from cash crops development activities (1,988 hh for greenhouses, 1,000 hh for open-field cultivation, 5,000 hh for canola seed production, 1,240 hh for medicinal herbs cultivation - including 360 hh for Tibetan medicinal plants) 1260 ha of market-oriented economic tree crop production supported 18,960 hh benefiting from tree crops development activities 	<ul style="list-style-type: none"> Sector reports Progress reports M&E reports 	<ul style="list-style-type: none"> Continued policy support to market-oriented production of agriculture and livestock; Continued policy support to farmer cooperatives and agro-enterprises. Poor farmers actively participate in market-oriented production of

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions (A) / Risks (R)
	<ul style="list-style-type: none"> 5,962 hh benefiting from livestock development activities 400 hh benefiting from rural biogas plants 35 cooperatives and 3,500 hh benefiting from market access enhancement activities CNY 2,165 income increase/year for members of supported cooperatives At least USD 5.45 m loans disbursed At least 2 financing innovations piloted 		agriculture and livestock.
Outcome 3: <ul style="list-style-type: none"> Enhanced capacity of rural women and economically capable disabled persons to engage in off-farm income-generating activities 	<ul style="list-style-type: none"> 70% of project-trained women initiates income-generating activities; 70% of project-trained economically capable disabled persons initiate income-generating activities. 	<ul style="list-style-type: none"> Household surveys Sector reports Impact assessment M&E reports. 	<ul style="list-style-type: none"> Skills trained adopted by women and the disabled; Continued support to initiating income-generating activities by women and the disabled.
Outputs: <ul style="list-style-type: none"> Women trained with income generation skills Economically capable disabled persons trained with income generation skills. 	<ul style="list-style-type: none"> 2050 women trained with income generation skills 720 economically capable disabled persons trained with income generation skills, by gender. 	<ul style="list-style-type: none"> Sector reports; Progress reports; M&E reports. 	<ul style="list-style-type: none"> Women and the disabled actively participate in skill trainings.
Outcome 4: <ul style="list-style-type: none"> Government capacity for project implementation and management strengthened. 	<ul style="list-style-type: none"> The designed project is implemented successfully. 	<ul style="list-style-type: none"> Impact assessment Project evaluation report. 	<ul style="list-style-type: none"> Inadequate cross-sector coordination for project implementation.
Outputs: <ul style="list-style-type: none"> PMOs staff trained with project management techniques; PMOs staff trained with gender and poverty focuses methodologies; PMOs staff trained with M&E and knowledge management skills. 	<ul style="list-style-type: none"> No. of persons trained on project management, by gender No. of persons trained on gender and poverty focuses, by gender No. of persons trained on M&E and knowledge management, by gender 	<ul style="list-style-type: none"> Progress reports M&E reports 	<ul style="list-style-type: none"> Experienced trainers are provided and trainings are held effectively.