

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	People Republic of China	Project Title:	Environmentally Sustainable Agricultural Input Distribution Project
Lending/Financing Modality:	General Corporate Finance	Department/Division:	Private Sector Operations Department/OPSD

I. POVERTY IMPACT AND SOCIAL DIMENSIONS
<p>A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy</p> <p>The project is aligned with ADB's Midterm Review of Strategy 2020, which emphasizes the need to contribute to food security and agricultural productivity, promote food safety and quality standards. The project is also consistent with ADB's PRC Country Partnership Strategy 2016-2020. ADB will support rural development by promoting good practice to strengthen agricultural productivity, market connectivity, and climate resilience, which will help to generate employment, increase incomes, and reduce inequality between urban and rural areas. ADB will develop suitable methods to (i) modernize agriculture by applying high efficiency agriculture inputs and mechanical equipment; (ii) promoting circular agriculture through value chains to reduce resource inputs and waste outputs, (iii) fostering knowledge sharing between public sector and private sector; and (iv) promoting climate resilience through agricultural infrastructure, technology, and practices. Through this project, ADB will support the sustainable development of knowledge intensive agriculture in the PRC through the application of science and technology and agriculture services that Crop Production Services (CPS) would provide. The project is aligned with ADB's Operational Plan for Agriculture and Natural Resources, which stresses that ADB's private sector 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.</p>
<p>B. Poverty Targeting:</p> <p><input checked="" type="checkbox"/> General Intervention <input type="checkbox"/> Individual or Household (TI-H) <input type="checkbox"/> Geographic (TI-G) <input type="checkbox"/> Non-Income MDGs (TI-M1, M2, etc.)</p> <p>ADB's support for this project will help promote modern and environmentally sound agricultural production with more efficient agricultural inputs in the PRC. It will improve the accessibility and affordability of high-efficiency environmentally sustainable compound fertilizers and other quality agricultural inputs to around three million smallholder farmers in eight PRC provinces. It will benefit (i) the local economy through improved agricultural production and marketing, (ii) improve agricultural yield resulting in direct benefits to farmers in terms of improved income and livelihoods and (iii) the local labor force through creation of new employment opportunities. It will also support the application of compound fertilizers which reduce nutrient loss, are environmentally safe and cause minimal environmental pollution.</p>
<p>C. Poverty and Social Analysis</p> <p>1. Key issues and potential beneficiaries. Agriculture has developed rapidly and contributed substantially to the PRC's overall economic development. However, the transition to modern agriculture has not kept pace with urbanization and industrialization in the country. In 2016, the per capita income of urban households was 2.7 times that of rural households. In addition, the country with a population of over 1.4 billion, faces challenges of land scarcity and degradation. Limitations of cultivated land and water resources, the adverse effects of climate change, population growth and ecological vulnerabilities create impediments to the PRC's food production thereby posing challenges to food security. PRC fertilizer industry is characterized by over-usage of simple fertilizers which has reduced soil fertility and crop yields and causes environmental damage to farmland and water pollution thereby threatening public health and food production. Intensifying food production in an environmentally safe manner with minimal negative environmental impact using compound fertilizers will reduce nutrient losses and environmental pollution. It will enhance production thereby improving rural livelihoods, reducing income and economic disparities and contributing to the overall poverty reduction.</p> <p>The project will improve the accessibility and affordability of high-efficiency environmentally sustainable compound fertilizers and other quality agricultural inputs to around 3 million smallholder farmers in eight PRC provinces.</p> <p>2. Impact channels and expected systemic changes. The project will promote the efficiency of agriculture activities by providing agricultural services to assist smallholder farmers in precision farming throughout the entire agricultural cycle. In addition, the development of CPS and Upgrade Plants (Ups) will create new employment opportunities for the local labor force in the areas where these units will be located. The direct impact on farmers will be through lower input cost and increased farm incomes.</p> <p>3. Focus of (and resources allocated in) the due diligence. ADB team and experienced external experts conducted the corporate environmental audit and assessed the various impacts of the project. This assessment also included</p>

the review of existing systems and processes of the company and its alignment with ADB SPS requirements. Actions have been identified to ensure 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? Agricultural activities involve participation of women (especially in the case of small farmers). Though direct benefits to women cannot be attributed or quantified to the project, the lower input cost and increased yield will improve the overall household incomes thereby improving their socio-economic conditions and overall development indicators/index for women groups. The parent company of the borrower actively promotes employment of local women in the area in different work streams. Currently women constitute 23% of the total employees of the company. The company plans to increase the participation of women in the workforce and aims at a target of 30% in the coming years.

2. Does the proposed project or program have the potential to contribute 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. The corporate Environment and Social Management System (ESMS) audit has assessed that the company's operations are largely compliant with the local labour laws. Individual as well as group interactions with women employees suggest that there is absence of discrimination between men and women related to recruitment, wages and benefits, trainings, and working conditions. Several key positions in both companies are held by women

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

Yes No

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 stakeholders include small farmers, consumers, retailers, state and provincial governments and company employees.

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? The company will incorporate in its environmental and social management system (ESMS) the process of communication and engagement with various stakeholders including small farmers. The company will educate and disseminate information on the benefits of using compound fertilizers to the communities in the eight PRC provinces. Information, education and communication tools and methods will be used to proactively reach out to farmers and communities engaged in agriculture and horticulture activities.

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?

L Information generation and sharing Consultation Collaboration Partnership

The opportunity to involve civil society organizations is limited. However, the ESMS will include a procedure to consult with various stakeholders, assign responsibilities to help implement consultation activities, and address any concerns from stakeholders, including civil society organizations, if any

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

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category A B C FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? Yes No The UPs will be located either within existing premises and facilities or in adjoining lands belonging to industrial parks/zones. No Involuntary Resettlement issues are envisaged on account of the operational and expansion plans of the company.

2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?

Resettlement plan Resettlement framework Social impact matrix

Environmental and social management system arrangement None

The screening procedure will be developed and included in the ESMS to avoid lands that displacement issues. Involuntary resettlement issues are, hence, not envisaged for this project.

B. Indigenous Peoples Category A B C FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? Yes No

1.2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No. No Indigenous People issues are envisaged on account of the operational and expansion plans of the company

3. Will the project require broad community support of affected indigenous communities? Yes No

4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?

Indigenous peoples plan Indigenous peoples planning framework Social Impact matrix

Environmental and social management system arrangement None

The screening procedure will be developed and included in the ESMS to avoid IP lands. Indigenous Peoples issues are, hence, not envisaged for this project.

V. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the project design?

Creating decent jobs and employment Adhering to core labor standards Labor retrenchment

Spread of communicable diseases, including HIV/AIDS Increase in human trafficking Affordability

Increase in unplanned migration Increase in vulnerability to natural disasters Creating political instability

Creating internal social conflicts Others, please specify _____

2. How are these additional social issues and risks going to be addressed in the project design? The project will contribute to the labor market through (i) the creation of new job opportunities to support the network of production, distribution and retail business activities, and (ii) temporary employment of local workers during the construction. The company and their contractors commit to comply with national labor laws and, pursuant to ADB's Social Protection Strategy¹, will take measures to comply with internationally recognized core labor standards.

VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT

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?

Yes 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.

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 impact assessment. ADB team also participated in the due diligence mission.

¹ ADB. 2003. *Social Protection*. Manila (adopted in 2001).