

China

Sustaining Poverty Reduction through Agribusiness Development in South Shaanxi

Supervision Report

Main report and appendices

Mission Dates: From 07/11/2018 to 16/11/2018

Document Date: 14/12/2018

Project No. 2000001184

Report No. 4949-CN

Asia and the Pacific Division
Programme Management Department

Abbreviations and Acronyms

AWPB	Annual Workplan and Budget
BP	Business Plan
BEC	Business Plan Evaluation Committee
CPMO	County Project Management Office
CNY	Chinese Yuan
DOF	Department of Finance
EOI	Express of Interest
FM	Financial Management
ICO	In-Country Office of IFAD
IFI	International Financial Institution
ICP	IFAD Client Portal
KM	Knowledge Management
ME	Monitoring and Evaluation
PIM	Project Implementation Manual
PMO	Project Management Office
PPMO	Provincial Project Management Office
PDRC	Provincial Development and Reform Commission
PLG	Project Leading Group
PM	Project Management
SPRAD-SS	Sustaining Poverty Reduction through Agribusiness Development in South Shaanxi
SIS	Supervision and Implementation Support
VC	Value Chain
WA	Withdrawal Application

A. Project Overview

Region:	Asia and the Pacific Division	Project at Risk Status:	Not at risk
Country:	China	Environmental and Social Category:	B
Project Name:	Sustaining Poverty Reduction through Agribusiness Development in South Shaanxi	Climate Risk Classification:	2
Project Id:	2000001184	Executing Institution:	Shaanxi Provincial Development Reform Commission
Project Type:	Credit and Financial Services	Implementing Institutions:	not available yet
CPM:	Matteo Marchisio		
Project Director:	Mr. ZHANG Baiming		
Project Area:	Zhenba, Nanzheng, Xixiang, and Mianxian counties in Hanzhong Prefecture; Hanyin, Pingli, and Langao counties in Ankang Prefecture, and Danfeng, and Shanyang counties in Shangluo Prefecture		

Approval Date	17/04/2018	Last audit receipt	not available yet
Signing Date	07/05/2018	Date of Last SIS Mission	16/11/2018
Entry into Force Date	07/05/2018	Number of SIS Missions	1
Available for Disbursement Date	not available yet	Number of extensions	0
First Disbursement Date	not available yet	Effectiveness lag	1 month
MTR Date	not available yet		
Original Completion Date	30/06/2023		
Current Completion Date	30/06/2023		
Financial Closure	not available yet		

Project total financing

IFAD Financing breakdown	IFAD	\$72,000,000
Domestic Financing breakdown	Beneficiaries	\$3,300,000
	Private sector local	\$101,900,000
	National Government	\$79,500,000
Co-financing breakdown,		
Project total financing		\$256,700,000

Current Mission

Mission Dates:	From 07/11/2018 to 16/11/2018
Days in the field:	7 days
Mission composition:	Mission composition: Mr. Henning Pedersen, Value Chain Development Specialist; Mr. Quang Ngoc Nguyen, Pro-Poor Agribusiness Partnership Development Specialist; Mr. Sun Yinhong, IFAD Country Program Officer and Team Leader. The mission was joined by two officers from IPRCC Mr. Wang Dajun (for three days) and Ms. Li Jiayi (throughout). Mr. Jan Kerer and Ms. Queenie Chow, Insurance Specialists for the Micro Insurance Center operated grant project also conducted their mission partly overlapping with the SIS mission at the onset.
Field sites visited:	The mission visited five out of the nine counties, namely Shanyang and Danfeng in Shangluo Prefecture, Zhenba and Hanyin in Ankang Prefecture and Xixiang in Hanzhong Prefecture.

B. Overall Assessment

Key SIS Indicator #1	Ø	Rating	Key SIS Indicator #2	Ø	Rating
Likelihood of Achieving the Development Objective		4	Assessment of the Overall Implementation Performance		4

Effectiveness and Developmental Focus	4	Project Management	4
Effectiveness	4	Quality of Project Management	5
Targeting and Outreach	5	Knowledge Management	4
Gender equality & women's participation	4	Value for Money	4
Agricultural Productivity	4	Coherence between AWPB and Implementation	4
Nutrition	4	Performance of M&E System	5
Adaptation to Climate Change	4	Requirements of Social, Environmental and Climate Assessment Procedures (SECAP)	4

Sustainability and Scaling-up	4	Financial Management and Execution	4
Institutions and Policy Engagement	N/A	Acceptable Disbursement Rate	4
Partnership-building	5	Quality of Financial Management	4
Human and Social Capital and Empowerment	4	Quality and Timeliness of Audit	
Quality of Beneficiary Participation	4	Counterparts Funds	4
Responsiveness of Service Providers	5	Compliance with Loan Covenants	5
Environment and Natural Resource Management	4	Procurement	4
Exit Strategy	4		
Potential for Scaling-up	4		

Relevance	5
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C. Mission Objectives and Key Conclusions

Background and Main Objective of the Mission

An IFAD Supervision and Implementation Support (SIS) Mission to the Sustaining Poverty Reduction through Agribusiness Development in South Shaanxi (SPRAD-SS) project took place from 7 to 16 November 2018. The objectives of the mission were to review project implementation progress since the loan became effective, especially in a) the deployment of project implementation arrangements and provisions and, b) the adequacy and soundness of Business Plan (BPs) development process and outputs. Along with the review, the mission provided guidance and assistance in standardizing/improving the process/procedures/quality of the BPs and in beefing up proper project management.

SPRAD-SS became effective on 7 May 2018 and is anticipated to complete on 30 June 2023. By developing and implementing pro-poor BPs based on public-private partnership, the project aims to bring and maintain the target population in selected areas of the nine poor counties in south Shaanxi out of poverty through the development of inclusive, equitable and sustainable value chains. Before this SIS mission, IFAD provided start-up support through a five-day mission in June 2018. That mission helped the project management team in getting better prepared for project implementation especially in understanding project objective and approach, components and activities - particularly the components related to the BPs development. Consultations were also made on M&E, Project Implementation Manual (PIM) and AWPB.

This mission visited five out of the nine counties in seven days (9-15 Nov), namely Shanyang, Danfeng in Shangluo Prefecture, Zhenba and Hanyin in Ankang Prefecture and Xixiang in Hanzhong Prefecture. During the field visits the mission had extensive interactions with key stakeholders including CPMOs, BOFs, village committees, agro-entities and farmer beneficiaries. The mission was joined on the field visits by the key staff of the Provincial PMO (PPMO), Department of Finance (DOF) and Provincial Development Commission (PDRC), national consultants on thematic subjects and project partner for project monitoring and evaluation (M&E). Mr. Kerer and Ms. Chow as a team for implementing the IFAD supported micro-insurance grant project had two days of workshop/consultation with potential partners, to share initial survey findings and discuss way forward for piloting possible innovative micro insurance in the project area, complementing the SPRAD-SS.

The conclusions and suggestions were discussed and agreed with relevant departments of Shaanxi provincial government during a wrap-up meeting chaired by Mr Wu Jingwu, Deputy Director of the Provincial Project Management Office (PPMO), on 15 November 2018 in XiAn.

The Mission would like to thank the relevant staff of the counterpart agencies for their hospitality and support during the mission, and to various parties and individuals consulted during the mission for the open and frank discussions.

Key Mission Agreements and Conclusions

At the time of six months after effectiveness, the project has demonstrated positive signs of good start in three major dimensions. Firstly the set-up of PLG and PMOs, MIS system and project implementation guidelines especially for BPs are largely in place. The mission anticipates the project MIS to serve as an effective project management tool and has been impressed by the considerate architect and progress so far on its development. Secondly, promotion and training activities were undertaken to familiarize the project staff and partners including agro-entities on the project objective, approach and processes of operation. The finalization and distribution of PIM helps to guide the counties to implement the BPs approach following the prescribed rules and criteria. Thirdly, development of BPs has been advanced largely following the prescribed procedures, every county is more or less in the stage of developing/reviewing the initial batch of BPs. With the training workshop on use of MIS for BPs development, the project is already receiving full-fledged BPs in the MIS system. More importantly, throughout its interaction with the staff of PMOs at both provincial and county levels, the mission felt a strong sense of commitment among the project staff and local leadership to manage the project well following the designed features, including targeting to poor rural households and promoting pro-poor value chains of local specialties through public-private business partnership.

Despite these positive signs, given the innovative nature of the project to the local governments and partners, the mission also noted some areas of further improvement required at this starting stage and agreed necessary actions with project management. First and foremost, the BPs process as prescribed by the design still needs to be followed more proactively and effectively by better understanding the why and how. Value chain analysis, BP development and review/evaluation, beneficiary participation and their sustainability of benefit deserve more robust efforts and attention. Benefiting farmers purely through dividend sharing should remain as the least favoured option for the project in reducing poverty of the target group when other choices are available. Continued capacity building for and consultation among the partners is worthwhile investing at this starting stage of project to make solid foundation for subsequent project implementation. National consultants recruited for PMOs have a major role to play in facilitating BP development. Subsidiary agreements between province DOF and counties BOFs, baseline survey, finalization of all the MIS system modules (BP+ME+FM+PM) and subsequent training on the use of related modules are the immediate next actions to be concluded.

With the development of 2019 AWPB and full-fledged use of project MIS in the coming months, with further capacity and familiarity on BP concept being gained by the PMOs as they shape out the initial batch of BPs, the project shall advance in all designed sub-components with adequate counterpart financing allotted. The mission is optimistic that SPRAD will demonstrate vigor in its implementation and effect/learning in agribusiness-led poverty reduction, contributing to the government's poverty reduction goal.

D. Overview and Project Progress

SPRAD has three major components with a number of sub-components, namely:

- Component 1: Pro-Poor Value Chains and Agribusiness Development. The component comprises three subcomponents: 1.1: *Development of pro-poor BPs*; 1.2: *Value Chain Development Fund*; 1.3: *Value Chain Rural Finance development*.
- Component 2: Public Infrastructure and Services. The component comprises two subcomponents: 2.1: *Climate smart Infrastructure Development*; 2.2: *Public Services and Regulations for Pro-poor Agribusiness Development*.
- Component 3: Project management.

Component 1: Pro-Poor Value Chains and Agribusiness Development. *This subcomponent is performing moderately satisfactorily.* This component aims at promoting the sustainable inclusion of target poor households in profitable value chains by engaging with agribusiness entities (enterprises or cooperatives) on a fair and mutually beneficial way conducive to poverty reduction.

Sub-component 1.1 Development of pro-poor BPs: Despite the short time since commencement, the SPRAD has timely and successfully initiated the sub-component as per project design. Overall progress of this subcomponent include: (i) finalization and distribution of BP procedures, requirements and templates in the PIM; (ii) establishment of BPs Evaluation Committee (BEC) and recruitment of staff and consultants at provincial/county levels, (iii) MIS development and training to both PMO staff and agro-entities on use of BP module for development of BPs; (iv) organization of BP introduction workshops at county level and the subsequent receipt of 70 EOIs. The BECs reviewed all EOIs, and invited 53 selected agribusinesses for BP preparation, of which 30 BPs have been received by CPMOs, anticipating IFAD loan support in the amount of USD 7.8 million, covering some 21,000 target beneficiaries.

While solid preparation has been put in place, the mission finds that successful implementation of the sub-component requires proper capacity building and a systematic BP planning approach. Specifically, the mission has the observations as the following:

Capacity building and awareness raising. Through field visits, the mission observed that the awareness and capacity of project partners and beneficiaries still require to be strengthened as follows: (i) understanding component's objectives and approaches: project partners still find it difficult to develop action plans for the project activities since there is a lack understanding and information about project instruments and financial resources; (ii) value chain mapping and analysis: mapping out the key commodities and their potentials for investment is an essential input for BPs development. The counties may all have done some kind of VC mapping but the mission thinks the process and output can be more formalized, and be more scientific. Capacity building for project staff and partners at county level on this aspect is equally required prior to rolling out the BP planning process; (iii) preparation of BPs: most agri-business entities visited by the mission expressed challenges in BPs preparation. Notwithstanding the help of the MIS BP module to standardize the BP preparation, the project needs to invest more capacity building and technical assistance on this aspect; and (iv) evaluation of BPs: as BEC is responsible for BP evaluation, a good mix of members and their understanding/capacity is essential to assure soundness of financial analysis and business viability of the BPs and subsequent impact at both enterprises and farmer households. To this effect, the mission recommends the project (i) to accelerate the awareness and capacity building activities to all related agencies and beneficiaries before the investment activities are implemented; and (ii) to widely consult with related partners, especially county line agencies regarding the BP opportunities and investment mechanism..

Value chain mapping: Achieving the objective of the project - poverty reduction through development of pro-poor agricultural value chains - relies on business interests of the value chain stakeholders. Value chain activities can only become efficient and sustainable if they enable business entities and farmers to improve their profit margins. Value chain development only becomes successful if lead enterprise is motivated in supporting farmer groups with market information and subsequently entering into contract farming or other sustainable business relationship with farmers. Prior to any actual investment into agribusiness entities and farmers, a necessary step for implementation is to map relevant value chains in each county. The mission notes that such step is undertaken but usually through government meetings, which is inadequate and not scientific enough. The mission has prepared a short guidance note for value chain mapping and planning attached in the Technical Paper as reference.

Agribusiness entity mapping: As an integrated part of the value chain mapping, it is essential to map out agribusiness entities involved in each value chain in order to understand the dynamics of private sector actors as well as the potentials for the project for to partner with and co-financing. Similar to value chain mapping practices, agribusiness entity mapping must be implemented prior to any actual investment. Results of this activity are the profiles of all potential agribusiness entities in each county. The mission has prepared a template for agribusiness profiling attached in the Technical Paper as reference.

BP Planning: The mission highly appreciates the effort of the project for preparing a thorough BPs template as included the PIM. The mission discussed with PPMO staff, and the following improvements were agreed upon: (i) the cost-benefit analysis of the current template lacks the proposed investment both for agribusiness entities and farmer households. Therefore, it is recommended to include financial analysis tables for these two actors in the template; and (ii) various sections in the template including market information, risk management, contract arrangement, and procurement are still generic in nature. As such, more specific guidance is required in these areas for the development of BPs; (iii) in addition to development of a viable BP, agribusiness entities should be required to document financial records (balance sheet, income statement, and cash flow table) for the past two years. The mission has prepared templates for the above three

aspects attached in the Technical Paper as reference.

Evaluation of BPs: The mission notes that indicators for BP evaluation have been developed by the project as included in the PIM. The mission finds some indicators rather generic and qualitative, many indicators require scoring but no detailed explanations were given as how the scoring should be made. For example, indicators 1, 8 & 9 may be confusing to the BEC members during evaluation, indicators 4 and 5 may require a break-down into sub-indicators for evaluation. To this effect, the mission recommends the PPMO to revisit and improve the indicators especially in their scoring method/criteria, through further consultation with national consultants at both provincial and county levels and IFAD ICO, eventually if necessary introduce more quantifiable indicators.

The mission noted that in some counties (e.g. Zhenba), the BEC is consisted of some twenty plus members from diversified background including entrepreneurs and bankers, offering good caliber combination for proper evaluation of the BPs. The mission encourages all project counties to ensure professional and transparent evaluation process by inviting reputable members from relevant technical background.

Value Chain Implementation Support: While the project design has prescribed the type of VC implementation support in the designed document, the CPMOs should exercise diligence and flexibility in identifying needs and mobilizing related support to the selected value chains and BPs. County level collective marketing and promotional activities may be explored if and when helpful, such e-commerce for project supported BPs and value chains shall be given due attention. PPMO may consider engaging legal services to help look into the dividend sharing and contracting arrangements and documents relating to the BPs.

Sub-component 1.2: Value Chain Development Fund. As the project is still at the initial stage BP development, no BP has been approved for investment so far. However, during visits and discussions with various enterprises/cooperatives, the mission noted that several BPs may seek for maximum financing of project funds to support production and post-production infrastructure and/or equipment for concentrated production/processing of agro-entities with targeted farmers purely benefiting through dividend payments. In order to incentivize the agro-entities and expand household outreach through such benefiting mechanism, there has been desire to increase the threshold of project support to the BPs. In some other cases, processing agro-entities may establish business linkage with a good number of individual farmers through their own production, project support to production inputs at household level may push up the project financing amount in a single BP to exceed the threshold of IFAD No-Objection to the BPs (CNY 3 million).

The mission wishes to suggest that at this initial stage of project implementation, BP financing criteria as stipulated in the PDR and PIM is strictly followed. Take the example of broiler production BP in Danfeng County and pig production BP in Shanyang County as examples, the mission reconfirms the suggestions of the June 2018 mission. Recognizing the difficult situations of some of the target group (lack of land or labor etc.), the mission confirms the choices of the four benefiting models for the BPs, but wishes to highlight that the pure dividend sharing model should be given least preference and be used only when other options are not possible and practical in certain circumstances. After first year of BP implementation, the PPMO is suggested to conduct consultation/exchanges on the experience of BP implementation in such model and the suitability and practicability of dividend sharing arrangements in these BPs.

Furthermore, for BPs with large scale production (either concentrated or household based), it is advised to take a phased approach with the BP covering more than one production cycle. Depending on the context of the BP, BP implementation agreement may be signed to cover the initial phase of implementation, with possibility of top up later on subject to satisfactory performance. This could also help to minimize potential risk to these large BPs.

Sub-component 1.3: Value Chain Rural Finance Development: The sub-component supports financial literacy of target groups and financial management capacity of project related agribusiness entities, leverage bank lending for these entities and possible insurance schemes for the target groups. So far the project has not initiated activities under this sub-component.

The mission noted during the visit that not all counties have such loan guarantee platforms available at the county level, and in two counties visited (Hanyin and Xixiang) the county guarantee fund is already leveraging loans from commercial banks for the agribusiness entities that may eventually be awarded with the BPs. CPMOs in counties where such guarantee facilities are available are encouraged to provide facilitating role to allow access to leveraged loans for BP supported agro-entities. Related information should be recorded in the MIS system to reflect co-financing mobilized in relation to the project.

In addition to the designed activities for capacity building of related stakeholders in this sub-component, financial management capacity building, or more essentially the adoption of a computerised accounting system, is to be pursued for each and every BP entity under the project. The availability of accounting system should also be a factor of consideration in selecting BP entities.

The team of the IFAD grant project on micro-insurance concluded their household survey and shared findings with local partners and stakeholders in a workshop on 8 November, which concluded that small-scale farmers within the SPRAD-SS project are currently insufficiently protected against risks, mainly related to their agricultural production, but partly also related to health and other property risks. The team suggests that for innovative micro insurance product to be developed, further analysis of data and research at the household level will be required. Necessary facilitation support of PPMO will be required in access to data (such as production figures, weather data etc.), household research and eventually pilot testing of new insurance products in 2019.

Component 2: Public Infrastructure and Services. *The performance of this component is moderately satisfactory.* This component aims at improving the access of target groups to public goods and services such as common/village infrastructure, climate change adaptation/mitigation best practices, normative and regulatory services associated with food safety, in order to promote sustainable, climate resilient and food safe agricultural production.

Sub-component 2.1 Climate smart Infrastructure Development. This sub-component is implemented with government resources in line with government programs aligned with SPRAD implementation, mainly to address the gaps of the village level public infrastructure systems to support the proposed agribusiness development. Despite the lack of physical and financial progress reported so far, the mission observed the advancement of these infrastructures in all visited counties, including land preparation, irrigation schemes, production base roads, electricity lines etc. These facilities are supported in tandem with the proposed business plans, and some are supported even before the BPs are approved. This is a demonstration of strong government determination and push for agribusiness development to achieve local economic development and poverty reduction.

Sub-component 2.2 Public Services and Regulations for Pro-poor Agribusiness Development This sub-component will be implemented under the coordination of the Provincial PMO. So far the related activities have not been initiated yet. It is understandable as most of the related services can only be developed when the BPs are selected, so that the specific products are identified and prioritised. The PPMO shall include the implementation of these activities in the 2019 AWPB.

Nevertheless, some of the BPs being prepared have already considered issues like branding, food quality and safety issues. Pig production BP for smoked pork in Zhenba has regulated the the use of anti-biotics.

Component C: Project Management. The project has so far conducted the following activities under this component: procurement of office equipment for CPMOs, recruitment of national consultants for VC and M&E, contracted service providers for MIS development and baseline survey, recruitment / assignment of PMO staff and organization of various training, consultations, workshops and meetings.

E. Project implementation

a. Development Effectiveness

Effectiveness and Developmental Focus

Effectiveness

Rating: 4

Justification of rating

The project is still at the very early implementation stage, no evidence has been demonstrated yet on ground on its effectiveness. With the field visits and exchanges on the BPs being developed in the counties, the mission perceives that the project and its BP approach will be effective in promoting the value chain development of local special products and value chains that will link with small holders and generating benefit for the project target groups.

Log-Frame Analysis & Main Issues of Effectiveness

At this early stage, no results have been reported against the logframe. Throughout the project implementation, it is important to maintain results-and-purpose-orientation, certain degree of flexibility of BPs and complementarity of interventions. Learning and communication coupled with proper monitoring and evaluation will be helpful to ascertain effectiveness of the project.

Development Focus

Targeting and Outreach

Rating: 5

Justification of rating

The project targets primarily the registered poor households in the relative poor rural communities of the nine counties. Project implementation so far closely sticks to this targeting requirement. BPs are being developed with the primary objective of linking poor households with markets and agribusiness entities, based on various benefiting mechanisms. It is too early to assess the extent of outreach of the project at this stage.

Main issues

Given the dynamism of agribusiness and the outreach target of the project to cover some 211,271 rural poor in the nine counties, the PMO may exercise some flexibility in selecting project townships/villages to ensure adequate poor beneficiaries are covered, while following the agribusiness led poverty reduction approach. As already suggested by the June 2018 mission, BPs submitted by agribusiness entities outside of the project area are accepted as long as they benefit the project target group. Meanwhile, for the sake of the project, the poor are considered all those individuals that happened to be included at any point in the National Poverty Registration System since 2014.

Gender equality & women's participation

Rating: 4

Justification of rating

While it is too early to assess gender equality and women participation in the project though, a few BPs visited by the mission has specifically included outreach to women as a consideration and anticipated the BP impact on gender equality.

Main issues

The BP module of the Management Information System may consider include the differentiation of men/women in its beneficiary list attached to the BP template.

Agricultural Productivity

Rating: 4

Justification of rating

The submitted BPs so far mostly aimed at improving/expanding production of the rural poor, either household based or collectively. Augment of productivity especially value add of production has been a primary consideration.

Main issues

Project support to production infrastructures are being realised through counterpart funds, in the form of parallel government projects that are progressing follow their own pace and in light of project AWPB. While BPs are demand driven and selected based on their feasibility and viability, complementarity of project support in different components

need to be observed and maintained.

Nutrition	Rating: 4
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Justification of rating

It is too early to assess the nutrition sensitivity of project interventions at this stage. Nevertheless, considerations given to product quality and marketability of the BPs being developed do reflect the nutrition aspects of the interventions, to some degree.

Adaptation to Climate Change	Rating: 4
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Justification of rating

The project supported infrastructure for climate resilient production

Main issues

The project is supporting production infrastructures that keep climate change adaptation in due consideration, such as proper choice of varieties, land preparation, irrigation schemes, greenhouses etc..

b. Sustainability and Scaling up

Institutions and Policy Engagement	Rating: N/A
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Partnership-building	Rating: 5
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Justification of rating

The project builds on partnership with government projects in poverty reduction and investment of private sector to agribusiness development. Provincial and county governments are also engaged to learn experiences and best practices from project outcome.

Main issues

The BP approach and defined rules and criteria in BP financing as well as benefiting mechanism of BPs to target groups is the critical for sustainable partnership of the project with private sector. Certain degree of flexibility, modification and adaptation should be anticipated whilst considerate review, sharing and consultation of the BP experiences involving all partners should be organized to improve the BP practice.

Human and Social Capital and Empowerment	Rating: 4
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Justification of rating

It is still too early to assess the project performance in human and social capital development and empowerment of target groups. Some cooperatives are applying

Quality of Beneficiary Participation	Rating: 4
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Justification of rating

Beneficiaries participating in the project at this stage is reflected through consultations in the BP development process, participating in capacity building and productive activities.

Main issues

While the project is well targeting the registered poor in the project area, some of them are not necessarily active poor due to sickness and lack of labor. The participation of these segment of the target population is less active despite that arrangements are made to ensure that they are benefiting from project interventions.

Responsiveness of Service Providers**Rating: 5****Justification of rating**

In the wake of government's dashing efforts to poverty reduction by 2020, all sectors of the society have been mobilised to support the achievement of this goal. The government service providers involved are adequately discharging their duties and deploying project support to the project target groups.

Main issues

To some extent, given that the current wave of support to poverty reduction is so strong from government and the targets set are non-negotiable for achievement, government service providers tend to over-dominate on the decision making and service provision. In a few counties visited, the mission noted that agribusiness development has been quickened without adequately allowing time and space for private entrepreneurs and private capital to adequately jump in.

Environment and Natural Resource Management**Rating: 4****Justification of rating**

It is still early to assess the project performance in ENRM. The BPs are still being developed and not yet implemented. But the project area is important water source for the South-North water diversion project and government has put rather stringent regulations on environment management to which the project is complying with. Some productive infrastructure is being deployed reflecting reasonable ENRM.

Exit Strategy**Rating: 4****Justification of rating**

It is too early to assess exit strategy of the project, though by design the project aims to create sustainable and fair benefiting mechanism for the target groups, contributing to the eventually exit strategy of the project.

Potential for Scaling-up**Rating: 4****Justification of rating**

Though early at its implementation, the mission tends to believe from its interactions and observations that the BP approach as rather innovative to the project areas can serve as positive example of how government support can be management in a smarter and sustainable way to achieve the rural poverty reduction.

Main issues

The meticulous implementation of the BP approach with proper experience and lesson learning along the process to adapt the approach to best suit the local context is important to ensure the success of the approach and subsequently its scalability.

c. Project Management**Quality of Project Management****Rating: 5****Justification of rating**

The quality of project management has been commendable so far. All PMOs have been timely established with designated full-time staff. Some county PMOs have been assigned designated posts for managing the project. National consultants and VC facilitators were recruited at both provincial and county levels. Service provider and consultants for project M&E and management also have been appointed at provincial level. Project PIM has been developed through rounds of discussion and distributed, some counties have subsequently developed their own operational guideline in line and addition to the PIM. The MIS is soon to be concluded and will be a major tool for efficient project management. Consultations and capacity building activities have been rolled out at both provincial and county levels, mainly relating to the implementation of the BPs. The mission is happy to note a strong sense of commitment among the project staff,

consultants and service providers, and alignment of their understanding with the project strategy and designed approach.

Main issues

To take a step forward, the mission proposed to the PPMO that a project management performance scoring checklist will be developed to benchmark the CPMOs while serving as a tool to remind the CPMOs on the key management actions and activities for effective project implementation. Project management training on the key management aspects can also be considered in conjunction with BP related training.

Knowledge Management

Rating: 4

Justification of rating

It is still early to assess the performance of KM in project. Nevertheless, the PPMO is mindful of the importance of learning and sharing in project implementation. Some ground work is being planned for KM, such as baseline survey, establishment of tracking HHs and baseline scenarios for some BPs. The PPMO has demonstrated good commitment for proper KM.

Main issues

Given the innovative nature of the project, knowledge management (KM) is critical to capture best practices and lessons, to guide project implementation and bring impact beyond project area. The PPMO is encouraged to make advance planning for the proper KM of the project, identify key activities, processes and outputs etc. of the KM exercise. The IFAD ICO will be supporting the PPMO in developing systematic plan for project KM.

The project is encouraged use social media - establish a public Wechat account (微信公众号) to disseminate project related information and share good practices and experiences among project partners and beneficiaries. Meanwhile, exchange visit with other IFI project of similar nature is being arranged, cross county exchanges visits for key staff and senior management of the project may also be considered as next step.

Value for Money

Rating: 4

Justification of rating

It is difficult to assess the actual situation of value for money at this early stage. But the aggregated information on the initial batch of proposed BP financing and outreach suggests per beneficiary cost of around CNY 2,600, which is rather reasonable.

Coherence between AWPB and Implementation

Rating: 4

Justification of rating

No physical and financial progress is able to be reported as the project reporting system is not functioning yet. However, looking at the activities being rolled out, the mission would consider the coherence of AWPB and implementation acceptable.

AWPB Inputs and Outputs Review and Implementation Progress

The project was approved in April and became effective in May 2018. Despite the availability of 1st AWPB for 2018 as a condition of loan withdrawal from IFAD, the AWPB was made with bold estimates due to the nature of the project, which is BP driven based on responses/demands of agro-entities following due processes and procedures.

The loan financed soft activities in sub-component 1.4 and 2.2 are behind the planned pace of implementation. The 2019 AWPB will be developed through the MIS system, to this effect PPO anticipates that its submission will be possible by end of February 2019.

Performance of M&E System

Rating: 5

Justification of rating

After the June 2018 support mission, project M&E indicators have been established and M&E results will be captured through the M&E module of the MIS which will be designed allow input entry for different parties. Baseline survey will be conducted shortly after the mission and be concluded around mid-December 2018. Control and tracing households will be considered in the baseline surveys. M&E consultant at the provincial level will also follow up with performance monitoring and evaluation of the project implementation. The mission is optimistic that the project M&E will function adequately.

M&E System Review

As some of the M&E tasks are outsourced and performed by other partners, the mission wish to caution the PMOs to avoid possible under-use of the M&E information for project management, as they may feel the M&E work is somewhat detached from the project management

Requirements of Social, Environmental and Climate Assessment Procedures (SECAP)

Rating: 4

Justification of rating

it is too early to assess the project's performance in complying with SECAP

d. Financial Management & Execution

Disbursement by financier

Type	Name	Current Amount	Disbursed Amount	Actual Rate
Domestic Financing breakdown	Beneficiaries	\$3,300,000		
	Private sector local	\$101,900,000		
	National Government	\$79,500,000		

Acceptable Disbursement Rate

Rating: 4

Justification of rating

The project has not made any disbursement yet from the IFAD loan resources.

Fiduciary Aspects

Quality of Financial Management

Rating: 4

Justification of rating

On top of the financial management assessment made at the time of design, the mission does not have additional information to provide at this stage, other than the findings that the FM module for the MIS has been extensively discussed by the PPMO with the developer so anticipating a sound FM system for the project linked with BP module and project procurement management. SPRAD will be the first china project adopting interim financial report based disbursement arrangement. In addition, financial staff for the project has been designated in each CPMOs, the financial management guidelines as part of the PIM is also disseminated. The PPMO has planned FM training in next month so to activate the disbursement and accounting of the project expenses.

Quality and Timeliness of Audit

Rating:

Counterparts Funds

Rating: 4

Justification of rating

Though unable to quantify the amount of government resources mobilized and actually invested in project related activities at this stage, but we had the impression that the counterpart financing should be adequately available.

Compliance with Loan Covenants

Rating: 5

Justification of rating

The project is in compliance with most of the covenants in the Financing Agreement and IFAD General Conditions. Details are indicated in the annex of the supervision report.

Procurement

Procurement

Rating: 4

Justification of rating

Procurements made by the project so far relate to office equipment for PMOs, national consultants and service providers (MIS and M&E). CQS method was used for these service procurements and prior review was sought for the procurement of MIS development service. The PPMO has good capacity and is experienced in procurement as they have implemented several World Bank and ADB projects.

Procurement Review

It would be appropriate that the contract with national consultants consists of two budget components, namely time-based honorarium and reimbursable expenses relating to travel. Office equipment were purchased in bulk for efficiency and scale of economy through local shopping and subsequently distributed to CPMOs. Contracts for procurement will be registered in the MIS system later on by the PMOs. In line with the standard asset management practice, the PMOs are suggested to label and record their asset also in the MIS system or existing systems of the governments.

Sustaining Poverty Reduction through Agribusiness Development in South Shaanxi

Logical Framework

Results Hierarchy	Indicators							Means of verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Annual Result	Cumulative Result	Cumulative Result %	Source	Frequency	Responsibility	
Outreach Direct beneficiaries	1 Persons receiving services promoted or supported by the project							MIS	BI-ANNUAL	PPMO (aggregation) CPMO (validation) TPMO (collection)	
	Indigenous people										
	Males										
	Not Young										
	Non-Indigenous people										
	Young										
	Females										
	1.a Corresponding number of households reached										
	Households			67 912							
	Non-women-headed households										
	Women-headed households										
	1.b Estimated corresponding total number of households members										
	Household members			339 561							
Goal Contribute to National poverty reduction programme and economic development in Shaanxi.	Registered poor brought out of poverty							Survey, National Poor Registration System (NPRS)	Y1, Y3, Y5	PPMO	Contribution of SPRAD to national policy at provincial level.
	Young										
	Number of people										
	Females										

Objective Bringing and maintaining the target population in selected areas out of poverty through the development of inclusive, equitable and sustainable value chains	Poor people brought out of poverty in the project area						NPRS			The % is building on the total number of BPs, at design estimated 400.	
	Number of people		100 000	100 000							
	Females										
	Young										
	Inclusive business relationships in operation after 3 years or at project completion						Survey	Y1, Y2, Y5	PPMO		
	Inclusive business relashionships		65	85							
Outcome Component 1: Pro-poo value chains developed	Increase in gross per capita income among poor beneficiaries through inclusion in business plans						MIS survey	Annual entry, Y3, Y5	PPMO, PPM0 (contr. thrid party)		
	Increase in gross capita income		20	30							
	Supported enterprises/cooperatives reporting an increase in sales value compared to previous year						MIS survey	Annual entry, Y3, Y5	PPMO, PPM0 (contr. thrid party)		
	Increase in sales value		33	90							
Output Competitive Business Plan selection to channel investments to pro-poor value chains	2.1.1 Rural enterprises accessing business development services						MIS	Bi-annually	PPMO	Design estimated approximately 400 enterprises involved	
	Rural enterprises		200	400							
	Poor included in business plans						MIS	Bi-annually	PPMO		
	Young										
	People included		40 000	100 000							
	Females										
	Business plans awarded to women-led cooperatives/ enterprises, women-groups						MIS	Bi-annually	PPMO		
	Business plans		15	25							
	1.1.3 Rural producers accessing production inputs and/or technological packages						MIS	Bi-annually	PPMO		
	Non-Indigenous people										

	Females									
	Young									
	Males									
	Indigenous people									
	Total rural producers									
	Not Young									
	Beneficiaries using value rural value chain credit							Survey	Annually Entry, Y3, Y5	PPMO PPMO (contr. Third party)
	Beneficiaries		40	80						
Outcome Component 2: public infrastructure and services conducive to value chain development are delivered	Increase in volumes of transported products from farm-gate to markets							Survey	Base, Y3, Y5	PPMO (contr. third party)
	Increase in volume		15	25						
Output	2.1.5 Roads constructed, rehabilitated or upgraded							MIS	Bi-annually	PPMO
	Length of roads		300	793						
	Tap water penetration reached							Village Survey	Y3,Y5	PPMO
	Tap water penetration		90	100						
	People trained in climate resilient technology							MIS	Bi-annually	PPMO
	People trained		900	900						
Output Component 3 - Monitoring and Knowledge Management	Policy 1 Policy-relevant knowledge products completed							KM products; Dissemination reports	Annually	PPMO
	Number		4	7						

China

Sustaining Poverty Reduction through Agribusiness Development in South Shaanxi

Supervision Report

Appendix 1: Financial: actual financial performance; by financier by component and disbursements by category

Mission Dates: From 07/11/2018 to 16/11/2018
Document Date: 14/12/2018
Project No. 2000001184
Report No. 4949-CN

Appendix 1: Project cost and financing

1. Total project cost is estimated at US\$257 million, including contingencies, but excluding expected resources leveraged from financial institutions. Project costs are organized into three major components: (i) Pro-poor value chain and agribusiness development (67percent of baseline costs); (ii) Public infrastructure and services (29 percent of baseline costs); and (iii) Project management and coordination (2 percent of baseline costs). Investment and recurrent costs amount to 98 and 2 percent of the project's total cost respectively.

Table 1: project costs by component and financier

(million of United States dollars)

	The Government		IFAD		Enterprises & Cooperatives		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)		Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%				
A. Pro-poor value chain and agribusiness development														
1. Development of pro-poor Value chains	0,0	-	2,2	100,0	-	-	-	-	2,2	0,9	0,0	2,2	0,0	
2. Value chain development fund	0,0	-	63,8	37,8	101,9	60,3	3,3	2,0	169,0	65,8	-	152,1	16,9	
3. Value chain rural finance development	4,5	72,4	1,7	27,6	-	-	-	-	6,2	2,4	0,3	5,0	0,9	
Subtotal Pro-poor value chain and agribusiness development	4,5	2,5	67,7	38,2	101,9	57,4	3,3	1,9	177,5	69,1	0,3	159,3	17,9	
B. Public infrastructure and services														
1. Climate resilience infrastructure development	70,7	100,0	-	-	0,0	-	-	-	70,7	27,5	3,5	59,2	7,9	
2. Public services development	-0,0	-	1,3	100,0	-	-	-	-	1,3	0,5	0,0	1,2	-	
Subtotal Public infrastructure and services	70,7	98,2	1,3	1,8	0,0	-	-	-	71,9	28,0	3,5	60,5	7,9	
C. Project management & coordination														
1. Project management	4,4	72,0	1,7	28,0	-	-	-	-	6,0	2,4	0,1	5,1	0,8	
2. Monitoring & Evaluation	-	-	1,0	100,0	-	-	-	-	1,0	0,4	0,0	1,0	-	
3. Knowledge management	-	-	0,3	100,0	-	-	-	-	0,3	0,1	-	0,3	-	
Subtotal Project management & coordination	4,4	59,3	3,0	40,7	-	-	-	-	7,3	2,9	0,1	6,4	0,8	
Total PROJECT COSTS	79,5	31,0	72,0	28,0	101,9	39,7	3,3	1,3	256,7	100,0	4,0	226,1	26,6	

Table 2: Allocation by expenditure category

Financial instrument: 2000002295 / 200000229500

Flexcube data is updated overnight,

Instrument type	(LOANS) Loans
FlexCube workflow status	SIGN
Loan/Grant Denomination Currency	USD
Financed amount	72,000,000.00
Approval date	17 Apr 2018
Signing date	07 May 2018
Effective date / Enter into force	18 Aug 2016
First disbursement date	
Last disbursement	This instrument has not yet disbursed
Completion date	29 Nov 2045
Closing date	04 Jun 2046
Product	(ORU1) ORDINARY TERMS USD

Category	Allocated amount	Amount used	Percent used	Available
200003: Works	USD 12,796,000.00	USD 0	0.00%	USD 12,796,000.00
200008: Consultancies	USD 15,218,000.00	USD 0	0.00%	USD 15,218,000.00
200011: Equipment and materials	USD 17,770,000.00	USD 0	0.00%	USD 17,770,000.00
200013: Goods, services and inputs	USD 19,016,000.00	USD 0	0.00%	USD 19,016,000.00
290001: Unallocated	USD 7,200,000.00	USD 0	0.00%	USD 7,200,000.00
Total	USD 72,000,000.00	USD 0	0.00%	USD 72,000,000.00

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Sustaining Poverty Reduction through Agribusiness Development in South Shaanxi

Supervision Report

Appendix 2: Physical progress measured against AWP&B

Mission Dates: From 07/11/2018 to 16/11/2018

Document Date: 14/12/2018

Project No. 2000001184

Report No. 4949-CN

Asia and the Pacific Division
Programme Management Department

Appendix 2: Physical progress measured against AWP&B

(At time of mission, indicators and targets not yet entered into MIS system, not yet reported)

Components / Sub-components	Indicators	Unit	Indicator Level	Current Year 2018			Cumulative		
				AWPB	Actual	%AWPB	Appraisal	Actual	%Target
Goals	Total number of households benefiting from project - number of households (HH)	number	1st						
	Estimated corresponding total number of households members-Number of people	number	1st				478 869		
	Persons receiving services promoted or supported by the project—Number of Males	number	1st						
	Persons receiving services promoted or supported by the project—Number of Females	number	1st						
	Registered poor get rid of poverty - number of people	number	1st						
Output 1.1 Business Plan Developed	1.1.1 BP submitted	number	1st						
	1.1.2 BP approved	number	1st				405		
Output 1.2 Business Plan financed	1.2.1 Agro-entities supported through BP	number	1st				405		
	1.2.2 Cooperatives supported through BPs	number	1st				n/a		
	1.2.3 Agro-entities led by women supported	number	1st				n/a		
	1.2.4 Poor HHs participating in BPs	number	1st						
	1.2.5 Corresponding number of poor people participating in BPs	number	1st						
	1.2.6 Women participating in BPs	number	1st						
	1.2.7 Youth participating in BPs	number	1st						
	1.2.8 HH receiving agro-inputs or technical support	number	1st						
	1.2.9 People receiving agro-inputs or technical support	number	1st						
	1.2.10 Women receiving agro-inputs or technical support	number	1st						
	1.2.11 Youth receiving agro-inputs or technical support	number	1st						
	1.2.12 HHs signed farming contract with BP entities	number	1st						
	1.2.13 corresponding people covered in farming contract with BP entities	number	1st						
Output 1.3: Financial Service for BPs	1.3.1 Insurance products developed for project	number	1st	0					
	1.3.2 Agro-entities covered by insurance products	number	1st	0					
	1.3.3 HHs covered by insurance products	number	1st	0					
Output 2.1 Climate	2.1.1 Road rehabilitated/constructed	Km	1st				773		
	2.1.2 irrigation canals rehabilitated/constructed	Km	1st				218.7		

Smart Infrastructure Development	2.1.3 People receive Climate smart and environmental sustainability training	number	1st						
	of which: number of women	number	1st						
	Number of youth	number	1st						
Output 2.2 Public Services Development	2.2.1 Number of product certification made for BP entities	number	1st	0					
	2.2.2 Number of brands registered for BP entities	number	1st	0					
	2.2.3 People attending TGA or management training	number	1st	0					
	of which: number of women	number	1st	0					
	Number of youth	number	1st	0					
Output 3: Project Management	3.1.1 People trained on project management	number.time	1st	200					
	3.1.2 Training conducted for project management	number	1st	5					
	3.1.3 Project MIS developed	number	1st	1	1		1		
	3.1.4 Public Wechat Account developed	number	1st	0	0		1		
	3.1.5 Knowledge products (text) developed	number	1st	0	0				
	3.1.6 Knowledge products (AV) developed	number	1st	0	0				

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Sustaining Poverty Reduction through Agribusiness Development in South Shaanxi

Supervision Report

Appendix 3: Compliance with legal covenants: status of implementation

Mission Dates: From 07/11/2018 to 16/11/2018

Document Date: 14/12/2018

Project No. 2000001184

Report No. 4949-CN

Asia and the Pacific Division
Programme Management Department

Appendix 3: Compliance with legal covenants: Status of implementation – SPRAD-SS

Section	Covenant	Compliance Status/Date	Remarks
Financing Agreement:			
Section B, Para 6	Designated account: There shall be a Designated Account (DA) denominated in US dollars, to be opened for the IFAD loan, through which IFAD funding shall be channelled	Complied	
Section B, Para 7	Counterpart contributions of the Borrower, and beneficiaries to the Project will be approximately seventy nine million five hundred thousand United States Dollars (79.5 million USD), and three million and three hundred thousand United States Dollars (US\$3.3 million), in cash or in kind, respectively. Contributions of participating enterprises and cooperatives expected to be leveraged by the Project are estimated to approximately one hundred one million, nine hundred thousand United States Dollars (US\$101.9 million) in cash or in kind, based on estimates made during Project design	Being Complied	Borrower is pre-financing project expenses, beneficiary and participating agro-entities contributions leveraged through BP
Section C, Para 1	The Lead Project Agency shall be the Shaanxi Provincial Development and Reform Commission.	Complied	
Section D, Para 1	The Financing will be administered and the Project supervised by the Fund. In addition to supervision missions, the Fund shall conduct a mid-term review to be carried out towards the mid-term of the Project as provided for in Section 8.03 (b) of the General Conditions and a completion review before the Project Closing Date.	Being complied	
Section E, Para 1	The following are designated as additional general conditions precedent to withdrawal: <ul style="list-style-type: none"> (a) The PPMO) and at least one CPMO shall have been duly established and staffed with at least the following staff: a director, an accountant, and a cashier; (b) The Designated Accounts shall have been duly opened and the names of the authorized signatories shall have been submitted to the Fund; (c) The Borrower, through the Lead Project Agency, shall have caused the PPMO to submit, and the Fund shall have received, an official document confirming the availability of adequate counterpart funds for the first Project Year; (d) A computerized accounting system acceptable to the Fund shall have been identified and selected by the PPMO. (e) The Project Implementation Manual (PIM) shall have been approved by IFAD 	Complied	
Section E, Para 2	The following is designated as additional ground for suspension of the right of the Borrower to request disbursements: <ul style="list-style-type: none"> (a) The PIM, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that it has had, or is likely to have, a material adverse effect on the Project. 	Complied	

Section	Covenant	Compliance Status/Date	Remarks
Schedule 1, Section C Para 9	The PPMO shall prepare, with inputs from the CPMOs, a draft PIM and submit it to the Fund for approval. If the Fund does not approve it within thirty (30) days after receipt, the draft PIM shall be considered approved.	Complied	
Schedule 1, Section C Para 10	<i>Business Plans (BPs) financing agreement.</i> Agribusiness entities and county PMOs shall sign a financing agreement for each approved business plan. The agreement shall state the rights and obligations of both sides, the commitments of the proponent agribusiness entity, targets and agreed verifiable physical, financial, economic and social indicators for the committed targets. A financing plan for the BP, compliant with the agreed financing rules as detailed in the PIM, shall be part of the financing agreement. Key information of the finance agreement shall be publicized in the village.	Not due yet	
Letter to the borrower:			
LTB paragraph 5	Authorized Signature: Before disbursement can begin, IFAD must receive from the Ministry of Finance a letter designating the names of officials authorized to sign withdrawal applications, which includes their authenticated specimen signatures.	Complied	
LTB paragraph 11	The programme shall submit withdrawal applications and IFRs semi-annually on actual payments for incurred expenditures within 45 days after the period.	Not due yet	
LTB Paragraph 20	As soon as possible after project commencement, the PPMO shall submit to IFAD the draft AWPB and the Procurement Plan covering the initial 18 months period of project implementation.	Complied	
LTB paragraph 34	the following shall be subject to prior review by the Fund: (a) Award of any NCB contracts for works valued USD1million or more; (b) Award of any NCB contracts for goods and services valued USD200,000 or more; (c) Award of direct contracts for goods estimated to cost USD 20,000 or more; (d) Award of all contracts for Works by Force Account; (e) Award of any QCBS,FBS, LCS and CQS contracts for consulting firms valued USD100,000or more; (f) Award of any SSS contracts for consulting firms valued USD20,000or more; (g) Award of any CSP contracts for individual consultants valued USD50,000or more; (h) Award of any SSS contracts for individual consultants valued USD20,000or more.	Being complied	
LTB paragraph 38	In accordance with Section 9.01 and 9/02 of the General Conditions, the Borrower must prepare and submit to IFAD detailed financial statements of all the operations, resources and expenditures related to the Project for each fiscal year.	Not due yet	
LTB paragraph 27	All contacts, with or without prior IFAD approval, shall be listed in the Register of Contracts with the dates of approval. The register shall be updated and submitted to the IFAD on a six-month basis.	being complied but improvement needed	
General Condition for Agricultural Financing:			

Section	Covenant	Compliance Status/Date	Remarks
Section 9.01	The Project Parties shall maintain separate accounts and records in accordance with consistently maintained appropriate accounting practices adequate to reflect the operations, resources and expenditures related to the Project until the Financing Closing Date, and shall retain such accounts and records for at least ten (10) years thereafter.	Not due yet	
Section 9.02	Financial Statements: The borrower shall prepare consolidated financial statements of the operations, resources and expenditures related to the Programme for each Fiscal Year. Within 4 months of each Fiscal Year end, such financial statements shall be delivered to the Fund.	Not due yet	
Section 9.03	Audits: (a) Each Fiscal Year, the borrower shall have the accounts relating to the Project audited in accordance with auditing standards acceptable to the Fund.	Not due yet	
Section 9.03	(b) The borrower shall, within six (6) months of the end of each Fiscal Year, furnish to the Fund a certified copy of the audit report. The Borrower/Recipient shall submit to the Fund the reply to the management letter of the auditors within one month of receipt thereof	Not due yet	
Section 9.03	(c) If the Borrower/Recipient does not timely furnish any required audit report in satisfactory form and the Fund determines that the Borrower/Recipient is unlikely to do so within a reasonable period, the Fund may engage independent auditors of its choice to audit the accounts relating to the Project.	Not applicable so far	
Section 8.02 (a)	Establish and thereafter maintain an appropriate information management system in accordance with the Fund's Guide for Project Monitoring and Evaluation with which it shall continuously monitor the Project;	Being complied	
Section 8.03	Progress Report: The Lead Project Agency shall submit to the Fund, trimester and annual progress reports on Project Implementation no later than 2 months after end of each reporting period during the Programme Implementation Period.	Not due yet	
	Mid-Term Review: The Lead Project Agency and the Fund shall jointly carry out a review of Project implementation no later than 48 months after the Effective Date (the "Mid-Term Review") based on terms of reference prepared by the Borrower and approved by the Fund.	Not applicable so far	
Section 8.04	Completion Report: The borrower shall submit to the Fund the completion report on the Programme no later than six (6) months after the Programme Completion Date.	Not yet applicable	
Section 8.05	Annual Work Plan and Budgets: AWPB to be submitted to the Fund, for its review and approval	Complied	2018 AWPBs was given No-Objection
Section 7.13	The Borrower/Recipient and the Project Parties shall ensure that the resources and benefits of the Project, to the fullest extent practicable, are allocated among the Target Population using gender disaggregated methods.	Being complied	
Section 7.11	The Borrower/Recipient or the Lead Project Agency shall appoint the Project Director and all other key Project personnel in the manner specified in the Agreement or otherwise approved by the Fund. All key Project personnel shall have qualifications and experience specified in the Agreement or otherwise approved by the Fund.	Complied.	
Section 7.09	The Borrower/Recipient shall ensure that no Project Party shall enter into any Subsidiary Agreement, or consent to any modification thereof, inconsistent with the Financing Agreement or the Project Agreement.	Being complied	

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Sustaining Poverty Reduction through Agribusiness Development in South Shaanxi

Supervision Report

Appendix 4: Technical background analysis

Mission Dates: From 07/11/2018 to 16/11/2018

Document Date: 14/12/2018

Project No. 2000001184

Report No. 4949-CN

Asia and the Pacific Division
Programme Management Department



Investing in rural people

People's Republic of China

Sustaining Poverty Reduction through Agribusiness Development in South Shaanxi

Supervision report

Working papers

Mission Dates: 7-16 November 2018
Document Date: 23-Nov 2018
Project No. 2000001184
Report No:

Asia and the Pacific Division
Programme Management Department

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TECHNICAL NOTE On Value Chain and Business Planning

of the Sustaining Poverty Reduction through Agribusiness Development in South Shaanxi (SPRAD)

I. INTRODUCTION

A mission¹ visited Shaanxi Province from 7th to 16th November 2018 to provide implementation support for the SPRAD's value chain approach and supervise overall project activities. The mission met the Government staff, Project Director, Vice Director, PPMO staff, and consultants. Field visits were undertaken to participating counties where the mission met with county staff, CPMO project staff, and beneficiaries. The mission also met ten enterprises/cooperatives in pig, cow, tea, chicken, mushroom, medicinal plant, sweet corn, and raisin tree engaged in value chains. These entities have expressed interests in cooperation with the project. During the field visits, the mission reviewed and assessed these initial selected value chains, the associated preliminary business plans, and the capacity of the project staff to carry out the required analytical work.

This technical note reflects in more detail the mission's main findings and recommendations concerning implementation modalities. In that context financial analysis templates are discussed in sections below. The key issues and recommendations were included in the Aide Memoire, and discussed and agreed during de-briefing sessions with the project on 15 November 2018.

II. FINDINGS AND DISCUSSIONS

1. Project progress and findings during field visit

Despite the short time since commencement, the SPRAD has timely and successfully initiated the VC component as per project design. Overall progress of the component include: (i) finalization and distribution of BP procedures, requirements and templates which are included in the in the PIM; (ii) establishment of BPs Evaluation Committees (BECs) and recruitment of staff and consultants at provincial/county levels, (iii) MIS development and training for both PMO staff and agro-entities on the use of BP module; (iv) organization of BP introduction workshops at county level and the subsequent receipt of 62 EOIs. The BECs reviewed all EOIs, and have invited 49 selected agribusinesses for BP preparation, of which 27 BPs have been received by CPMOs. During the field visit, the following enterprises/cooperatives were met and consulted by the mission:

County	Enterprise /Cooperatives	Current business	Proposed business model through EOI/BP
Xixiang	Hybrid Pig raising enterprise	Sow raising (3500 sows) providing piglets to farmers within the province	Signing contract with 450 HHs, providing 5 piglets/HH for raising. Purchasing back pig from HHs for meat processing.
Xixiang	Tea processing cooperative	Small processing unit – 20 tons dried tea/year. Signing contract with 300 HHs – 1200 mu (~72 ha) tea	Expand the production area to 2000 mu (~132 ha) through signing contracts with additional 200 HHs
Dan	Chicken	A big chicken processing	Maximise the processing capacity to

¹ Mission composition: Mr. Henning Pedersen, Value Chain Development Specialist; Mr. Quang Ngoc Nguyen, Pro-Poor Agribusiness Partnership Development Specialist; Mr. Sun Yinhong, IFAD Country Program Officer and Team Leader. The mission was joined by two officers from IPRCC Mr. Wang Dajun (for three days) and Ms. Li Jiayi (throughout). Mr. Jan Kerer and Ms. Queenie Chow, Insurance Specialists for the Micro Insurance Center operated grant project also conducted their mission partly overlapping with the SIS mission at the onset.

Feng	processing (Huamao Husbandry Ltd Enterprise)	company with 50,000 chickens processed per day. Signing contract with 48 chicken raising cooperatives	80,000 chickens/day through signing contracts with more cooperatives. The contract arrangement is not yet clear.
Zhen Ba	Tea plantation and processing company	Newly established tea processing company. Before worked in mining and capital lending. Has a big tea farm and already established initial markets for dried green tea	Lease about 481 mu (~32 ha) land from 429 HHs for expansion of tea plantation. Land lease price: 500 RMB/year. Farmers can potentially be employed as workers for the enterprise
Zhen Ba	Local pig processing company	Bacon and salami processing from local pig. Sign farming contracts with about 500 HHs providing pig to the enterprise	Expand the business by engaging additional 755 HHs as local pig raising farmers. Want to mobilise 6.1 RMB from SPRAD for (i) piglet purchase and provision to HHs; (ii) storage expansion and technology upgrade for the enterprise; and (iii) marketing and branding.
Zhen Ba	Breeding cow raising Cooperative	Raising 105 breeding cow in the cooperative. There are 313 HHs as members of cooperative.	Expand the cow breeding model to additional 193 HHs through provision of pregnant cows to HHs and purchase back calf.
XiXiang	Wood ear mushroom production and processing cooperative (Hanzhong Fulin Sheng)	A big-newly established mushroom variety production enterprise. Start production by end of 2018. Currently, have a farm nearby of 30 mu (1.8 ha) cultivating wood year mushroom	Still not having concrete idea on how to work with project but willing to help poor farmers.
Han Yin	Medicinal plant production and processing company	A medium size company established in 1999 with 60 workers focusing on extracting oil from mulberry leave, and Eucommia leave for medicine. Processing capacity: 630 tons of dried leaves/year.	Already prepared a concrete BP with two options working with farmers: (i) leasing land from 360 HHs – 2100 mu (~139ha) with leased price of 300 RMB/mu/year for mountainous land, and 500RMB/mu/year for flat low land; and (ii) farming contract with HHs planting Eucommia – 2100 mu (~139 ha) – 630 HHs, providing seedlings and technical support. Proposed SPRAD fund of 3 million RMB for seedling purchase for farmers (2.2 million RMB) and upgrading storage for the enterprise (0.8 million RMB)
Han Yin	Sweet corn processing company	Simple raw processing and packing sweet corn (25 kg/bag). Operate the factory for 3 months during sweet	Not yet having idea for cooperation with SPRAD

		corn harvesting season. Buying corn from 2000HHs – 2000 mu (~ 120 ha). Start initiating canning corn for export	
Han Yin	Yi Pin Zhuang Yuan Raisin liquor enterprise	Extracting Quai Zao (Oriental dried grape) raisin for making liquor and export to high-end market	Sign farming contract with 600 HHs – 1000 mu (~ 600 ha) of Quai Zao trees. Mobilise about 1.4 million RMB from SPRAD for seedling purchase for farmers, and facility upgrade for enterprise.

In spite of time limitations and language barriers pertaining to a more detailed discussion of the quality and content of the EOIs/BPs, it was agreed that the following improvements should be introduced during the next stages of implementation.

- **Choice of Lead Firm:** the Lead Firms (LF) identified by CPMOs seems mostly based on their reputation within the county rather than through a process of value chain and agribusiness mapping and analysis. Through discussions, most of LFs showed that they are big producers/processors and have strong connection to the end markets. Potential for engagement of farmer households either as input suppliers or labors is significant as confirmed by enterprises. Nevertheless, apart from information provided by the LFs, CPMOs still lack justifications on why and how the value chains and the LFs are selected. This in turn requires a thorough value chain and agribusiness mapping and analysis. To the extent possible, the existing LFs shall continue to be potential partners of the project. In the future however through the value chain and agribusiness mapping processes, the project should identify more potential LFs through advertisement in the mass media and direct engagement with chamber of commerce at county and provincial level. The selection of LFs should also be supported by the evaluation of the LFs' financial viability over at least a two year period.
- **Financial turnover of enterprise and income increase at household level:** it is noted that the financial turnover of enterprise and potential income increase at household level are either roughly estimated or indicatively provided by the enterprises in the EOIs/BPs. The CPMOs lack tools/instruments to measure whether those indicative numbers are realistic. To this effect, it is suggested the project to undertake a financial analyses of all actors during value chain mapping and of enterprises and households during the business planning process.
- **Mode of beneficiary involvement:** through the visits, it was observed that four modes of engagement/ benefit brought-in to farmers include: (i) land lease, (ii) dividends, (iii) labor work, and (iv) farming contract as material suppliers. All of these four options are valid according to the design but should be supported through studies before deployment. For instance, in certain locations, where most of labors have migrated to the city for employment, land lease can be an option. Similarly, for certain industries which require high skills and intensive production, farmers can only be trained and recruited as workers.

As to contract arrangements, the mission recommends that CPMOs and local authorities pay special attention to the legality and enforcement of the contracts. Two forms of contracts were indicated by the enterprises during the mission's visit; a collective contract via

cooperatives and an individual contract with households. While the first is legally binding and enforceable by two parties, the latter is not. Furthermore, in view of transaction cost, signing individual contracts is time consuming and costly for the enterprises. Therefore enforceable collective farming contracts seem preferable

Engagement of the poor: The project target is to help 100,000 poor households escaping poverty. This challenge in turn requires a proper strategy by the project in terms of value chain selection and the modalities for engagement of the poor. During discussions with CPMOs and LFs it was revealed that such strategy still seems to be missing to some extent. Although significant number of poor HHs were reported to be potentially engaged in the business models provided by the enterprises, it is still not clear in what way the poor is involved and how they can escape poverty. For instance, the hybrid pig raising (5pigs/HH) and breeding cow (1 breeding cow/ HH) models seem to be unrealistic for the poor to escape poverty. The first model requires intensive production and high investment cost, as well as technical support. The second model is a social model for cattle distribution. As noted a thorough value chain analysis is required for each selected model/value chain to clarify long term benefits for HH. Additionally the involvement of hundred percent poor household in the business models should not be required in all cases. The inclusion of near poor and economically active households as well, may ensure a more dynamic development of the value chain. As highlighted in the Aide Memoire the use of the dividend/equity sharing model for engagement of the poor should be the least preferred option since this is more a social than economic instrument for poverty reduction.

Transfer of knowledge/Capacity building and technical assistance to farmers: Engagement of farmer households require transfer of knowledge, capacity building, and necessary technical support to these entities. In this context simplicity, applicability, and replication are pertinent. The mission did not have opportunity to discuss these issues with CPMOs and enterprises but notes that capacity building and technical assistance are important to ensure the success of the BPs, hence the project. Various visited value chains such as hybrid pig, local pig raising, and chicken raising would require a well-defined package of capacity building and technical support. This needs to be clarified with companies and engagement of other technical agencies at the county level.

2. Discussions on project approaches to BPs

- **Capacity building and awareness raising:** Through field visits, the mission observed that the awareness and capacity of project partners and beneficiaries still require to be strengthened as follows: (i) understanding component's objectives and approaches: project partners still find it difficult to develop action plans for the project activities since there is a lack understanding and information about project instruments and financial resources; (ii) value chain mapping and analysis: mapping out the key commodities and their potentials for investment is an essential input for BPs development. The counties may all have done some kind of VC mapping but the mission thinks the process and output can be more formalized, and be more scientific. Capacity building for project staff and partners at county level on this aspect is equally required prior to rolling out the BP planning process; (iii) preparation of BPs: most agri-business entities visited by the mission expressed challenges in BPs preparation. Notwithstanding the help of the MIS BP module to standardize the BP preparation, the project needs to invest more capacity building and technical assistance on

this aspect; and (iv) evaluation of BPs: as BEC is responsible for BP evaluation, a good mix of members and their understanding/capacity is essential to assure soundness of financial analysis and business viability of the BPs and subsequent impact at both enterprises and farmer households. To this effect, the mission recommends the project (i) to accelerate the awareness and capacity building activities to all related agencies and beneficiaries before the investment activities are implemented; and (ii) to widely consult with partners, especially county agencies regarding the investment mechanisms, and disseminate the final PIM more widely for starting the implementation.

- **Value chain mapping:** Achieving the objective of the project - poverty reduction through development of pro-poor agricultural value chains - relies on business interests of the value chain stakeholders. Value chain activities can only become efficient and sustainable if they enable business entities and farmers to improve their profit margins. Value chain development only becomes successful if lead enterprise is motivated in supporting farmer groups with market information and subsequently entering into contract farming or other sustainable business relationship with farmers. Prior to any actual investment into agribusiness entities and farmers, a necessary step for implementation is to map relevant value chains in each county. The mission notes that such step is undertaken but usually through government meetings, which is inadequate. The mission has prepared a short guidance note for value chain mapping and planning (Annex 1)
- **Agribusiness entity mapping:** Along with value chain mapping, it is essential to map out agribusiness entities involved in each value chain in order to understand the dynamics of private sector actors as well as the potential for co-financing by the project. Similar to value chain mapping practices, agribusiness entity mapping should be implemented prior to any actual investment. Results of this activity are the profiles of all potential agribusiness entities in each county. The mission has prepared a template for agribusiness profiling. (Annex 2).
- **Business planning:** The mission highly appreciates the effort of the project for preparing a thorough BPs template as included the PIM. The mission discussed with PPMO staff, and the following improvements were agreed upon: (i) the cost-benefit analysis of the current template lacks the proposed investment both for agribusiness entities and farmer households. Therefore, it is recommended to include financial analysis tables for these two actors in the template; and (ii) various sections in the template including market information, risk management, contract arrangement, and procurement are still generic in nature. As such, more specific guidance is required in these areas for the development of BPs; (iii) in addition to development of a viable BP, agribusiness entities should be required to document financial records (balance sheet, income statement, and cash flow table) for the past two years. The mission has prepared templates for the above three aspects. (Annex 3).
- **Evaluation of business plan:** The mission notes that indicators for BP evaluation have been developed by the project as included in the PIM. The mission discussed with the PPMO and the following concerns regarding the clarity and feasibility of the indicators are noted. Firstly, some indicators (indicator 1,8, and 9) are both generic and qualitative which may confuse the BEC members during evaluation. Secondly, many indicators (indicator 1,2,3,4,5,6, and 10) require the introduction of a range of scoring (e.g. maximum, average, medium) for easy evaluation. Thirdly, two indicators (indicator 4 and 5) require a breakdown into sub-indicators for evaluation. To this effect, the mission recommends the PPMO to revisit and improve the indicators especially in their scoring method/criteria, through further consultation with national consultants at both provincial and county levels and IFAD ICO, eventually if necessary introduce more quantifiable indicators.

The mission noted that in some counties (e.g. Zhengba), the BEC consists of some twenty plus members with a diverse background including entrepreneurs and bankers. Such composition provides a good framework for proper evaluation of the BPs. The mission encourages all project counties to ensure a professional and transparent evaluation process by inviting reputable members with a relevant technical background.

- **Value Chain Implementation Support:** While the project design has prescribed the type of VC implementation support it is recommended that CPMOs exercise discretion and flexibility in identifying needs and assistance to the selected value chains and BPs. County level collective marketing and promotional activities may be explored and if helpful, e-commerce for project supported BPs and value chains shall be given due attention. PPMO may also consider engaging legal services to help look into the dividend sharing and contracting arrangements and documents related to the BPs.
- **Value Chain Development Fund:** As the project is still at the initial stage BP development, no BP has been approved for investment so far. However, during visits and discussions with various enterprises/cooperatives, the mission notes that several BPs may seek for maximum financing of project funds to support production and post-production infrastructure. In the future there may be requests by processing agro-entities who have the possibility to establish business linkages with a large number of individual farmers for financing above CNY 3 million thus exceeding the IFAD No-Objection threshold

The mission suggests that at this initial stage of project implementation, BP financing criteria as stipulated in the PDR and PIM are strictly followed. After first year of BP implementation, it is recommended that the PPMO carry out consultation/exchanges of experience of BP implementation especially in relation to the feasibility and benefits of the dividend sharing model. In addition, for BPs with large scale production, it is advised to take a phased approach with the BP covering more than one production cycle. The mission has prepared a package of supporting documents which include good examples of value chain development fund implementation noted in Annex 4.

ANNEX 1. TEMPLATE FOR PREPARATION OF VALUE CHAIN PLAN

Step One: Data Collection

The value chain analysis team first conducts background research on the chosen commodity/crop by reviewing websites and other secondary sources of information. During this phase, the team looks for information such as:

- Importance of commodity/crop to the county's economy (percentage of GDP, employment in the sector, etc.)
- Global end markets for commodity/crop (demand, trends, potential expansion)
- The county's position within the province, China and global commodity/crop market
- Average size (Ha) of commodity/crop per HH in the county
- Climatic conditions in the county for commodity/crop production
- Trade data of import and exports on the commodity/crop in the province and China at large.

After a thorough review of relevant secondary sources, the team conducts primary research in the county through a combination of one or more of the following methods: interviews, focus groups, surveys and observation. Through this process which takes approximately 1 week in the field, the team gathers more information on the value chain including the actors (HH-farms, SMEs –processors, input suppliers, advisors etc.), relationships between the actors of the chain and factors affecting the competitiveness of the chain.

Step Two: Value Chain Mapping

By using the information gathered during interviews as well as secondary research, the value chain analysis team develops the map of the commodity/crop sector in the county. Value chain mapping enables the analysis team to visualize the flow of the product from conception to end consumer through various actors, as well as the supporting markets and enabling environment affecting the value chain. The first step is to list all the functions and actors in the value chain.

Who are the actors in the commodity/crop value chain?

- Input suppliers (companies who sell to, farmers' associations and to HH- farmers)
- Producers (HH- smallholder farmers and Poor HH-farmers)
- Small-scale traders
- Small-scale processors –local sale
- Medium/large-scale processors-exporter sale

Functions may be performed by more than one actor, and each actor may perform more than one function. *What are the functions in the commodity/crop value chain?*

- Input supply
- Production
- Trading
- Processing
- Exporting
- Importing

Once they are identified, the functions and actors are placed in a matrix to show who does what. List the functions along the side and the actors across the top and mark the boxes to indicate which actors perform which functions. Once this table is complete, a map can be drawn showing how the product moves from one actor to another and when it passes through the different functions. Based on the map it is possible to establish the cost and margin make-up for each level the produce passes through used as the base line for present distribution of cost and benefits among actors.

Step Three: Analysis of Opportunities and Constraints

The next step is to prepare a table like shown below, list the structural and dynamic factors in the value chain, and then briefly describe the current situation, opportunities, constraints and recommendations for addressing the constraints including tangible How, Who and Financing.

Framework	Situational analysis	Opportunities for Upgrading	Constraints to Upgrading	Recommendation for Upgrading Constraints (How, who and financing)
Structural Elements of the Value Chain				
End market				
Business enabling environment (both soft and hardware)				
Vertical linkages				
Horizontal linkage				
Supporting markets				
Dynamic of the Value Chain				
Value chain Governance				
Inter-firm Relationship				

Step Four: Prepare Brief Sample Business Models for Each Recommended Upgrading showing the expected Results of the Upgrading

This step included technical description of the upgrading, financial analysis, economic analysis listing all the incremental estimated forecasts e.g. increased HH income, number of HH benefiting; job creation; increased export; import substitution; etc.

This step should also include the preparation of a matrix showing the current cost and benefit make-up and profit distribution along the value chain and an evaluation of change in governance after upgrading.

Step Six: Stakeholders Workshop

The stakeholder workshop brings together key actors from various levels in the value chain to vet the findings of the analysis and discuss if the chosen strategy for increasing value chain competitiveness is valid.

NOTE: The Value chain plan should be as precise and concise as possible max 15 pages

ANNEX 2. AN AGRIBUSINESS PROFILE

(red texts are guidance, to be deleted and replaced with information)

Enterprise Profile

Title:

Location:

Commodity:

picture from the business

1. Description of business model: (including relation
2. Markets: (including current and potential new opportunities)
3. Current volume: (current volume of intake and number of supplier households)
5. Business growth opportunity: (potential growth in intake volume, and respective requirements e.g. increased storage, logistical and processing capacity, including needs for increased staff and management/technical skills)
6. Supply growth opportunities: (requirements for increased and improved supply, including volume, quality, standards, consistency, supplier coordination, contracts and commitment, input support, etc)
7. Potential locations: (both for for increased processing and for increased supply)
8. Investment: (sources of capital, financial flows in the value chain, financial risks)
9. Operating environment: (public incentives, infrastructure, registrations, policies)

AN EXAMPLE OF AN AGRIBUSINESS PROFILE

Minh Be Agricultural Product Exporting and Processing Company

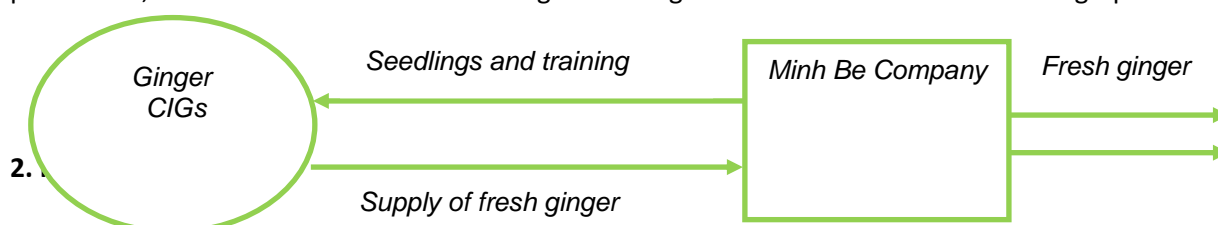
Commodity: Ginger

Location: Bac Kan province

Established: Since year 1992

1. Description of business model

The Minh Be enterprise is specialized in collection and trading of raw ginger, and support and coordination of farmer producer groups. The enterprise has a dry storage and sorting facility in the Bac Kan province. Enterprise invests regularly in smallholder ginger farms, supporting their production, with the economic interest of higher trading volumes. The business model in graph:



Minh Be has two main market channels: majority sold to Hai Duong export company in Hai Phong port city; and smaller part sold through four small traders Hanoi and HCMC. Market demand is far beyond what Minh Be can satisfy, and the enterprise has plans of increasing its trading volumes to 5000 tons in the coming year. The market demand is stable, however price is fluctuating significantly, between 0.2 USD/kg and 1.5 USD/kg. According to the enterprise, the farmers are making profit and want to do business also at the lowest prices.

3. Current volume

In 2013 the Minh Be purchased, sorted, packaged and sold 3000 tons of ginger, out of which 2000 tons is produced by Bac Kan farmers, and 1000 tons in neighbouring provinces. The enterprise has long term business establishment and contracts with about 1500 Bac Kan households, with total area of 150 ha in Na Ri and Ba Be districts. This business includes continuous technical support, input provision, microcredit and savings service, and purchase of the farmers output.

4. Business facilities and potential growth

The Minh Be has recently invested in an expanded warehouse, drying facility and logistical infrastructure, allowing significantly increased volumes and the potential for initiation of pre-processing activities. Total investment value including all in kind contributions is about 500 000 USD, funding for which is by enterprise accumulated savings, by loans from business partners, and by a PPP co-investment. Five staff are employed for the collection, sorting and packaging of the ginger, for average 5-6 months of work in one year, each receiving salary of 150.000 VND/day. Currently, the company will need to focus in maximizing the use of these facilities, and has no plans of further capital investment.

5. Supply growth opportunity

Due to the high market demands and recent capital investment of the Minh Be, the enterprise is working hard to promote for further farmer groups to engage in ginger production, and provides the groups with required technical and input support. Also, those farmer groups that are already engaged in ginger production are in need of support to improve their productivity. Current yields in Bac Kan are about 7-10 kg of output by planting 1 kg of ginger seed. The optimized production gives up to 17-20 kg output per 1 seed kg in Vietnam and reportedly even 30 kg in some high productivity fields in China. This signals the opportunity and also urgent need of increased productivity for Bac Kan farmers. For both, extending the amount of farmers and increasing the productivity, Minh Be is committed and interested in public private partnership. Required support from public sector, to expand opportunities for the rural poor, includes investment in transport infrastructure, technical training and coordination of farmer groups, and support to farmers in their requirement of initial investment capital.

6. Financial arrangements

Both the farmers and the enterprise are unable to access bank lending due to lack of required collateral. The working capital financing of farmer and trading operations is based on informal agreements between the value chain stakeholders. Minh Be enterprise has long term commitment with the local farmers, and has developed relationship of trust with farming communities and also with its trading partners outside the province. From cumulated capital, Minh Be regularly advances seedlings and fertilizer to the farmers, with interest rate of 1% per month. These loans are deducted from sales price at the time of harvest (after about 9 months growing period). Also, at harvest time, many farmers leave their profit to the holding of Minh Be, similarly receiving monthly interest rate of 1%. Minh Be sometimes also agrees to advanced good deliveries with its small trading partners in Hanoi and HCMC, receiving payments 2-3 months after trading, again with 1% interest rate. Total requirement of working capital for these operations by Minh Be is about 100 000 USD. Risks are relatively high, due to lacking written contracts, however these arrangements are beneficial for Minh Be because they enable increased engagement of farmer households and trading in higher volumes.

ANNEX 3. A BUSSINESS PLAN TEMPLATE

The Enterprise will be provided with below Investment Proposal Template, together with an excel template for financial /economic analysis of the proposed investment.

The text in red is explanation and detailed questions to help in preparation of an investment proposal. The red text is to be deleted and replaced by enterprise descriptions as per given headlines.

PROJECT FACT SHEET (1 page)

Business Plan (BP) Title:

Product description and key outputs of the investment :

Co-Investing Company:

BP Location:

BP Duration: (year)

Proposed Co-investment by SPRAD: (RMB, %)

Proposed Contribution by the Enterprise: (RMB, %)

Total BP Investment and Expected Duration of Return on Investment at Enterprise Level: (RMB, year)

Estimated Number of Long Term Full Time Jobs Created: (non-poor, near-poor/poor people)

Estimated Number of Supplier Households Involved: (non-poor, near-poor/poor HHs)

Estimated Average Profit per Supplier HH: (RMB)

Contact Details of Company and Responsible Person:

BP Writing Team:

PART 1. ENTERPRISE OVERVIEW (max 5 pages)

1.1 Name, Location and Legal Status

1.2 Product and production facility description

- Description of the product/service produced by the company
- Quality, monthly/yearly volumes and pricing of the produce
- Facilities (including land, buildings, machines, vehicles, etc.) currently owned and used by the enterprise
- Production capacity with the existing facility
- Value of the facilities, operation and maintenance cost of the facilities
- Existing volume of raw material intake, and location of suppliers

1.3 Marketing and sales

Customers

- Who are the current customers and where are the customers located?
- Why do the customers buy produce from the enterprise?

Market Analysis

- Which other producers sell to the same customers?
- What is the difference between product of the enterprise and its competitors?
- What is the difference between price of the enterprise and its competitors?
- How did the markets of the produce change during last years?
- How will (can) the produce price and quality requirements change in the coming years? Any certification at use or foreseen? (eg. 4C, Rainforest, GAP)

Market Development Strategy

- How will the enterprise keep its customers and reach to new customers?
- What are the product quality and volume requirements of existing and new markets? Any certification mechanism?
- What channels of promotion will the enterprise use?
- What are seen enterprise risks and opportunities in changing markets?

1.4 Human Resources

- Company Organization Structure
- Management Team
- Professional staff and labourers

1.5 Stage of Development and growth vision

- When and in what size and production model did the enterprise start?
- How has the enterprise developed until now?
- What are enterprise objectives for the coming 5-10 years?
- What are the next strategic measures to reach the objectives?
- How will the enterprise finance its growth measures?

PART 2. ENTERPRISE LEVEL BP INVESTMENT (5-10 pages)

2.1 Targets of the Proposed BP Investment

- How will the enterprise increase its profitability as result of the investment?
- How much is the increased volume of production, or any?

- How will the product quality be improved?
- How will the raw material intake capacity of the enterprise be increased?

2.2 Description of Required Asset Investment

- What investment is required at the enterprise level to achieve the above targets? (house, machinery, vehicles, utility installations, trainings, etc.)
- What are the planned items? Describe each item and purpose.

2.3 Description of Required Human Resources Development

- New management positions, professional staff and/or labourers required for installation and for operation of the new investment. Qualities and experiences of assigned staff. Tasks, duration and salaries of each new position. Estimated amount of poor and near-poor people employed.
- Skills required to manage the BP and the proposed business operations. Technical skills required to install and operate the proposed new production systems. Required training for the management team, staff and/or labourers?
- Detailed list of required training and coaching items, including schedule.

2.4 Investment cost and profitability at the enterprise level (details in the appendix)

- What is the total cost of the investment at the enterprise level?
- What is the cost of each proposed item at the enterprise level? (3 quotations when possible)
- What is the annual increased profit of the enterprise through the BP investment?
- What is the duration of Return on Investment?

2.4 Risk Identification and Management

- What are the foreseen risks in the production
- Risk management strategy

2.5 Permits, Land Allocation and Government Incentives

- Which official permits are needed for the current operation and for the planned investment?
- Does the investment require land? Has such land been identified and allocated?
- Which government incentive policies such as subsidized lending, primary producer support, staff training or other inputs are available? How the government incentives can be utilized?

2.6 Environmental and Labour Standards

- Does the enterprise currently have any environmental risks? Any new risks foreseen as result of the planned investment? Environmental management plan
- Does the enterprise follow labour standards for its staff as per Chinese Labour Law? Requirements for improvement and action plan

PART 3. FARM LEVEL BP INVESTMENT (5-10 pages)

3.1 Raw material requirement for the BP investment

- The required raw commodities for the production
- Quality requirement for the raw material
- Period of raw material purchase
- Cost of the raw material
- As result of the investment, how much more raw material the enterprise plans to procure during the coming years? Annual increase during 1-5 years?

3.2 Raw material producers

Number of HH expected to be supplying

- What is current average yield per Ha of the procured raw material?
- What is the improved average yield per Ha, as result of the BP?
- How much is the average area of production per household?
- How many households currently sell raw material to the enterprise?
- After the investment, annual (1-5 yrs) increase of households required to produce the raw material?
- What percentage of the existing and new producers are poor/near-poor households?

Location of source of raw material

- Where is the raw material currently procured from?
- What are the new locations for raw material purchase?

Contractual arrangements with suppliers

- Are the HHs organized to groups or villages or led by lead farmers?
- Who helps the groups in group management and with technical issues?
- Is the enterprise dealing with groups of HHs or with individual HHs?
- Is the enterprise signing contracts with the HHs to buy the raw material?
- Is the contract signed at time of purchase, in the beginning of the season or for longer term?
- How is the price of raw material set in the contract?
- Is the enterprise lending inputs to HHs to increase quality and quantity (give input against reduced cost of purchase)?
- How is the arrangement between the enterprise and the required new producer households foreseen?

3.3 Development of supply chain

Capacity of the raw material producers

- Capacity of the existing producers to produce the required quality
- Capacity of the new producers to produce the required quality
- Potential to include poor households to the supply chain
- Do the existing and new raw material producers require improved inputs or technology?

Need of R&D and training services for the raw material producers

- Is there any need of R&D for the raw material supply?
- Who will be responsible and what is the total cost of the R&D?
- Is there need of training the existing/new raw material producers? How many producers?
- What are the total required training items, what is their cost and what is the source of funding (capital, lending, public resources, producer households, project funds)?
- Who will provide the required trainings? Can the enterprise provide technical assistance to the farmer households? Any other potential TA providers?
- What is the training methodology?
- When will the trainings be provided?

3.4 Investment and profitability at the farm level (details in the financial analysis appendix)

Farm budget narrative

- Initial investment cost and it's depreciation
- Annual working capital requirement
- Job creation at the farm level (non-household jobs)

- Revenues and gross income
- Duration of Return on Investment

Financing needs and sources for the producer households

- For both existing and new raw material producer HHs, what is the need of financing to sustain and improve the production?
- What are the current and potential sources of financing to the HHs?
- How can the project and the enterprise help HHs access financing?

3.5 Production environment of the raw material producers

Services and inputs

- What services and inputs the raw material producers require?
- Are these inputs available in satisfactory quantity and quality to the current producers?
- Are the inputs available to increased amount of producers after the investment?
- How the inputs can be improved in collaboration with the enterprise?

Public infrastructure

- What is the condition of public infrastructure supporting the raw material producers? Roads, bridges, irrigation, electricity, water & sanitation?
- What is the requirement of infrastructure construction/repairs works?

PART 4. BP PROJECT BUDGET AND WORK-PLAN (2-6 pages)

Budget (table with comprehensive information, suggested to use excel for calculations)

- What is the cost of each proposed item in the overall BP plan?
- What are the sources of funding for the investment, including enterprise capital, farmer capital, loan funds, BP grant? Which are provided in cash and which in kind?

Work-plan (table with comprehensive information)

- Detailed work-plan to implement the investment including schedule and responsibilities
- Milestones for funds disbursement

Appendix 1. FINANCIAL ANALYSIS OF THE BP PROJECT

Financial analysis of the development impact at the household level (excel template provided- See the Household and Enterprise Financial Analysis Excel file)

- Household income with and without project: (i) Initial investment cost and it's depreciation, (ii) Annual working capital requirement, (iii) Revenues and gross income, (iv) Duration of Return on Investment

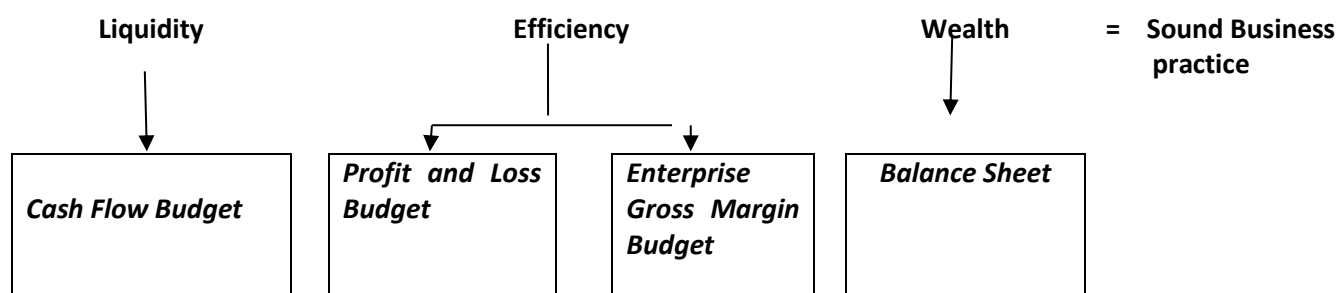
Financial analysis of BP viability at the enterprise level (excel template provided – See the Household and Enterprise Financial Analysis Excel file)

- Price and quantity of produce sold per annum or per season
- Detailed costs of the initial BP investment and estimated annual depreciation value (depreciation = investment cost / estimated no of years of use)
- Cost of new employment at the enterprise level
- Detailed annual running costs for the investment including purchase of raw material, electricity, water, fuels, transportation, maintenance costs, marketing costs, and any other cost
- Incremental revenues and savings to the enterprise through the BP investment
- Profitability of the BP investment including ROI, NPV and IRR analysis

Appendix 2. REQUIRED FINANCIAL STATEMENTS BY THE ENTERPRISE

- a. Balance Sheet
- b. Income Statement
- c. Cash-Flow Statement
- d. Valuation of Enterprise Assets (evaluation of in kind contribution value by authorized valuer, to be conducted after the approval of the BP project proposal).

Appendix 3. SUGGESTED INDICATORS FOR EVALUATION OF ENTERPRISE FINANCIAL VIABILITY



1. Cash Flow Budget: Net cash flow after principal and interest. This needs to be positive. If the farm business is negative for a couple of years, then either the business reserves will be needed to maintain business viability, or bank debt will need to increase to cover the negative cash flow.
2. Profit and Loss Budget: Net profit after tax needs to be positive. The higher the profit, the better financial performance the enterprise is.
3. Enterprise Gross margin budget: Enterprise net profit after tax needs to be positive. The higher the profit, the better financial performance the enterprise is.
4. Balance sheet:
Net worth = Total Assets – Total Liabilities: Must be good positive numbers
Equity = Net Worth/Total Asset. Should be higher than 70% (safe zone). The higher the more the business is able to manage fluctuating cash flows and servicing debt.

ANNEX 4. A PACKAGE OF SUPPORTED DOCUMENT FOR VALUE CHAIN AND BUSINESS PLANNING

- 1. A Co-investment with Famers and Enterprise guidance note – file attached.**
- 2. A Competitive Business Grant (CBG) manual – file attached.**
- 3. An example of Value chain analysis – Peanut case – file attached.**
- 4. An example of Business Plan invested – Tan Thanh Phong Grape fruit and Orange preservation – file attached.**

China

Sustaining Poverty Reduction through Agribusiness Development in South Shaanxi

Supervision Report

Appendix 5: Mission preparation and planning, TORs, schedules, people met

Mission Dates: From 07/11/2018 to 16/11/2018

Document Date: 14/12/2018

Project No. 2000001184

Report No. 4949-CN

Asia and the Pacific Division
Programme Management Department

Terms of Reference for Consultants and other persons hired by IFAD to participate in missions under a non-staff contract

COUNTRY OF ASSIGNMENT/LOCATION:

Shaanxi Province, China

MISSION NAME:

Sustaining Poverty Reduction through Agribusiness Development in South Shaanxi (SPRAD-SS)

MISSION START AND END DATES:

7 – 16 November 2018

REPORT TO:

Matteo Marchisio, Country Director for China, APR/PMD

MISSION COMPOSITION:

1. Mr. Henning Pedersen, Value Chain Development Specialist
2. Mr. Quang Ngoc Nguyen, Pro-Poor Agribusiness Partnership Development Specialist
3. Mr. Sun Yinhong, Project Implementation specialist, IFAD (team leader)

BACKGROUND:

SPRAD-SS was approved by IFAD Executive Board in April 2018 and became effective on 7 May 2018 with a five year implementation life. The project is implemented in nine nationally-designated poor counties within three municipalities in the Qinba Mountains poverty block in south Shaanxi province.

The project is aimed to bring and maintain the target population in selected areas out of poverty through the development of inclusive, equitable and sustainable value chains, on the basis of supporting on pro-poor business proposals that integrate/link poor farmers and local agribusiness entities.

The Project is organized around three complementary components: (1) Pro-Poor Value Chains and Agribusiness Development, where viable business plans will be prepared and financed through project funding, self-contribution and possible commercial loans from FIs; (2) Public Infrastructure and Services, for enhancing a climate resilient production basis; and (3) Project management and coordination.

The Foreign Loan Project Management Office (FLPMO) attached to the Provincial Development Reform Commission takes lead responsibility for project implementation and acts as the Provincial Project Management Office (PPMO).

The project has started its implementation with 2018 AWPB given no Objection by IFAD, several counties have started the process of business plan development. 1st WA for funds from IFAD is anticipated pending the opening of the Designated Account, hopefully by end of October. Nevertheless, following the usual practice in China projects, initial investment to project activities will be pre-financed by governments so the late arrival of IFAD funds will not hinder initial project implementation.

IFAD provided its first support mission to the project in June 2018, in areas of business plan development, M&E and facilitation of project effectiveness.

MISSION OBJECTIVES AND OUTPUTS:

The SIS mission to SPRAD will be made to review project implementation progress thus far, especially in 1) the deployment of project implementation arrangements and provisions and 2) the adequacy and soundness of business plan development process and outputs. In terms of the first item, the mission will review the progress in making into place the required staffing/offices, consultants, financial and M&E systems, procurement procedures, beneficiary targeting approach and practices, as well as vertical and horizontal coordination and institutional arrangements for the project implementation etc. In terms of item 2, the mission will review the current practices in calling for/selecting/financing business proposals and the quality of beneficiary outreach and benefiting as well as the viability of the BPs. Along the process the mission will provide guidance and assistance in standardizing/improving the process/procedures/quality of the BPs and its outreach/impact on the project target groups.

Along with these reviews, the mission will identify prevailing gaps/inadequacies of project implementation and provide on-site support/guidance. Imminent or potential issues and challenges will be explored to facilitate future project implementation.

INDIVIDUAL RESPONSIBILITIES, EXPECTED OUTPUTS AND REQUIRED COMPLETION DATES

1. Value Chain and Pro-poor business development (Mr. Hennings Pedersen and Quang Nguyen)

The two consultants will focus on reviewing the whole process relating to BP development on their soundness, the viability and quality of BP, the financing arrangements, the outreach/participation of parties involved, the benefit to participating parties, as well as the sustainability of partnership etc.. The related capacity, guidelines and coordination/management arrangements will also be reviewed.

During this process and as result of the view, the team will identify the gaps and inadequacies, advise improvements and rectifications, suggest fine-tuning of design if required, agree on follow up actions to ensure the intended project objective can be realised without major defects. Necessary step-by-step procedures and specific guidelines may be suggested to make the required improvements.

Specifically, the team will undertake the following tasks, among others:

- Understand the overall context in the project area for pro-poor agribusiness development, digest the project design especially the criteria and conditions, financing as well as institutional arrangements relating to the implementation of the BP activities;
- Assess the degree of acceptance/compliance of the proposed approach and possible rejection/deviation and the reasons behind;
- Review the adequacy and compatibility of step-by-step processes developed/being followed for the development of BPs, the level of participation of partners, the soundness of their implementation especially in their identification and selection;
- Review the availability/adequacy/clarity of guidelines for the BP development/financing;
- Sample assess the suitability/viability of BPs by interacting with stakeholders including beneficiaries;
- Analyze the financing arrangements, benefiting mechanism and sustainability of the BPs and the related partnership;
- Assess implementation efficiency and effectiveness relating to BP: institutional coordination, capacity and performance of the implementing and technical agencies and service providers;
- Review contractual arrangements related to the BP;
- Review related M&E arrangements for BP;
- Identify gaps and inadequacies, provide guidance or training as necessary for standardizing the performance of the BP implementation of the project;
- Agree on follow up actions for improvement of the implementation;
- Prepare a brief technical report on activities and support undertaken, design/implementation issues encountered/emerged, potential concerns and suggestions for the smooth implementation of the related complement etc.

2. Project Implementation Specialist and team leader (Mr. Sun Yinhong)

The incumbent will lead this first SIS mission to SPRAD and coordinate with the local counterpart to ensure the smooth undertaking of the mission with necessary interactions and field visits organized. He will undertake overall assessment of the progress made so far at provincial and county levels, in rolling out the full scale implementation of the project. He will assess the status of project implementation at this initial stage, especially in terms putting into place the required staffing/offices, advisory services, financial and M&E systems, procurement procedures, beneficiary targeting approach and practices, counterpart financing, as well as vertical and horizontal coordination and institutional arrangements for the project implementation. He will assess the degree of comprehension of project teams of the project design and implementation nitty-gritties, as reflected in the PDR and the PIM and suggest improvement necessary to the latter.

Among other tasks, he/she will review the following and suggest improvements required:

- Institutions (staffing, efficiency/effectiveness of coordination, capacity, budgets, training activities);
- Systems and services: MIS, advisory service (VC, M&E etc.);
- Targeting: beneficiary, agribusiness;
- Procurements
- Counterpart financing
- Planning and coordination

Other than the review and support on project implementation and management, he will:

- assess/support/facilitate the readiness of project implementation in value chain rural financial services (sub-component 1.3) by interacting with relevant county authorities/CPMO;

- support e-commerce of agro-entities/counties by facilitating/mediating the interaction between CPMOs/agro-entities and Rural Taobao team.
- Facilitate the implementation of the insurance element of the project (and the regional grant), by coordinating interaction between the Insurance grant project and the local team (local consultants for grant project, potential insurers, PPMO);
- Assess financing/implementation arrangements and the physical progress so far for project component 2 on public infrastructures and public services.

At the completion of the mission, he will formulate and present an aide mémoire on site and submit a full supervision report with related annexes and working paper as per the most recent IFAD outline and format.

DOCUMENTATION

The following documentation will be made available to consultants prior to the assignment:

- Project design report (full set)
- Loan agreement and minutes of negotiation
- Support mission reports/minutes (June 2018)
- AWPB (2018)
- PIM (Chinese)

Suggested mission schedule:

- 7 Nov: Arrival of team in XiAn, Shaanxi Province
- 8-9 Nov: Meeting/discussions in XiAn
- 10-14 Nov: visiting/consultation in counties (by train/car)
- 15 Nov: consultations/discussion in XiAn
- 16 Nov: Mission departure

Schedule of IFAD SIS mission to SPRAD, November 2018

Date	Activity
7 Nov Wed	Mission assembled in XiAn
8 Nov Thu	Briefing by PPMO and consultations with partners and consultants in XiAn
9 Nov Fri	Travel to Shanyang Count and field visits (herbal medicine, pig, tea production)
10 Nov Sat	Visit Danfeng County and field visits (rural community, poultry production), return to XiAn
11 Nov Sun	Travel to Zhenba county (8 hrs drive)
12 Nov Mon	Consultation and field visit in Zhenba (tea, port, beef cattle production), travel to Xixiang County
13 Nov Tue	Consultation and field visits in Xixiang County (fungus production), travel to Hanyin county
14 Nov Wed	Consultations and field visits in Hanyin County (herbal medicine, rice, konjac etc.)
15 Nov Thu	Travel to XiAn (5 hrs) and wrap-up in the afternoon
16 Nov Fri	Mission departure