

## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	People's Republic of China	Project Title:	Shanxi Inclusive Agricultural Value Chain Development Project
Lending/Financing Modality:	Project Loan	Department/Division:	EARD/EAER

### I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The project will support the strategy of the People's Republic of China (PRC) to build a harmonious and moderately prosperous society through livelihood improvement and regionally balanced and environmentally sustainable growth. The project is aligned with the PRC's five-year plans and the decisions of the third plenum of the Eighteenth Communist Party of China Central Committee (2013) which emphasizes the acceleration agricultural development and poverty reduction. The project is also aligned with the Shanxi provincial rural poverty reduction program (2011–2020, SPRP) and will support the implementation of the SPRP by the Shanxi Poverty Alleviation and Development Office towards achieving the PRC's target of eliminating poverty by 2020. The project is expected to help the Shanxi Poverty Alleviation and Development Office enhance its financing and capacity to deliver and sustain results on the SPRP through inclusive value chain development for featured agricultural products that supports the PRC's rural development approach to generate job opportunities and diversify income-generating opportunities for farmer households, especially the poor. The project is aligned with the country partnership strategy, 2016–2020 for the PRC of the Asian Development Bank (ADB) that supports the government's overarching strategic goal by focusing on inclusive growth; and ADB's operational plan for agriculture and natural resources, which promotes agricultural value chain (AVC) development for employment generation and livelihood improvement in rural areas.

#### B. Targeting Classification

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

The project is classified as target poverty reduction project emphasizing new income-generating opportunities for the vulnerable poor (\$2 according to the international poverty line at 2008 purchasing power parity) through geographical targeting. All subprojects are implemented with poor people in 21 project counties (11 are national- or provincial-level poor counties; and the rest are counties where other vulnerabilities prevail, such as high incidence of indigenous people) in poverty stricken areas, where potential project agribusiness companies (PACs) and cooperatives are located. While the project will also contribute somewhat to the reduction of severe poverty (\$1.25 international poverty line), its impact on vulnerability (\$2–\$3 international poverty line) will be significant. The project preparatory technical assistance (PPTA) will collect detailed data on poverty status and impacts for the various low income groups.<sup>1</sup>

#### C. Poverty and Social Analysis

**1. Key issues and potential beneficiaries.** Rural poverty is still prevalent in Shanxi Province. Its rural poverty incidence (17.1%) is substantially higher than the national average of 10.2%. Out of 119 counties and districts in the province, 58 counties (49%) are still designated as national- or provincial-level poor counties. Limited viable economic opportunities are the main cause of rural poverty, which has been aggravated by the declining mining business. A great majority of rural households (3.29 million or 79.9% of the total) rely on agriculture as their main source of income. However, the sector does not generate sufficient income-generating opportunities for the rural population. Despite the substantial rural population engaged in the sector, it contributes only 6.2% of the provincial gross domestic product due to the low productivity and value addition. The expected beneficiaries of the project are local people and farmer households (individually or as members of cooperatives), and PACs and cooperatives which will be supported by the project. The long-term financial and technical supports are the main needs and constraints to be addressed by the project for the PACs, cooperatives, and farmers. The project will help local people and farmers earn stable and adequate income (e.g., stable sales of farm products or employment at the agribusiness companies).

**2. Impact channels and expected systemic changes.** The project is designed to engage the PACs and cooperatives to attain productivity gain and let them share the gain with farmers who supply raw materials to them. Channels of impact on them (e.g., productivity gain and stable raw material supplies) are financing sourced from the ADB loan, capacity building, and strengthened cooperation with other AVC stakeholders, particularly farmers. Channels of impact on farmers and local community will result from strengthened business relationships with the PACs and cooperatives that those farmers and local community cooperate. Farmers, including the poor, women, and vulnerable, will have a stable raw material buyer–seller partnership with those PACs and cooperatives; and will receive training and agricultural input from those PACs and cooperatives.

<sup>1</sup> Poverty data are based on the 2008–2011 purchasing power parity. New calculations from the World Bank (of late 2015) which raised the \$1.25 poverty line (at purchasing power parity [PPP] 2008) to \$1.90 (at PPP 2012) and the \$2.00 poverty line to \$3.00 are not yet reflected, as they are not yet accepted by the government and in the international discussion.

Other farmers will receive land rent to those PACs and cooperatives through voluntary leasing. Local people will be employed by those PACs with expanded operation. The project will assess relationship between those PACs and cooperatives, and the farmers through value chain analysis; and incorporate inclusive measures, such as buying rate favorable for farmers, in the PAC- or cooperative-specific subproject investment plan. The project will bring systemic changes to agribusiness and rural employment through the introduction of inclusive business (IB) approach, which promotes pre-selected PACs that are financially viable and sustainable to make social impact through the employment generation and diversification of income-generating opportunities. The project will identify the IB-model PACs among agribusiness companies that lead respective project AVCs which will be the PACs to generate productivity gains; and as a result, pay higher wages to their employees or relevant project AVC participants such as raw material suppliers (i.e., farmers) than the going market rates to improve the livelihood of the poor and low-income population. Further detail on direct and indirect impact channels, will be collected during the PPTA. The PPTA will also assess any potential barriers in accessing project benefits by the poor, and will recommend measures to ameliorate these.

**3. Focus of (and resources allocated in) the PPTA or due diligence.** About 2 person-months of international and 3 person-months of national consultants' inputs are included in the PPTA to undertake the poverty, social, and gender analysis (PSA) and design measures to address social issues and target benefits to the poor and vulnerable. In addition, the PPTA will include the IB specialists that will help with business plan development and ex-ante impact assessment as well as subproject selection based on social impact criteria. The focus of the PSA will be (i) collection of baseline socioeconomic conditions in the project area; (ii) potential impacts and opportunities for the project beneficiaries, focusing on the poor and vulnerable groups; and (iii) project design measures to maximize poverty reduction and social development impacts.

## 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?

Women represent an increasing proportion of agricultural laborers due to the migration of men to non-farm employment. They also remain responsible for non-paid activities, such as caring for the left-behind elderly and young children. The project will provide opportunities to participate in the AVCs, including employment at the PACs. During the PPTA, consultations will be held with farmer groups and local people, particularly women, to confirm their priority needs and opportunities. All consultations will include women, and a proactive approach will be adopted to disseminate information. The All China Women's Federation is expected to take part in preparation and implementation of project activities, ensuring women's effective participation in consultations, project design, and implementation.

2. Does the proposed project 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 Please explain.

The PPTA will assess the situation of gender issues in the project areas. A gender action plan will be prepared and subsequently included in design and monitoring framework. The gender action plan will include measures for women in terms of employment, capacity development, and participation in farmer's cooperatives under the project.

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

Yes  No Please explain. The project is not expected to have adverse impact on women. It is expected to benefit women generally. The PPTA will reconfirm this.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity theme)  EGM (effective gender mainstreaming)

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

The gender classification will be revisited with the executing agency during the processing as the complexity in technical features (i.e., value chain analysis and the IB approach) will require additional workload for the executing agency.

## 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 main stakeholders are local governments and line agencies at provincial, municipal, county, and township levels, the PACs and cooperatives, farmers, and other local people who lease their land to the companies and cooperatives and/or will be employed by the companies. Stakeholders will be consulted to ensure that the project design corresponds to their needs. Farmers and other local people will be consulted particularly to ensure that they actively participate in and benefit from project activities.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly the poor, women, and vulnerable? What issues in the project design require participation of the poor and excluded?

The project will proactively support and seek participation of farmer cooperatives and farmer households, including the poor, women, and vulnerable, to ensure that their needs and concerns are addressed and that they can benefit from the project activities. A consultation and participation plan will be developed by the PPTA.

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

Major organizations relevant to the project are farmer's cooperatives, and the local branches of the All China Women's Federation. These organizations will participate in project design and implementation.

Information generation and sharing (H)  Consultation (H)  Collaboration (M)  Partnership (L)

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

The PPTA will assess if there are any constraints for the poor and vulnerable farmers to participate in project activities, including partnerships with the PACs and cooperatives.

#### IV. SOCIAL SAFEGUARDS

**A. Involuntary Resettlement Category**  A  B  C

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement?  Yes  No

The project will not involve involuntary land acquisition resulting in physical or economic displacement. The PPTA will confirm if there will be any issues triggering ADB's Safeguard Policy Statement (2009) principles on involuntary resettlement; and will conduct and/or prepare necessary assessment and an action plan, if needed. However, the PACs and cooperatives requiring land will negotiate with farmers to obtain land use rights through lease or contracts with village collectives and/or farmers. Assessment will be conducted of the local land leasing and contract farming systems to ensure (i) ADB's involuntary resettlement policy is not triggered; and (ii) that land leasing, contracting, and/or transfer is voluntary, transparent, fair, and beneficial for farmers.

2. What actions are required to address involuntary resettlement as part of the PPTA or assessment process?

Project safeguard system assessment and actions  None (for land leasing only)

**B. Indigenous Peoples Category**  A  B  C

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

The project is not expected to impact any ethnic minorities and thus would not trigger ADB's Safeguard Policy Statement (2009) requirement on indigenous peoples. This is because ethnic minorities comprise less than 1% of the population in Shanxi. During the PPTA, it will be confirmed that the project does not have impact on the ethnic minorities.

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain?  Yes  No

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

4. What actions are required to address risks to indigenous peoples as part of the PPTA or the project assessment process?  Project safeguard system assessment and actions  None

#### 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 (M)  Adhering to core labor standards (M)  Labor retrenchment  
 Spread of communicable diseases, including HIV/AIDS (L)  Increase in human trafficking  Affordability (L)  
 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 PPTA will assess additional issues marked above. The PPTA will design project ensuring that employment opportunities are provided for local population, particularly for the poor and vulnerable households; and that national labor standards are applied. Contract farming mechanisms and land leasing arrangements will be reviewed to ensure that they are fair, transparent, and provide benefits to farmers.

#### VI. PPTA OR ASSESSMENT RESOURCE REQUIREMENT

1. Do the terms of reference for the PPTA contain key information needed to be gathered during PPTA to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (vi) other social risks. Are the relevant specialists identified?  Yes  No

2. What resources (e.g., consultants, survey budget, and budget for workshop(s)) are allocated for conducting poverty, social, and gender analysis, and participation plan during the PPTA or the project assessments?

2 person-months of international and 3 person-months of national consultants' inputs for the PSA, land-leasing contract, and contract farming system assessment will be required.