

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	People's Republic of China	Project Title:	Inclusive and Sustainable Livestock Farming Project
Lending/Financing Modality:	Loan	Department/ Division:	Private Sector Operations Department / Office of the Director General

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The project will support Lihua's \$183 million investment plan during 2017–2019, including (i) breeder farm expansion, (ii) contract farming expansion, (iii) animal waste treatment capital expenditure, and (iv) animal health and food safety capital expenditure. The project will promote and demonstrate the operation of modern livestock farming with stronger smallholder farmer inclusion, environmental sustainability, animal health, and food safety. The project is consistent with the development goals of the Thirteenth Five-Year Plan, 2016–2020 of the People's Republic of China (PRC), that is, inclusive and sustainable growth and a moderately prosperous society by 2020 and envisaged strategic orientation for the agriculture sector. The project is aligned with the Midterm Review of Strategy 2020 of the Asian Development Bank (ADB), which emphasizes the need to support food security and agricultural productivity and promote food safety and quality standards.¹ The project is also consistent with ADB's country partnership strategy, 2016–2020 for the PRC. To support rural development for inclusive economic growth, ADB will help the PRC develop suitable methods to (i) modernize agriculture, (ii) promote circular agriculture through the value chain to reduce resource inputs and waste outputs, (iii) control pollution, and (iv) improve food safety, including related infrastructure and capacity development. Through its private operations, ADB will support agribusiness projects that enhance productivity, the inclusion of smallholder farmers in value chains, and food safety.² The project is also fully aligned with ADB's Operational Plan for Agriculture and Natural Resources, which stresses that ADB's private agribusiness investments "have the potential to benefit millions of smallholder farmers directly and contribute to public goods, such as food security, food safety, and reduced soil and water pollution, thus benefiting the wider [developing member country] populations".³

B. Poverty Targeting:

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

The project will promote and demonstrate the operation of modern livestock farming with smallholder farmer inclusion, environmental sustainability, animal health and food safety. More smallholder farmers are expected to be engaged in the Project's contract-farming activities, which will result in better incomes for the participating contract farmers.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. Agriculture has developed rapidly and contributed substantially to the PRC's overall economic development. The modernization of agriculture in particular has contributed fundamentally to food security and improved rural livelihoods. This project will demonstrate the operation of modern livestock farming linked with stronger smallholder farmer inclusion, environmental sustainability, animal health, and food safety. The development of new farms will help expand livestock production for local consumers and create new opportunities for the local labor force during the construction and operations phases. The project will increase the number of contract farmers engaged by Lihua from 4,500 in 2015 to 5,600 in 2020. Lihua's contract farming model provides an attractive and stable source of income for participating farmers. Lihua aims to set the annual farmer's income at a minimum of 50% more than the average urban worker's salary in the region. This means that Lihua guarantees an annual income of at least CNY100,000 per household, or around CNY24,400 per capita, 26% more than the PRC's median per capita income of CNY19,281 in 2015.⁴ However, since Lihua targets households in rural low-income segments, households typically more than double their income after joining Lihua's contract farming scheme.

2. Impact channels and expected systemic changes. The establishment of new Lihua chicken and pig farms will create new employment opportunities for the local labor force. The project will also help Lihua develop new contract farming arrangements with 1,000 chicken farmers and 100 pig farmers (1,100 new farmers). Lihua provides contract

¹ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

² ADB. 2016. *Country Partnership Strategy: Transforming Partnership: People's Republic of China and Asian Development Bank, 2016–2020*. Manila.

³ ADB. 2015. *Operational Plan for Agriculture and Natural Resources: Promoting Sustainable Food Security in Asia and the Pacific in 2015–2020*. Manila (p. 15).

⁴ National Bureau of Statistics of China. 2016. *China's Economy Realized a Moderate but Stable and Sound Growth in 2015*. Beijing.

farmers with farm inputs (chicks, piglets, feed, and veterinary products) and agriculture technical extension services. Lihua ensures decent and stable earnings for farmers by guaranteeing a minimum profit of CNY2 per chicken and CNY40 per pig in either normal or adverse market conditions. Lihua aims to increase the annual farmer's income to 50% more than the average urban worker's salary in the region.

3. Focus of (and resources allocated in) the PPTA or due diligence. ADB team conducted due diligence to understand the environmental and social impacts of the project. In addition, a qualified and experienced external expert was engaged to conduct a corporate audit on the company's existing environment and social policy, procedures, and operations. The audit is expected to identify corrective actions required to ensure adequacy and compliance of the procedures and operations to the ADB SPS and other social requirements, including labor and gender aspects.

4. Specific analysis for policy-based lending. Not applicable.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program?

The project is anticipated to have some gender elements. In 2015, Lihua employs about 3,000 staff of which 39% are women. With the development of new farms and new feed plants, the Project is expected to employ more women especially in the areas of finance, human resource, and technical laboratory work. Lihua upholds gender equality and provides equal employment opportunities for men and women during project design, construction supervision, and operation. Lihua complies strictly with the Law of the People's Republic of China on the Protection of Rights and Interests of Women. With regard to contract farmers, 60% are female and most of them are aged more than 50 years old. Most of the contract farmers that Lihua engages are couples, which allow the wives to equally contribute to the household family income.

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

Yes No There is a limited opportunity to integrate gender equity measures in the project design.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes No Lihua is expected to create employment, and some positions will be offered to qualified women applicants especially in the areas of finance, human resource and laboratory work. Lihua will provide equal employment opportunities for men and women during project design, construction supervision, and operation. Women farmers are also expected to participate in the contract farming activities of the project.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity) EGM (effective gender mainstreaming)

SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

The potential project stakeholders include land lessors/village collectives, nearby communities, local government units, and contract farmers. Lihua will negotiate with the villagers, village committee, and local government regarding the lease and procurement of land for the new farms. Potential contract farmers will also be consulted and trained by Lihua.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded? Lihua will incorporate in its environmental and social management system (ESMS) the process of communication and engagement with various stakeholders, including land lessors and village collectives, nearby communities, local government units, and contract farmers.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?

Information generation and sharing Consultation Collaboration Partnership

The opportunity to involve civil society organizations is limited, as the project will be focusing on (i) breeder farm expansion, (ii) contract farming expansion, (iii) animal waste treatment capital expenditure (capex), and (iv) animal health and food safety capex.

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? Yes No

The project will involve smallholder farmers to be part of the contract farming activities of the Project, which is expected to result in better incomes for their household.

<p>V. SOCIAL SAFEGUARDS</p> <p>A. Involuntary Resettlement Category <input type="checkbox"/>A <input checked="" type="checkbox"/>B <input type="checkbox"/>C <input type="checkbox"/>FI</p> <p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Involuntary resettlement impacts are not envisaged for the new farms because Lihua will avoid basic farmland and will lease unused or abandoned lands on a willing lessor-willing lessee basis to minimize impacts to the farmers. In unavoidable cases where basic farmland will be used, village collectives typically provide replacement land to these villagers to minimize impacts on their livelihoods. For the feed processing plants, Lihua will procure state-owned land from the local government. Involuntary resettlement impacts may be induced if the local government will obtain collective land from farmers and reallocate or lease those to the company. On the contract farms, land for the chicken farms will be provided by the farmers while land and facilities for the pig contract farmers will be built in Lihua's corporate farm. Lihua's investment transactions that would entail significant involuntary resettlement impacts (category A) will be excluded from ADB finance.</p> <p>2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process? <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix <input checked="" type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> None Lihua will adopt its ESMS prior to ADB's first disbursement, and it will establish an Environment and Social unit at the corporate and farm levels to ensure that the ESMS is implemented. The ESMS will include resettlement policy principles and procedures.</p>
<p>B. Indigenous Peoples Category <input type="checkbox"/>A <input type="checkbox"/>B <input checked="" type="checkbox"/>C <input type="checkbox"/>FI</p> <p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Impacts on indigenous peoples are unlikely, and Lihua's operations are not expected to have impacts on identity, culture, and natural resource-based livelihoods. New farms are expected to be developed in the provinces that are not ethnic minority concentrated provinces.</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No .</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process? <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social Impact matrix <input checked="" type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> None</p>
<p>V. OTHER SOCIAL ISSUES AND RISKS</p> <p>1. What other social issues and risks should be considered in the project design? <input type="checkbox"/> Creating decent jobs and employment <input checked="" type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____</p> <p>2. How are these additional social issues and risks going to be addressed in the project design? Lihua and its contractors will comply with national labor laws and adopt measures to adhere to the core labor standards in compliance with ADB's Social Protection strategy (2001).</p>
<p>VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT</p> <p>1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No The terms of reference of the external expert who carried out the environment and social audit report covered environment and social safeguards issues and other social dimensions including labor and gender.</p> <p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence? An external expert was engaged to carry out environment and social audit of the company and its existing operations. ADB team also participated in the due diligence mission.</p>