



# Environmental and Social Review Summary

## Concept Stage

### **(ESRS Concept Stage)**

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**BASIC INFORMATION**

**A. Basic Project Data**

Country	Region	Project ID	Parent Project ID (if any)
China	EAST ASIA AND PACIFIC	P169758	
Project Name	Henan Green Agriculture Finance Fund		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Agriculture	Investment Project Financing	10/15/2019	3/26/2020
Borrower(s)	Implementing Agency(ies)		

Proposed Development Objective(s)

The proposed objective of the project is to strengthen the green agriculture initiatives in Henan.

Financing (in USD Million)	Amount
<b>Total Project Cost</b>	<b>400.00</b>

**B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?**

No

**C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]**

The project will contribute to development of a green agriculture financial mechanism for promoting ‘green agriculture growth’ in Henan Province through market transformation and private sector engagement. The project design brings together the twin strategies for creating enabling environment for green agriculture growth i.e. ‘funding through creation of specialized investment vehicles’ and ‘knowledge driven technical assistance (TA)’. The TA will help putting in place standards and monitoring protocols, mechanisms for market development, fostering innovation and partnership development and institutional and fiduciary systems for achieving institutional performance and governance benchmarks complying with China’s green finance system regulations and global best practices.

**D. Environmental and Social Overview**



D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]  
The proposed project will support activities to reduce pollution and improve food safety and quality of agricultural products in Henan Province. Henan Province is in the central part of China, its topography slopes from the west to the east. It is surrounded by mountain ranges to the north, west and south, while the middle and eastern parts made up by alluvial plains. Among its total land area 167,000 km<sup>2</sup>, plain and basin represents 55.7%, while the mountains and hills representing 26.6% and 17.7% respectively. Henan Province is in the area influenced by the subtropical and warm temperate climate, characterized by distinct seasons and long frost-free period. The yearly temperature averages 10.5-16.7 OC and the annual precipitation averages 407.7 mm to 1,295.8 mm. Henan is a water scarce province. The total water resources in the province is 40.35 billion m<sup>3</sup>, ranking the 19th in China; while the water resource per capita is 383 m<sup>3</sup>, only one fifth of the national average. Henan is well renowned for its long history, which can be dated back to the origin of the Chinese culture. The arable land has already been intensively cultivated to its best extent for thousands of years. However, given its huge population as high as 108.528 million, Henan is regarded as a farmland shortage province in China, with the farmland area per capita being only 1.23 mu (equivalent to 853 m<sup>2</sup>) versus the national average of 1.52 mu (1,013 m<sup>2</sup>) per capita. The investments under this project are targeted on eligible enterprises in crop and livestock sectors within Henan Province covering full value chain (from technical input, equipment and materials, to production, processing and storage and circulation). At current concept stage, the potential sub-project list is unknown. It is understood that HADFIC will make both equity investment and loan to targeted enterprises, most of which are privately owned new start-ups and generally considered low-medium in size. The agricultural enterprises for production, processing and circulation of agricultural products are typically located in designated industrial parks, away from sensitively environmental and social receptors. Sustainable production activities (e.g. improved soil nutrients management, irrigation water control, precision agriculture, etc.) will happen on farmland which normally will be consolidated through land leases from rural households who have chosen to leave farming in order to achieve appropriate-scale agricultural operations. However, it is possible that in some cases (e.g. national level agro-processing enterprises) some of primary suppliers of the financed enterprises could be located beyond Henan Province, in areas, which are specialized in producing agricultural products. The scale, type and geographical coverage of sub-subprojects will be further reviewed when the draft pipeline of potential sub-projects will be available during the project preparation. Henan Province, located in central China, is a traditional ethnic Han Chinese dominated province. As of 2018, there are 55 ethnic minorities living in Henan Province, accounting for 1.22% of the total population in the province and of which ethnic Hui is the largest ethnic minority group. Ethnic Hui accounts for 85% of the total population of ethnic minorities in Henan .

#### D. 2. Borrower's Institutional Capacity

The project will be implemented by the Henan Agriculture Development Financing Investment Corporation (HADFIC), which is the subsidiary of the Henan Agriculture Investment Group Co. Ltd (HAIGC) -- a wholly state-owned agricultural investment company. The HADFIC operates currently total of 26 funds, covering a range of sectors. About 15% of the portfolio is dedicated to agriculture, including agro-processing, inputs and agricultural equipment producers. The HADFIC has a 13-step process from identification to exit that appears to be well designed and in line with good funds management. The HADFIC may engage with sub-FI if it needs to expand its client base for sub-project pipeline development. The decision to engage with sub-FI will be made by time of Appraisal. The preliminary findings through the discussion with the representatives of the HADFIC indicate that certain capacity on environmental management has been established. Initial document review indicated that HADFIC does not have in place any Environmental and Social Management System (ESMS). The risk staff often retrieve relevant papers or consult with experts for preliminary screening and scoping of the environmental and social risks and impacts that is only limited to narrow areas such as natural environment, land permit, wage payment, provision of social insurances for employees, and fire-fighting permit. Due diligence review is carried out after concept review of potential investment and primarily



relies on inputs of external lawyers. Within HADFIC, investment risks are supervised by corporate Risk Control Department with three staff, who don't have prior experience with the World Bank environmental and social policies, the new World Bank Environmental and Social Framework (ESF) or international EHS requirements. Thus, they are lacking the necessary knowledge to manage the environmental and social risks. A value added of the project will be the establishment of an ESMS in alignment with ESF and proportionate to the risks of the project. Appraisal stage Environmental and Social Commitment Plan (ESCP) will set out actions to establish E&S organizational arrangement and enhance organizational capacity. A technical assistance (TA) component under the project has been arranged to support HADFIC and the sub-FI to establish and maintain E&S organizational capacity for implementing the ESMS. The HADFIC is willing to improve its capability on E&S management and has made commitment to allocate adequate resources and ensure adequate technical expertise, both in-house and external experts to support implementation of ESMS. Institutional capacity and adequacy of existing ESMS of the likely sub-FI will also be assessed during project preparation once it is confirmed. The sub-FI should demonstrate appropriate capacity for E&S risk management in line with the relevant ESSs, inter alia ESS9.

**II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS**

**A. Environmental and Social Risk Classification (ESRC)**

Substantial

**Environmental Risk Rating**

Substantial

The project is designed to reduce the pollution by agricultural activities, improve the food safety and quality of agricultural products, and to reduce the GHG emission in the two major agricultural sectors in Henan, e.g. cropping and livestock, through investment in the full value chain covering the production of primary products; processing, storage and distribution; production of materials/equipment and; scientific research, e.g. livestock manure treatment technologies.

Although the specific information of each sub-project is not clear at current stage, the sub-projects are not expected to be in or near critical sensitive areas, e.g. critical natural habitats and legally protected tangible cultural heritages.

Overall, the project will bring about positive environmental and social benefits in terms of reducing the pollution from agricultural productions, reducing the GHG emissions, and reducing health risk for consumers by improving the food safety and quality.

As the project will involve small or medium size civil works for processing and/or storage facilities, the potential environmental impacts in construction phase may include the dust, noise, solid waste, and wastewater, and social disturbance, such as the traffic safety. Other potential adverse environmental impacts could include noise, dust, solid waste, wastewater generated from the manufacturing of equipment, high-efficiency fertilizers and biocides as well as processing of agro-products; occupational health concern regarding the mechanical damage by operating machine tools, inhaling fine particles in processing of agro-products, and toxicity by production, storage and use of biocides which is albeit low toxic to human beings. The probability for such risks is very low, and the impacts are small given their size. In addition, the use of multi-resistant varieties will cause a concern on both environmental and social aspects. The specific information is not clear for these varieties, however, many reports published indicate that misuse of such seeds did cause significant loss or reduction of yield, in China, and the ecological risk due to genetic

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migration leading to privileged species to local ecological communities. The criteria for assessing and excluding any invasive species and screening for risk categorization will be developed in the ESMS.

The potential environmental impacts are mostly temporary, predictable and/or reversible, and the nature of the Project does not preclude the possibility of avoiding or reversing them. They are medium in magnitude and/or in spatial extent. These adverse impacts can be readily and reliably managed through the environmental mitigation hierarchy.

The HADFIC has established a good procedure for fund management where the environmental risk is identified by the risk control department. The risk control department has acquired some experience and knowledge on the environmental risk management, primarily on the screening and scoping, from the similar projects. Currently there are only three risk staff in the risk management department for all existing portfolio, and their workload will be significantly increased by this project, which may handicap the environmental risk management. The HADFIC is willing to improve its capability on E&S management and has made commitment to allocate adequate resources. The capacity of the environmental management of the HADFIC and its sub-FI will be further assessed in line with the ESS9 , with gap identification and analysis to be done in the preparation stage to inform the development of the capacity enhancement plan before the appraisal.

The overall environmental risk of the project is currently deemed to be Substantial, which may need to be revised when further information becomes available during project preparation.

**Social Risk Rating**

Substantial

The loan may be invested in a large number of activities, and the size of each sub-project would not likely be large. Agro-processing and logistics sub-projects are normally located in designated industrial areas and potential investment on improving sustainability of agriculture practices will happen on existing farmland, which are normally away from socially sensitive areas. The main social risks and impacts for the project are related to (a) land acquisition and resettlement for establishing facilities and structures by targeted enterprises, (b) leasing of land use rights (LUR) and land consolidation for appropriate-scale farming, (c) management of direct workers and primary supplier workers, (d) community health and safety and (e) social implications relating use of multi-resistant varieties. Land acquisition and resettlement would happen upfront before determination of the sub-projects; however, documentation should be provided to ensure compliance with national regulations. Leasing of LUR, different from involuntary land acquisition and resettlement, is carried out at village level and Henan Province has put in place relatively sound laws and regulations to facilitate this process. However, the level of regulation enforcement would vary from one village to another, inter alia in terms of public consultation, and arrangement of rental payment. Adequacy of current land leasing system is subject to further assessment during Preparation. The project would introduce a few direct workers and the number of primary supplier workers would be larger, which potentially increase the risks related to working conditions and community health and safety if it is not well managed. Use of multi-resistant varieties would induce social implications which will be further assessed when “green agriculture” is defined under this project and there are more information on project activities. Although certain social elements are considered through investment review, proceeding and follow-up supervision, initial due diligence found HADFIC does not have in place ESMS and the staff are lacking knowledge on social requirements under ESF. Currently, social risk review and identification highly rely on external lawyers. HADFIC is highly committed to implement a timebound action plan under the Technical Assistance (TA) component to bridge E&S capacity and competence gaps with the support of World Bank and ensure the project to follow both domestic regulations and new ESF requirements. The



overall social risk of the project is currently deemed to be Substantial, which may need to be revised when further information becomes available during project preparation.

## B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

### B.1. General Assessment

#### ESS1 Assessment and Management of Environmental and Social Risks and Impacts

##### **Overview of the relevance of the Standard for the Project:**

The project will bring about significant positive environmental and social benefits in terms of reducing the pollution from agricultural production, reducing the GHG emission, and reducing health risk for public consumers by improving the food safety and quality. The fund will be invested in a large number of activities at the size ranging from small to medium across Henan Province. The potential adverse environmental impacts at construction phase are related to the infrastructures of small or medium size for the processing centers and storage/logistics facilities. They could include the dust, noise, solid waste, and wastewater, and social disturbance, such as the traffic safety. The potential adverse environmental impacts expected to be produced in the operation of the activities include the noise, dust, solid waste, wastewater to be generated from the manufacturing of equipment, high-efficiency fertilizers and biocides as well as processing of agro-products; fire and explosion due to either leakage of biogas from anaerobic digesters or static in flour processing; occupational health concern regarding the mechanical damage by operating machine tools, inhaling fine particles in processing of agro-products, and toxicity by production, storage and use of biocides albeit low toxic to human being. The published studies and papers indicate that the probability for such risks is very low, and the impacts are small given their sizes. It is expected that this project will not cause significant land conversion and development of new farmland, thus the likelihood of presence of critical natural habitats and legally protected tangible cultural heritages in the project area is very low. In addition, the use of multi-resistant varieties will cause a concern on both environmental and social aspects. The specific information is not clear for these varieties, however, many reports published indicate that misuse of such seeds did cause significant loss or reduction of yield, in China, and the ecological risk due to genetic migration leading to privileged species to local ecological communities. The criteria for assessing and excluding any invasive species and screening for risk categorization will be developed in the ESMS. Adverse impacts and social risks resulting from land acquisition and resettlement, as well as social risks associated with leasing of LUR from farmers are expected during the construction period. During project operation, social risks and impacts primarily are related to the management of direct workers and primary supplier workers associated with sub-projects, community health and safety risks related with labor influx and increase of traffic volume and social implications from use of multi-resistance varieties. Land acquisition and resettlement would normally happen upfront before determination of the sub-projects; however, documentation should be provided to ensure compliance with national regulations. Potential investment on improving sustainability of agriculture practices will largely relate to farming on the consolidated land to achieve required economies of scale, which firstly requires leasing of LUR from rural households to the cooperatives or other commercial entities, under the formally established terms as per the relevant national and provincial laws and regulations. Amid an exodus of migrant workers to the cities, leasing of LUR will promote use of underused farmland and bring rental income while engaging in non-agriculture employment opportunities. The PRC's Rural Land Contracting Law (amended on December 29, 2018) established the "three rights" structure in law, which allows separation of rural land ownership rights, contracted rights and operating rights (or use rights). The land ownership is held by the rural collective (i.e. village committee), whilst contracted rights are equally designated to individual farmers. Land operating rights are separated from land contracted rights when the land is leased out to other entity/individual for operation (i.e. cultivation). Leasing of LUR



does not change the status of land ownership rights and land contracted rights for such rural households, even when they choose to move to urban areas. Leasing of LUR is carried out at village level and regulated by relevant national and provincial regulations. The county level LUR transfer centers provide services to connect those who are willing and interested of leasing their land to potential investors who are looking to lease land with the purpose of achieving scale-economy needed for the adoption of sustainable agriculture practices. Since Henan province is quite large, level of regulation enforcement may vary from one village to another, especially in terms of public consultation and arrangement of land rental payment. Another potential risk related to leasing of LUR is whether relevant enterprises can make enough profits to make agreed land rental payments to farmers. China's in place policy framework and procedures for leasing of LUR and local practices in the project areas should be reviewed against the new ESF and the project will adopt appropriate procedures and mechanisms focused on land leasing as part of the ESMS to assure meaningful consultation with individual farmers and address legitimate appeals of farmers as well as to screen eligible enterprises that can generate sufficient revenues to secure land rental benefits for farmers. Potential risk related to leasing of LUR will be considered when establishing subproject screening checklist and categorization criteria. Social impact assessment will evaluate and mitigate the potential risks case by case for specific subprojects. The potential risk of influx of primary supplier workers to large agriculture production bases is and related impacts on adequacy of basis services in the rural areas and on community health and safety (e.g. infection of communicable diseases, GBV) should be assessed when draft sub-project pipeline is known. Local community expectations for green agriculture and benefit-sharing should be managed through the adoption of stakeholder engagement plan. Given there is limited information on project activities, social implications (positive, negative or perceived) from use of multi-resistant varieties will be adequately assessed to inform preparation of ESMS and formulate mitigation hierarchy when further information is available. Most social risks and impacts are predictable, medium in magnitude in consideration of subproject scale and the mitigation measures should be designed to be reliable. The analysis of HADFIC's and its Sub FI's existing E&S management system should be further carried out during project preparation. The ESMS (articulated in Section ESS9), E&S management enhancement plan, ESCP, SEP should be prepared prior to Appraisal. During implementation, each sub-project should prepare appropriate environmental and social documents in line with relevant national and local requirements. For substantial sub-projects, assessment and mitigation of specific E&S risks should be designed in accordance with relevant ESSs and the ESMS. The project risk rating and relevance of ESSs will be further reviewed when the list of potential sub-project is known. The ESMS will contain the exclusion for, but not limited to, natural habitats and legally protected tangible cultural heritages as well as other exclusionary considerations required by the legal agreements. The screening checklist for each ESS should be established for the purpose of sub-project categorization in the environmental and social procedures under the ESMS. For any TA activities under the project, HADFIC should incorporate reference to the ESSs in the TORs to ensure that activities and outputs are consistent with the new ESF. Prior to Appraisal, World Bank will further assess the relevance of ESSs for the project and undertake due diligence on the capacity of HADFIC and the sub-FI.

**Areas where reliance on the Borrower's E&S Framework may be considered:**

There is no existing Borrower framework to rely on in this project case because the Borrower (HADFIC) does not have existing environmental and social system. Moreover, since green agriculture is a recently emerging sector, the applicability of E&S legal framework in China for sub-projects with high or substantial risk is not recommended. A value addition of this project will be the establishment of ESMS and strengthening HADFIC's capacity consistent with the requirements of the ESF and commensurate with the level of risk, under which all subprojects will be prepared and implemented in accordance with national laws and regulations, with relevant ESS requirements applying to subprojects classified as high and substantial risks.



### ESS10 Stakeholder Engagement and Information Disclosure

The key stakeholders identified at current concept stage include the responsible FI and sub-FI, sub-borrowers under this project, the communities near the processing and storage centers, and manufacturing plants; the farmers or cooperatives to be involved in the use of the biocides, fertilizers, anaerobic digesters, and the wastewater treatment facilities; primary suppliers to the sub-projects and different types of workers within FI and sub-projects, contractors for construction and agriculture products transportation and; persons affected by land acquisition and farmers involved in leasing of land use rights; as well as project beneficiaries. In addition, some government agencies may have interests or influences in the project, e.g. ecological and environmental protection bureau, labor bureau, administration of work safety, agricultural department (for biocides, multi-resistant varieties, leasing of land use rights, etc.), natural resources bureau (for land acquisition and resettlement), and ethnic minority and religious bureau (for confirming status of ethnic minorities in subproject areas) etc. Stakeholders should be further identified and analyzed during preparation so as to determine the level of engagement that is appropriate for the project. Prior to Appraisal, a Stakeholder Engagement Plan (SEP) consistent with the requirements of ESS10 should be prepared by HADFIC and the sub-FI. Key contents of SEP will include (a) identification and analysis of stakeholders as well as timing and different levels of engagement and consultation appropriate to different stakeholders; (b) procedures for stakeholder engagement and external communication on E&S matters proportionate to the risks and impacts of project activities consistent with the requirements of ESS9; (c) systems to respond to public enquiries and to ensure concerns are recorded and responded to on a timely basis; (d) general principles and a collaborative strategy to identify stakeholders and plan for an engagement process in accordance with ESS10 that will be implemented once the location of sub-projects is known; and (e) grievance redress mechanisms (GRMs). The SEP should be disclosed at the early stage of the preparation and before Appraisal to seek views of stakeholders. Key stakeholders specific to each sub-project should be identified, analyzed, engaged and consulted by HADFIC, the sub-FI and fund applicants during the preparation of the project and each sub-project via the means of interview, public hearings and other methods such as questionnaires and focus group discussion, throughout the project cycle. The GRM should be established and maintained by HADFIC and the sub-FI at the early stage of the project preparation. Prior to Appraisal, ESIA documents, e.g. ESMS, ESCP, SEP, should be disclosed locally and at the website of the World Bank.

### B.2. Specific Risks and Impacts

**A brief description of the potential environmental and social risks and impacts relevant to the Project.**

#### ESS2 Labor and Working Conditions

This project is a FI project and relevant aspects of ESS2 apply to the responsible FIs itself. HADFIC and the sub-FI should put in place and maintain appropriate labor management procedures as per national labor laws and regulations, including procedures relating to working conditions and terms of employment, nondiscrimination and equal opportunity, grievance mechanisms and occupational health and safety. Existing labor management procedure within the HADFIC and the sub-FI should be analyzed during project preparation to identify any gaps and suggest the actions to improve them in order to meet the ESS2 requirements. Both HADFIC and the sub-FI will provide adequate documented evidence of labor management procedures in the ESMS prior to Appraisal. Regarding subprojects, the project may involve direct workers, contracted workers and primary supply workers. Community workers are unlikely to be involved in consideration of the project nature and employment relationship under the project. The project will directly or indirectly promote leasing of underused farmland for developing agricultural business, which would involve hiring farmers from the local communities. In consideration of the employment relationship between the farmers and



subprojects, the farmers involved under the project can be classified as direct workers, contracted workers or primary supply workers. The prospective enterprises to be funded may have several primary suppliers located within and beyond Henan Province to supply raw materials for further processing. Thus, primary supply workers may probably be in other provinces in China away from Henan Province. A small number of contracted workers maybe engaged by the project to construct facilities and engineering works under the subproject. China has comprehensive regulations requiring sound and fair treatment of all types of workers, increasing enhancement of occupational health and safety, avoidance of child labor and forced labor etc. Labor supervision by different level of authorities are increasingly strengthened. Risks on labor and working conditions for all types of workers should be further assessed during preparation in consideration of contextual background and level of labor law enforcement in crop and livestock sectors, which will further inform the Labor Management Procedure and the screening checklist. The labor management procedure for direct workers, contracted workers and primary supply workers should be developed as part of the ESMS, and the requirements for management of occupational health and safety should be developed and integrated into the ESMS. Design of mitigations as part of the ESMS should consider the project realities at scale, e.g. primary suppliers located away from Henan Province. A screening checklist, to be included in the ESMS, should be set up to cover the potential E&S issues for ESS2, e.g. significant risk of serious occupational health and safety issues, forced labor and child labor, juvenile workers (above minimum age and under 18) etc. During sub-project preparation, a due diligence review proportionate to corresponding labor and working conditions risks related to each sub-project should be carried out and relevant requirements of ESS2 will apply where sub-projects are found to have significant risks or impacts on labor and working conditions. The HADFIC and the sub-FI will incorporate labor management requirements consistent with national regulations and ESS2 in loan agreements for sub-projects. For each sub-project, the labor management procedure and the separate GRM for project workers on ground should be ready before sub-project fund approval. All sub-projects should exclude use of any form of child labor and compulsory labor. The labor and working conditions of primary suppliers are subject to spot checks by FIs and the World Bank as part of monitoring and supervision requirements. Incidents with any type of labors should be reported to World Bank through the reporting mechanisms established as part of the ESMS.

### ESS3 Resource Efficiency and Pollution Prevention and Management

Although Henan Province is a water shortage province, this project will not significantly increase the water use. Conversely, the project will improve the irrigation water control to reduce the water use at unit farmland area. In addition, the project also will improve the efficiency of energy and materials input in the agricultural activities. Pollution prevention and management is a core part of the project design and will be realized by the management of wastewater, livestock manure, farmland residue; improvement of irrigation water control, and efficient use of fertilizers and adoption of biocides. This project will not produce toxic waste but general wastes, such as solid waste and wastewater. The food processing and fertilizer production businesses will produce noise, solid waste and wastewater. These solid waste and wastewater are not toxic and can be treated to effluent standard with commercially available technologies. Although the biocides are low toxic to human being, the criteria for selection and use of the pesticides consistent with the management of pesticides under ESS3 will be adopted in the screening checklist in the ESMS. Given that this project will involve pest management issues or contemplate activities that may lead to significant pest and pesticide management issues, e.g. the project may involve changed cultivation practices in an area, diversification into new crops in agriculture, intensification of existing low-technology systems, and may finance pest control products that present a large component of the project. Thus, a Pest Management Plan will be prepared by the client for the above cases.



### ESS4 Community Health and Safety

Limited number of workers will be introduced to the site for construction of the facilities given the size of these facilities. In addition, the increased traffic of vehicles transporting equipment and materials on the roads near the communities may pose safety impact. Given the size of each sub-project and its wide dispersion across the whole province, labor influx would be expected to be minor and impacts on communities not severe during construction. Neither this project will affect any ecosystem services for the communities nor involve the production, use and disposal of hazardous materials. Dams will not be involved in the project. During implementation, certain number of sub-projects will introduce a few of direct workers, while the number of primary supplier workers may be larger. Initial due diligence identified that direct workers for sub-projects are largely from Henan Province and they are living in urban areas where community security is well managed by adequate public security forces and the risk of issues related to influx of direct workers is considered low. With regards to primary supplier workers, most of them are migrant workers coming outside of production bases of agricultural products in pursuit of employment opportunities. Most of the agricultural production bases would generally locate in rural areas in Henan, not far way from the processing facilities. Risks and impacts on community health and safety will be furthered assessed during preparation when the draft sub-project pipeline as well as more information on influx of labors are available. A screening checklist, to be included in the ESMS, should be set up to cover the potential E&S issues for ESS4, e.g. traffic safety, influx of migrant workers, gender-based violence (GBV), etc. Relevant requirements of ESS4 will apply where sub-projects are found to have significant risks and impacts on community health and safety in case of a specific sub-project.

### ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

The project is designated to invest in both expansion and new initiatives proposed by enterprises which are willing to comply with relevant green policies and standards and demonstrate a demand for green technologies. Regarding investment in expansion, initial screening identified that it normally happens within the existing land owned by the dragon head enterprises. In case of new initiatives, two types of land accesses, i.e. permanent land acquisition and temporary land occupation, will be required, resulting in physical and/or economic displacement. Permanent land acquisition is required for accommodating the workshops for manufacturing green inputs and equipment, and the footprints for green agriculture products storage and processing equipment and facilities. Temporary land occupation is needed for associated temporary project activities for which disturbed land can be restored to its original status after completion of project activities. Primary beneficiaries of investments for supply of green inputs and equipment, as well as processing and circulation of agro-products are expected to be located in designated industrial areas and for which new land acquisition is usually carried out in coordination with relevant local land zoning regulations. Physical and/or economic displacement is therefore anticipated to be low to moderate risk in consideration of the nature and potential locations of sub-projects. The policy framework established as part of the FI's ESMS will include provisions on due diligence review of existing land and past resettlement occurring prior to specific sub-projects, as well as resettlement principles, organizational arrangements, and design criteria to be applied to anticipated new land acquisition and resettlement by relevant subprojects during project implementation. The screening checklist should be established for identifying application of resettlement due diligence review or resettlement planning. During implementation, the HADFIC and the sub-FI will conduct screening for identification of resettlement impacts and risks. A due diligence review should be carried out by HADFIC and the sub-FI to assess compliance status of existing land and past resettlement and identify any complaints, grievances and outstanding issues (if any) and



determine measures to close identified issues. The due diligence should review prior resettlement within a time frame of approximately three years close to specific subprojects but will consider of the context of specific subproject and significance of the prior resettlement case by case. Non-minor land acquisition that was undertaken or initiated in anticipation of or in preparation for specific subprojects should meet relevant requirements of ESS5. All subprojects involving minor new resettlement should be prepared and implemented according to national regulations. For subprojects with the resettlement risk classified higher than minor, relevant requirements of ESS5 are should be met. The ESMS will define “minor” resettlement in consideration of regulatory context and the requirements of ESF. Relevance of ESS5 to specific subprojects will be further reviewed during FI sub-projects preparation.

### **ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources**

As described in II A, the size of each physical investment might be small and medium that will not lead to significant land conversion. In addition, given that the project area is in the rural and sub-urban area which is already intensively developed by human activities for thousands of years, the possibility of existence of critical habitats is very low. However, an exclusionary criteria should be developed and included in the ESMS to avoid impacts on the natural habitats. The screening step for modified habitats and natural habitats should be included in the ESMS. In addition, this project will neither introduce alien species nor purchase and use natural products. In addition, the use of multi-resistant varieties will cause a concerns and safeguards implication on both environmental and social aspects. The specific information is not clear for these varieties, however, many reports published indicate that misuse of such seeds did cause significant loss or reduction of yield, in China, and the ecological risk due to genetic migration leading to privileged species to local ecological communities. The criteria for assessing and excluding any invasive species and screening for risk categorization will be developed in the ESMS.

### **ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities**

This project will contribute to promoting green agriculture growth in Henan Province and all the eligible sub-projects under the project must be located in Henan Province. Henan Province, located in central China, is a traditional ethnic Han Chinese dominated province. As of 2018, there are 55 ethnic minorities living in Henan Province, accounting for 1.22% of the total population in the province and of which Hui is the largest ethnic minority group (Hui accounts for 85% of the total population of ethnic minorities in Henan). Based on preliminary due diligence, the possibility of presence of ethnic minorities in subproject’s area of influence is low. At current concept stage, ESS7 is expected to be relevant to the project in consideration of potential sensitive locations of certain sub-projects and in the design of culturally appropriate stakeholder engagement. Applicability of ESS7 will be further assessed through sub-project screening when the project portfolio is known. The HADFIC and the sub-FI (to be determined) will enhance relevant elements on ethnic minorities in the E&S screening checklist. The policy framework established as part of the ESMS will include elements consistent with an ethnic minority development framework prior to Appraisal. During implementation, screening for identification of ethnic minorities should be carried out by the FIs on the basis of information collected from fund applicants. World Bank will confirm the screening results. If the ESS7 is confirmed to be relevant to a sub-project, appropriate measures should be taken by the fund applicant to ensure relevant requirements of ESS7 are be met.



### ESS8 Cultural Heritage

As described in II A, the subprojects are unlikely to be located in or in the vicinity of legally protected tangible cultural heritages and recognized cultural heritage sites. The project also unlikely involves the risks on intangible cultural heritage because it does not intend to use such cultural heritage for commercial purposes. An exclusionary criteria should be established to avoid or otherwise mitigate material impacts on cultural heritages in the ESMS. The procedure for screening and consultation for tangible and intangible cultural heritages, especially for those meaningful to local communities, should be included in the ESMS. The ESMS should include elements to manage potential chance finds associated with the project activities. Relevant requirements of ESS8 will apply where sub-projects are found to have significant risks and impacts on cultural heritage. Relevance of ESS8 will be further reviewed during sub-project preparation.

### ESS9 Financial Intermediaries

Per the loan management structure for the 200 million USD loan from the WB, a new fund at amount of 180 million USD will be created. A sub FI will be engaged by the HADFIC to expand its client base for sub-project pipeline development. The portfolio for this project will be established separate from the existing agricultural potfolio under the HADFIC and its sub-FI. The HADFIC will employ an innovative way to invest the fund via equity debt financing and leveraging social capitals. ESS9 applies to both HADFIC and the potential sub-FI. Where World Bank support is provided to the FI to fund clearly defined FI subprojects, the requirements of ESS9 will apply to each of the FI subprojects. Where World Bank support is provided to the FI for a geneal purpose, the requirements of ESS9 will apply to the entire portfolio of the FI's future subprojects from the date on which the legal agreements becomes effective. An ESMS per the ESS9 should be developed by project Appraisal to be adopted and used by the HADFIC and the sub FI to ensure that they are capable of handling the E&S risks and impacts associated with the project. The ESMS as defined in ESS9 should include: (a) E&S policy, (b) E&S procedures (exclusions, screening, categorization, document preparation, review and monitor, and stakeholder engagement), (c) capacity for assessing, managing, and monitoring risks and impacts of subprojects and designation of a responsible senior management position for reporting; (d) monitoring and review of E&S risks of subprojects and the portfolio, and (e) external communication mechanisms. Among the ESMS, the exclusionary criteria, and screening checklist should be developed for, but not limited to, the relevant considerations under each ESS for categorization purpose. Since this project would fund existing businesses, the ESMS should set out clear procedures for the required environmental and social due diligence of such existing businesses that will generate industrial wastes and the required staffing plan the HADFIC is committed to for ensuring sufficient capacity in carrying out such due diligence review. Due dilgence review of past resettlement is specifically described under ESS5. All sub-projects should be screened against an exclusionary criteria and screening checklist, categorized and assessed for their E&S risks and impacts prior to financing under the project. Any sub-projects involving potential land acquisition and resettlement; or adverse risks or impacts on Indigenou Peoples; or significant risks or impacts on the environment, community health and safety, labor and working conditions, biodiversity or cultural heritage are to be classified as high or substantial. All the project-supported subprojects should be prepared and implemented according to relevant environmental and social national laws and regulations. For all the subprojects with substantial or high risks, the ESMS should include processes to notify World Bank prior to making investment decisions and contain procedures to ensure requirements of relevant ESSs are met. The HADFIC and the sub-FI will submit to the World Bank semi-annual Environmental and Social Reports on the implementation of the ESMS. The existing E&S management system and organizational capacity and competency within the HADFIC and its Sub FI should be reviewed and the gaps should be identified and analyzed, if any. The track record of the



existing agriculture business investments of the HADFIC as a basis for developing suitable capacity building activities and staffing plan. Similar considerations will apply to the sub-FI. A subsequent action plan to fill such gaps should be suggested with the timeline requirements to ensure the adequate capacity of E&S management in the HADFIC and its FI be established before the commencement of their business of financing sub-projects under this project. A timebound E&S institutional establishment and capacity enhancement action plan satisfactory to the World Bank should be included in the Appraisal stage ESCP. HADFIC should designate a senior management representative to have overall accountability for E&S performance of FI subprojects, including the implementation of ESS9 and ESS2 and resources necessary to support such implementation. Stakeholder engagement under this project is discussed in Section ESS10 under Section B.1. The HADFIC and the sub-FI will disclose and permit in writing World Bank to disclose on the Bank’s website, a summary of each of the elements of the ESMS adopted by the project.

**B.3 Other Relevant Project Risks**

No

**C. Legal Operational Policies that Apply**

**OP 7.50 Projects on International Waterways** No

This project is not located in any international waterways.

**OP 7.60 Projects in Disputed Areas** No

**III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE**

**A. Is a common approach being considered?** No

**Financing Partners**

There are no financing partners.

**B. Proposed Measures, Actions and Timing (Borrower’s commitments)**

**Actions to be completed prior to Bank Board Approval:**

- HADFIC and the sub-FI (if confirmed) to develop ESMS consistent with ESS9;
- HADFIC and the sub-FI (if confirmed) to develop SEP consistent with ESS10;
- HADFIC to develop Appraisal stage ESCP;
- HADFIC and the sub-FI (if confirmed) to develop timebound institutional capacity enhancement plan.

**Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):**

- Implementation of SEP by HADFIC, the sub-FI and sub-borrowers;
- Establish proper institutional arrangement for implementation of ESMS by HADFIC and the sub-FI (if confirmed)
- Implementation of the institutional capacity enhancement plan and the ESMS consistent with ESS9 by HADFIC and the sub-FI (if confirmed);
- Implementation of labor management procedure and GRMs by sub-borrowers;

Public Disclosure



Application of relevant ESSs for substantial risk sub-projects by sub-borrowers;  
Reporting to the World Bank and agreeing on measures and actions if a sub-project risk profile increases significantly at any stage during the life of the project;  
Semi-annual environmental and social monitoring report.

**C. Timing**

**Tentative target date for preparing the Appraisal Stage ESRS**

20-Sep-2019

**IV. CONTACT POINTS**

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**Borrower/Client/Recipient**

**Implementing Agency(ies)**

**V. FOR MORE INFORMATION CONTACT**

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**VI. APPROVAL**

Task Team Leader(s): Sitaramachandra Machiraju, Paavo Eliste  
Safeguards Advisor ESSA Peter Leonard (SAESSA) Cleared on 24-May-2019 at 10:10:48