I. Project Context

Country Context

China’s economic and social development over the past three decades (1980-2013) has been remarkable. The average annual Gross Domestic Product (GDP) growth of about 10 percent and rapid industrialization and urbanization processes have lifted more than 600 million people out of poverty. The past 30 years poverty reduction and rural development strategies and policies targeted at poor rural areas have been very successful in reducing extreme rural poverty, which dropped from 17.2 percent in 2010 to 8.5 percent in 2013. China has now become the second largest economy and the largest exporter in the world. The urbanization rate rose from 20 percent in 1980 to 53.7 percent in 2013, enabling some 260 million rural migrants to transition out of agriculture to higher productively industries.

However, China is still home to the second largest number of poor in the world. Measured by China’s national poverty line of RMB 2,300 per year (US$ 361 per year), there were still an estimated 70 million people living in poverty by the end of 2014. Poverty is mainly a rural phenomenon and most severe in China’s western regions, in upland villages, among ethnic minorities, and in households with low levels of educational attainment. Despite outmigration,
during the economic downturn migrants are vulnerable and tend to return to the countryside to engage in agriculture and thus increase the rural labor force. Therefore for poverty reduction it is crucial to ensure the increasing growth of agricultural incomes in rural areas.

China Poverty Reduction Strategy 2010-2020. The Leading Group of Poverty Alleviation and Development (LGOP) published national poverty reduction assessments and strategy documents in 1989, 1993, 2003, and 2011. While maintaining the core approach of development-oriented poverty reduction, the new 2011 document advances several new approaches to overcoming poverty and directly addresses the above-noted emerging challenges. The 2011 Outline highlights targets to lift the country's 70 million poor people above the poverty line by 2020, to achieve a growth rate in rural per capita income that is above the national average, and promote the convergence of human development indicators and public services coverage across rural and urban areas. 14 adjacent destitute mountain areas covering 680 poverty counties have been prioritized for comprehensive regional development investments. Meanwhile, during the 18th party plenary meeting the Chinese government also set the goal that by 2020, agricultural modernization would see clear progress, people's living standards and quality are to rise universally, and overall rural poverty is to be completely resolved.

Within the LGOP’s core poverty reduction programs, the 2011 Outline introduces the concept of Promoting Poverty Reduction through Industrialization, which states that: The Government will promote utilization of advanced and practical agro-techniques, nurture specialty and pillar industries, and advance tourism backed poverty relief programs while giving full play to the ecological environment and natural resource advantages of poverty-stricken areas. It will endeavor to promote industrial restructuring, help poor households develop production through leading enterprises, farmers specialized cooperatives and mutual fund organizations, and guide and encourage enterprises to invest in poor areas so as to help poor households increase their incomes. The Outline also encourages the development of diversified farmer organizations including farmer professional cooperatives. The renewed and strengthened regulatory and policy framework explicitly supports the establishment of farmer cooperatives to overcome the structural challenges of small farm size and scattered production in rural areas. There is also a vibrant private commercial enterprise sector that can reach out and provide new technology to increase productivity in backward areas and assist in marketing agricultural products to downstream consumers.

Sectoral and institutional Context
Located in Northwestern China, with a geographic area of 205,800 km² and a population of about 38 million in 2014. Shaanxi province has a total of 56 national level poverty counties, ranking second only to Yunnan province. In 2014, the average annual per capita disposable income in Shaanxi was RMB 24,366 for urban residents (85 percent of the national average) and RMB 7,932 for rural residents (75.6 percent of the national average), with an urban-rural income disparity of 3.1 against the national average of 2.92. Based on the national rural poverty line of RMB 2,300, Shaanxi province has a remaining rural poverty population of about 3.5 million, most of which are distributed across the contiguous poverty-stricken areas of the Qingba Mountain, Baiyu mountain areas, hilly areas along the Yellow River and the dry highland area north of Weishui River.

Agriculture remains a key source of income for rural residents, in particular the rural poor.
However, agricultural production is often scattered in these areas because of the large numbers of unorganized household farms and low technical and management capacity. Productivity and efficiency remain at a low level focusing on primary products of sub-standard quality, making it hard to attract investments in up-stream processing and marketing which in turn makes it difficult for producers to participate in modern supply chains which are increasingly sensitive to quality and food-safety issues. There is a high degree of vulnerability to poverty, especially for the large number of people who are close to the poverty line. They have limited capacity to avoid harm from unexpected external shocks and are thus at a high risk of falling back into poverty. Unleashing the potential of the agriculture sector to promote the economy and stimulate rural transformation and modernization has become a new strategic direction for addressing rural poverty in Shaanxi. Given the structural characteristics of agriculture in Shaanxi, a gradual restructuring of the sector is necessary to promote productivity and efficiency through farmer cooperative development, value chain development and marketing interventions, private enterprise participation and investment, and the development of modern agricultural infrastructure.

In 2015, the World Bank undertook a review of cooperative development in China since the promulgation of the cooperative law in 2007. It found that cooperatives have indeed played an important role helping farmers operate in modern value chains, primarily by providing technical training, information and collectively purchasing production inputs and marketing products for members. However the survey also found that, despite the stipulation in the law that cooperatives practice democratic management, many if not most Chinese cooperatives ignore this requirement and their operations are more akin to investor-owned businesses rather than standard cooperatives. Decision making power tends to be held by a small number (5 or fewer) of large investors who also tend to receive most of the financial benefit from the operations of the cooperative. This situation is attributed to the cooperative law allowing cooperatives with heterogeneous membership and the distribution of cooperatives’ profits based on investment shares.

The report also found that cooperatives in general suffer from poor management capacity, are under-capitalized, have difficulty getting access to credit and that very few are operating profitably. Thus, while cooperatives have proven effective at enabling small farmers to participate in markets and have helped increase their household incomes, to a large extent rural elites have captured control of cooperatives and appropriated to themselves most of the financial benefits arising from their operation (including benefits available through government policies for cooperative support).

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

The proposed project aims to adopt the pro-poor value chain approach to capture opportunities for poverty reduction arising from China’s growing urban market. It aims to enable participation of smallholder farmers in modern value chains and improve their access to markets through investment in the development of farmer cooperatives and partnerships with agribusinesses. The project will also help improve economic infrastructure, facilitating better market access and extending the existing value chain for the poor villages.
II. Proposed Development Objectives
The Project Development Objective is to increase income opportunities of targeted beneficiaries in selected poor counties of Shaanxi province.

III. Project Description
Component Name
Component A: Farmer Cooperative and Value Chain Development
Comments (optional)
This component aims to support the improvement of value chains for selected agricultural products with local competitive advantage (key commodities), establish new farmer cooperatives or strengthen existing cooperatives to become effective business entities and strengthen forward and backward linkages.

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

Component Name
Component C: Technical Assistance and Capacity Building Support
Comments (optional)
This component aims to support both technical and institutional capacity building for participating farmers, village committee members, community economic groups, farmer cooperatives/associations and advisors, agricultural technicians, agro-enterprises and companies, etc.

Component Name
Component D: Project Management, Monitoring and Evaluation (M&E)
Comments (optional)
This component aims to strengthen and develop the administrative and technical capacity of PMO staff through (i) capacity building for the provincial, county PMO and cooperatives to strengthen project management; and (ii) development of Management Information System (MIS) and an, M&E system for project activities which includes monitoring physical project progress, compliance with environmental and social safeguards, and project impact monitoring. (iii) Institutional arrangement for the operation and maintenance of infrastructure.

IV. Financing (in USD Million)

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V. Implementation

A. Institutional and Implementation Arrangements

Project implementation arrangements have been set up at provincial, municipality, and county levels. Institutional responsibilities are summarized below. They are described in more detail in Annex 3 and in the Project Operations Manual (POM).

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

Project Management Offices. A provincial Project Management Office (PMO) has been established in the Shaanxi Provincial Poverty Alleviation and Development Office, Foreign Capital Project Management Center to be responsible for overall project coordination and management, including annual work and budget planning; coordination of municipalities and counties in public outreach, work planning, procurement, fund withdrawal and reimbursement management and financial reporting; technical and institutional aspects of implementation; general oversight, field supervision and acceptance checks; and training and capacity building. The provincial PMO will also be responsible for overall project M&E and reporting to the Bank and will maintain and update, as necessary, the POM (including the Financial Management Manual (FMM). Municipal-level PMOs will provide technical guidance to counties, supervise implementation, and assist the provincial PMO in acceptance checks, and M&E. County PMOs will have the primary responsibility for project management at the local level, which includes reviewing investment proposals and providing technical support to farmer cooperatives.

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

Professional farmer cooperatives. Farmer cooperatives will be established as economic entities and registered in accordance with China’s Farmer Professional Cooperative Law under local Bureaus of Industry and Commerce. They will have implementation responsibility for all activities under the CDF. They will organize cooperative members; prepare the cooperative industry investment and Cooperative Annual Investment Plans (CAIPs); and administer cooperative development funds in accordance with approved plans and project regulations.

Farmer cooperative facilitators. Farmer cooperative facilitators will be recruited and trained by the provincial and county PMOs to assist in the establishment and operation of new cooperatives, provide guidance to cooperatives in the formulation and implementation of investment plans and CAIPs, and assist the county PMOs in conducting acceptance checks, monitoring and reporting of
cooperative activities, and handling cooperative complaints.

Technical advisory groups. Each county will set up a technical advisory group comprising representatives from government, cooperatives, and industry-related enterprises to provide advisory services for the cooperative value chain investments.

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

B. Results Monitoring and Evaluation

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

C. Sustainability

Cooperative sustainability: The sustainability of project interventions will hinge on the establishment and development of cooperatives which are professionally managed and can become successful, commercially viable enterprises within the project period. Cooperatives operating as professional business enterprises will be involved in providing inputs to farmers, delivering technical training, solving issues related to market access and responding to changing markets. The project will also explore the opportunities for the delivery of financial services by cooperatives to their members where credit is a constraint for the participation of poor farmers. The project will invest significant efforts into training and capacity building for cooperatives. Community facilitators will be trained as Cooperative Promoters to assist cooperatives to devise and implement business plans. The aim is to build the capacity of cooperative leaders, managers and members and ensuring that they are self-sufficient in key management skills before the end of the project. Attention will also be paid to cooperative-specific issues impacting on sustainability such as succession planning for cooperative leaders and mentoring young people within cooperatives.

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

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

VI. Safeguard Policies (including public consultation)

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Comments (optional)

VII. Contact point

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