Social Impact Assessment Report for EIB China Forestry Framework -funded Rare, High-quality Timber Forest Sustainability Project

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CHAPTER 1. INTRODUCTION

European Investment Bank requires all projects that might produce significant adverse social impact conduct social impact assessment (SIA) according to the scope and scale listed for social risks in the EIB EU Social Legislation Reference Book. The assessment shall be also conducted using the social impact assessment guidelines listed in the European Commission Impact Assessment System, with the results and suggestions to comply with the EIB requirements in order to obtain bank loan.

The primary objective of social impact assessment is to ensure this investment project can facilitate the involvement of and benefit stakeholder groups especially such disadvantaged social groups as poor households, ethnic minority people and women in the process of design and implementation. Meanwhile, SIA needs to identify and analyze potential social risks and opportunities in connection with land use right from the perspectives of different stakeholder groups. SIA also helps establish a set of baseline survey data and information to provide a point of reference for future impact monitoring and assessment. The primary objectives of this SIA include:（1）to understand the socioeconomic baseline in the project area and analyze the main social factors affecting the realization of the project objectives; （2）to identify main stakeholder

groups, involve main stakeholder groups in the project activities and analyze their needs and how they are impacted. (3) to assess the potential positive and negative impacts of the project and analyze the possible social risks associated with the project;（4） to include the social factors in connection with the realization of the project objectives in the project planning process and propose measures to avoid or minimize the negative impact.

CHAPTER 2. SIA STEPS, TASKS AND METHODOLOGY

1. SIA steps and tasks

An independent social assessment expert conducted a SIA in collaboration with local forestry surveying and design institutes for the project components in Henan, Guangxi and Hainan provinces. This SIA began in mid-May 2013 and completed the questionnaire and interview survey in early August 2013 before the first draft of the SIA report was submitted in late September 2013. This SIA was conducted by training the local forestry officials, who in turn collected baseline data about the affected population and conducted participatory interview-based survey in the project areas. The interviewers held discussion meetings with farmer households, village officials, county government departments, forest workers and company managers.

2. SIA methodology

Participatory analysis is a basic approach to SIA. SIA involves analyzing the composition of project stakeholders based on the systematic survey of the social aspect involved in the project design, and providing comprehensive assessment of the potential negative impact of the project and the possibility of increasing the positive impact of the project, as well as providing constructive suggestions as to how to avoid or mitigate negative impact. In the process of SIA, the use of participatory approach can ensure comprehensive identification and analysis of various potential

risks associated with the negative social impact of a project. The conclusion and suggestions from SIA are based on sufficient consultation with the affected population and respect for local knowledge. This practice allows a project to better meet the needs of the local community and actual participants in the project. The participatory approach also helps increase the awareness of the project as the project-related information is widely shared and the project preparations become more practical and the chance to participate in the project fairer. This SIA report uses a standard SIA methodology and addresses such issues as involvement of ethnic minority people, gender equality and involvement of poor people.

The SIA team selected the communities and farmer households that constitute the sample population according to the following criteria:

（1） emcompassing the construction components of the project.

（2） The sampling results of the project counties and participating forest farms are as follows: one third of relatively affluent counties, one third of middle-income counties and one third of relatively poor counties, one third of relatively affluent forest farms, one third of middle-income forest farms and one third of relatively poor forest farms are selected based on financial strength. The selected project counties and participating forest farms sufficiently reflect the difference and diversity of local forest resources.

（3） Three administrative villages were singled out from each selected project county as the survey samples, including a relatively affluent village, a middle-income village and a relatively poor village.

（4） The selected communities comprise residents of different ethnic groups.

（5） The selected interviewees comprise a certain percentage of female representatives.

Table 1. Schedule of sampling survey by SIA team in Guangxi province

Entity	Baseline					Sampling						
	Town	Administrative village (farm)	Villager team	Household (worker's family)		Town	Administrative village (farm)	Villager team	Household (worker's family)		Individual interview	
				Applicant	Non-applicant				Applicant	non-applicant	Neighboring farmer households	Migrant workers
Rong'an County	5	24		161		3		≥3	50	20		
Quanzhou County	5	11		611		3		≥3	130	40		
Xing'an County	10	24		266		3		≥3	80	30		
Longsheng County	9	24		407		3		≥3	90	40		
Leye County	5	5		154		3		≥3	40	30		
Tianlin County	8	23		1304		3		≥3	260	60		
Zhaoping County	7	33		737		3		≥3	150	50		
Huanjiang County	8	14		547		3		≥3	120	30		
Gaofeng forest farm		7		492			3	≥3	40		3-5	3-5
Huangmian forest farm		5		550			3	≥3	45		3-5	3-5
Daguishan forest farm		6		280			3	≥3	28		3-5	3-5
Yachang forest farm		10		36			3	≥3	5		3-5	3-5

Note: Guangxi project team specifies that the number of applicant households among villager teams shall be more than 10. Full-scale sampling survey will be conducted if the number of applicant households is less than 10. The number of sampled households (worker family) is the basic requirement, and the number of samples in each county or farm shall be more than that specified herein.

Table 2. Schedule of sampling survey by SIA team in Henan Province

Entity		Baseline					Sampling						
City	County	Town	Administrative village (farm)	Villager team	Household(worker family)		Town	Administrative village (farm)	Villager team	Household(worker family)		Individual interview	
					Applicant	Non-applicant				Applicant	Non-applicant	Neighboring household	Migrant worker
Luoyang City	Gao County	12	80		174		2	4	≥3	50	10		
	Luanchuan County	10	31		972				≥3	97	20		
	Luoning county	5	17		54				≥3	6	3		
	Xin'an county	11	47		62				≥3	6	3		
	Yanshi city	5	29		185				≥3	19	10		
	Yiyang county	12	34		91				≥3	9	5		
Nanyang city	Xixia county	7	22		52		2	4	≥3	30	20		
	Zhechuan county	8	43		52				≥3	5	3		

	Zhenping county	6	28		171				≥3	17	8		
	Fangcheng county	7	15		18				≥3	2	1		
	Tongbo county	10	35		45				≥3	5	2		
Xinyang city	Luoshan county	7	18		51				≥3	5	2		
	Shangcheng county	5	56		426				≥3	42	10		
	Huangchuan county	10	55		449				≥3	45	10		
	Xi county	18	54		67				≥3	6	3		
	Xin county	14	46		265		2	4	≥3	50	10		
	Guangshan county	12	75		1559				≥3	155	30		
	Nanwan forest farm	1	4						≥3			3-5	3-5
Zhengzhou city	Gongyi city	10	56		400				≥3	40	10		
	Dengfeng city	4	21		222				≥3	22	10		
Xuchang city	Yuzhou city	12	32		393				≥3	39	10		
Zhouk	Huaiyang	15	195		652		2	4	≥3	50	10		

ou city	county												
Anyang city	Linzhou	10	23		22		2	4	≥3	10	40		
Sanmenxia city	Lushi	13	41		516				≥3	50	10		
Hebi city	Qi county	6	66		366				≥3	36	10		
Kaifeng city	Kaifeng county	8	49		812				≥3	81	20		
Shangqiu city	Xiayi county	8	54		1338				≥3	133	30		

Note: the number of sampled households (worker family) is the basic requirement, and the number of samples in each entity shall be more than that specified herein.

Table 3. Demographics of SIA sampling area in Hainan province

Town	Village	Resident population	Man	Woman	Worker	Man	Woman	Resident worker	Man	Woman
Sigeng town	Sha village	526	267	259	250	130	120	100	55	45
	Chikan village	1968	1092	876	1036	562	474	772	359	413
	Rixin village	1367	707	660	820	450	370	450	240	210
	Sibi village	2762	1430	1332	1630	900	730	963	546	417
	Lainan village	1374	870	504	873	543	330	521	320	201
Gancheng town	Tuotou village	2014	1300	714	1200	800	400	1062	687	375
	Bumo village	3780	1986	1794	830	457	373	610	392	218
Xinlong town	Daoda village	1380	730	650	800	420	380	609	381	228
	Xiatongtian village	810	508	302	500	300	200	394	246	148
	Longwo village	4000	3080	920	2800	2000	800	2089	1556	533
	Longbei village	2380	1220	1160	1636	830	806	1500	794	706
	Xin village	4345	2200	2145	2200	1200	1000	1678	1079	599
Datian town	Datian village	1500	760	740	850	430	420	688	387	301
	Yudao village	1900	970	930	1200	630	570	1000	550	450
	Luowang village	1550	800	750	900	460	440	774	354	420
	Chang'an village	730	380	350	550	280	270	453	213	240
Banqiao town	Nangang village	1250	650	600	610	336	274	462	238	224
	Zhongsha village	1500	850	650	650	350	300	650	350	300
	Sanjian village	786	370	416	438	225	213	409	201	208
	Tianzhong village	1562	821	741	910	480	430	800	430	370
	Qiaobei village	2900	1600	1300	2000	1100	900	1800	1000	800
Tian'an town	Tuoya village	1270	645	625	920	520	400	780	430	350
	Butao village	1227	680	547	860	440	420	790	400	390
	Tuolei	671	400	271	470	271	199	470	271	199

	village									
	Tian village	936	606	330	508	306	202	508	306	202
	Baoyou village	746	426	320	420	220	200	420	220	200
	Yigong village	305	180	125	200	129	71	170	106	64
Donghe town	Dongfang village	1450	904	546	1000	600	400	1000	600	400
	Jiu village	2036	1158	878	1660	950	710	1660	950	710
Jiangbian town	Buwen village	820	450	370	550	300	250	420	220	200
	Jiangbian village	586	316	270	368	197	171	368	197	171
	Xinming village	890	450	440	590	350	240	480	250	230
	Tumei village	410	210	200	210	150	60	210	150	60
	Jiangbianying village	876	413	463	538	281	257	538	281	257
total		52607	29429	23178	30977	17597	13380	25598	14759	10839

CHAPTER 3. POLICY FRAMEWORK REVIEW

1. Forestry development policies promulgated by the Chinese government.

（1） The Regulation of the People's Republic of China on Nature Reserves 1994, State Council decree No. 167.

（2） The Regulation of the People's Republic of China on Protection of Wild Plants 1996, State Council decree No. 204.

（3）The Guiding Opinions on Improving the Ecological Protection 1997, State Bureau of Environmental Protection No. 785.

（4） The Regulation on Protection of Primary Farmlands 1998, State Council decree No. 257.

（5） The Circular on Strengthening Administration of Nature Reserves 1998, State Council decree No. 111.

（6） Implementing Regulations for the Forest Law of the People's Republic of China 2000, State Council decree No. 278.

（7）Implementing Rules for the Water Pollution Control Law of the People's Republic of China 2000, State Council decree No. 284.

（8） 2000 National Ecological Environment Protection Program Guofa No. 38.

（9） 2007 China National Climate Change Plan.

（10） 2007 Circular on Printing and Distribution of the National Development and Reform Commission's Instructions concerning Utilization of European Investment Bank's Climate Change Framework Loan Program, NDRC document No. 2503.

（11） In 2005, China launched a rare tree species nursery demonstration project. In 2006, the State Forestry Administration promulgated the reference directory of main rare tree species cultivated in China. In 2013, the SFA issued the Interim Provisions for Pilot Counties under the National Rare Tree Species Nursery Program.

2. CURRENT FORESTLAND TENURE REFORM ——CONTRACTING OF COLLECTIVELY-OWNED FORESTLAND

(1). Forestland ownership policy

The Clause 3 of Forest Law of the People's Republic of China provides that forest resources are state-owned, except for collectively-owned forest resources specified in the law. The state-owned

and collectively-owned forests, woods and forestlands and privately-owned woods and privately-used forestlands shall be registered and documented by local government at the county level or above, who shall issue the certificates of forestland ownership and right of use. The legitimate rights and interests of the owners and users of forests, woods and forestlands are protected by the laws and may not be violated by any entity or individual. The Regulation on Registration of Ownership of Forestlands and Woods provides that holders of forest rights shall be the holders of ownership or right of use of forests, woods and forestlands. According to the provisions of the Forest Law and its implementing rules, where the forestry authorities under the State Council or people's government at the provincial, autonomous region and municipal levels and people's government at the city and autonomous prefecture levels issue certificate of forest ownership, the registration authority shall notify the related local people's government of the issuance of such certificate of forest ownership. The Provisions for Resolution of Disputes over Ownership of Woods and Forestlands provide that before resolution of forest ownership dispute, no entity or individual may log any disputed woods or conduct construction or other production activities on disputed forestland.

On July 16, 2008, the State Forestry Administration promulgated the Regulation on Contracting of Collectively-owned Forestlands,

providing that all collectively-owned wooded or vegetation-covered lands shall be contracted out to farmer households for a term of 70 years, subject to extension of term upon the request of contractors. These contracted lands may be subcontracted or pledged against bank loans or may be used as capital contributions to joint venture for cooperative development purposes. According to the current forestland contracting policy, the term of contract is 70 years and renewable. The contractors of forestlands may subcontract the right of management or use and pledge forestlands as properties or use the forestlands as capital contributions for contractual joint venture. Such institutional arrangement gives contractors more right of management and motivates farmer households to utilize forestland resources.

(2). Forestland management policy

The Clause 5 of the Forest Law of the People's Republic of China provides that forestry development follow the principle of general tendering, intensive forestation, equal emphasis on cultivation and harvesting and sustainable utilization based on forest culture and management. The subsection 8.1 of this law provides that forests be logged per quota and forestation and tendering efforts be encouraged to increase the forest coverage. These laws promoting forestation coexist with the harvesting policies based on protection of natural forests. In August 2002, the focus shifted from harvesting and utilization of natural

forests to harvesting and utilization of manmade forests, with related harvesting rights clearly defined. In the same year, the SFA readjusted its policy on harvesting of artificial timber forests, in an effort to meet the needs of socialist market and forestry development and accelerate the shift of focus on logging and utilization of natural forests to logging and utilization of artificial forests. Classification-based licensing system was adopted for the management of harvesting quota, which is more market-oriented, technology-based and geared towards sustainable operation and development of forestry industry.

2. Other policies

（1） Poverty alleviation policy

In order to help alleviate the financial burden in the poverty-stricken areas, since the 1980's, Chinese government's poverty alleviation policy has been mainly twofold: (1). Burden-relieving policy. The Chinese government enacted a series of farmer-friendly policies including reduction in the volume of grain purchase contract, deregulation of selling price of farm products, reduction and exemption of agricultural taxes, exemption of contributions to the national energy and transportation project development fund and exemption of income tax on development startups. The benefits of these policies are that the increased financial burden on poor people due to deregulation of prices of productive materials and grain price markup was reduced to fuel the

economic development in rural areas and promote the village-level institutional reform and the transformation of governmental functions. The downside of these policies is that the financial difficulty facing most of villages after the tax and fee reform has not yet been substantially addressed and the reduction and exemption of agricultural taxes produces significant adverse impact on the normal operation of the village-level authorities, thus further aggravating some deep-seated structural imbalance. （2）Self improvement policy: first, improving the urban and rural financial assistance system. The urban-rural gap existing in China remains too huge, especially the gap between the east and the west. Most of poor people concentrate in mountainous villages in central and west China, where people have been neglected due to underdeveloped transportation infrastructure. Therefore, certain industrial sectors may be transferred from cities to these areas in order to both drive the local economic development and provide local residents with more jobs and income-generation opportunities. Second, implementation of limited welfare system. At present, China's welfare system is incomparable with western counterparts, but China has the capability to ensure poor people are well fed and clothed. In addition, more efforts need to be made to improve the local infrastructure such as transportation, education and health facilities to ensure villages have sufficient access to transport services, water and electricity.

（2） Forestry policy and poverty alleviation policy in ethnic minority areas.

The four critical regions and four key projects identified by the Chinese government in the national ecological environment conservation program are all located in ethnic minority regions. Karst regions in south China including Guangxi are environmentally sensitive and have been enjoying much attention of the government at various levels, while most of these regions are inhabited by ethnic minorities. In China Rural Poverty Alleviation and Development Program 2011-2020, ethnic minority regions remain the high priorities on the agenda of the Chinese government. Nearly half of nationally recognized poverty-stricken counties are located in ethnic minority regions. Meanwhile, with respect to forestry and ecology, the Program provides that the forest coverage in poverty-stricken areas will increase 1.5% and 3.5% in 2015 and 2020 respectively over the 2010 level.

（3） Laws and policies related to women

Gender equality is one of the basic national policies of China. The Chinese Constitution expressly provides that women enjoy the same rights as men in terms of political, economic, cultural, social and family life aspects. Since 1994, after enacting and implementing the Law on Protection of Women's Rights, the Chinese government enacted the Law on Maternal and Infant Healthcare. In 2001, the Chinese government

revised the Marriage Law and other related laws and regulations, which were subsequently enhanced by the China Women Development Program (1995-2000), (2001-2010) and (2011-2020) formulated in response to real-life issues. These programs focus on issues related to basic rights of women in rural areas. China Women Development Program (2011-2020) included the social gender awareness in the legal system and public policy, emphasizing the need to promote all-round development of women, harmonious development of both men and women, facilitate the synchronous development of women and economy and society and ensure women have the same right to acquire economic resources and participate in economic development, management of national and social affairs and enjoy the benefits of social security system. The Clause 6 of the Rural Land Contract Law of the People's Republic of China provides that women enjoy the same right to rural land contract as men. Women's legitimate rights and interests shall be protected in the process of contracting and no entity or individual may deprive or violate the land contracting and management right available to women under laws.

Chapter 4. Key stakeholders involved in the project

This project is a commercial timber forest development project and involves various stakeholders. The immediate stakeholders of the project include applicant households, village collectives,

companies/forestry households, SFA, three provincial governments of Henan, Guangxi and Hainan, forestry bureaus of project counties and town-level forestry stations, state-owned forest farms and disadvantaged groups. Indirect stakeholders include governments of project counties, participating township governments, non-applicant households in the project areas and farmer households nearby project areas.

1. Applicant households

Applicant households are direct participants in the project and the immediate beneficiaries of the project. It should be noted that farmer household is a broad term and may refer to (1) farmer households living in extremely poverty-stricken villages where land resources available are limited, and access to water, power and transport services remains absent, or（2）numerous individual enterprisers in rural areas, who live in rural areas or towns and were engaged in farming, business operations in towns or working for the public institutions before participation in the project. These enterprisers enjoy a considerable social status due to career success. Individual enterprisers engaged in forestry, also known as forestry households, generally operate 100 to 200 hectares up and down of forestland, enjoy the support of the forestry department and have considerable financial strength. Some of them engage in forest cultivation by contracting lands, with considerable planting skills and rich experience in business management. For this reason, this report identifies these

farmer households as the same type of stakeholder as forestry enterprises. (3). between these two categories, farmer households may also refer to most of farmer households who are called average households. Forestation is the traditional way they engage in production, and they once participated in small-sized forestation projects financed by different departments.

The SIA team found from the survey and interviews that poor households are less likely to engage in forestry operation and less willing to participate in the project due to their possession of limited forestland resources, lack of labor or particular planting skills and working skills. Since forestation requires a moderate level of skills, most of poor households are willing to participate in the project as seasonal workers. Most of middle-income farmer households desire to generate more income from participation in the project and are more willing to participate in the project than poor households, since they have considerable land and forestland resources as well as considerable financial strength. Affluent farmer households are most willing to benefit from the project because they possess large areas of land and forestlands, have been operating forest farms with the support of local forestry department and have considerable forestation skills and rich experience in business management. The impact of this project on different categories of farmer households is shown in the following table.

Table 4. Impact of the project on different categories of farmer households by financial strength

Household	Positive impact	Negative impact	Conclusion
Poor household	Job opportunities for improved standard of life. less capable and willing to participate than high-income households.	Limited opportunity to participate due to limited access to land, labor and financial resources.	Risk of being marginalized
Middle-income household	Possibility of improving infrastructure and the standard of life, with considerable positive impact.	Forest tendering and management practice improved and the traditional approach to forest utilization changed after the implementation of the project.	Major beneficiary group
High-income household	Highly capable to participate in the project since they have contracted large areas of barren hills and lands.	NA	Essential beneficiaries

The results of field survey and questionnaire-based survey indicate that farmer households are generally willing to participate in this project, expecting the project to be implemented primarily in the form of individual operation, followed by forestry cooperatives. Households who engage in forestation activities would be immediate beneficiaries of the project, while other households may become indirect beneficiaries by serving as seasonal or permanent workers.

2. Administrative villages

The village committees are responsible for coordinating the communication with forestry bureaus of participating counties, forest farms and forestry enterprises, involving villagers in the project and communicating project information to villager teams. After the forest

tenure reform, collectively-owned forestlands are operated by farmer households on a contractual basis, and village collectives are not quite interested in directly participating in forestation projects, with most forestation activities undertaken by individual households.

3. Companies/forestry households

Companies/forestry households will be implementers of this project in addition to other farmer households, because they have technical expertise and financial resources required for implementation of this project, some even with needs for construction of materials processing plants. Although companies are business entities and forestry households comprise one or several natural persons, they enjoy the same footing in the project. They need to acquire forestland use right from farmer households by means of forestland circulation and they all engage in forestry operation for the purpose of making profits with considerable financial resources. The project team will choose those financially capable, well-run companies as implementers of the project and develop a list of participating companies/forestry households. Selected companies/forestry households will work with other farmer households to implement this project under contractual arrangement whereby companies/forestry households will provide financial resources and farmer households contribute land and labor. An agreement will be executed between the two parties to define the rights, obligations and

responsibilities of respective party.

4. Forestry bureau of project counties and town-level forestry stations

County-level forestry bureaus are generally responsible for implementing large-sized forestation projects, including ecological forest development projects. For this project, county-level forestry bureaus are important stakeholders as they will be responsible for making arrangements for and managing the implementation f the project. Town-level forestry stations work under the guidance of the county-level forestry bureaus and assist the township governments guiding villager teams and individuals through forestry operations, popularizing forestry technology and providing forest workers with a wide range of services including forestry technical training, technical consulting and technical services.

5. State-owned forest farms

State-owned forest farms are important project stakeholders. There are seven state-owned forest farms in Guangxi and ___ state-owned forest farms in Henan. These forest farms have rich experience in timber production and operation, solid financial strength and technical expertise as well as willingness to increase the forest areas and improve forest operation practices. In addition, most of them have implemented certain international forestation projects and are therefore familiar with the

management and operation of international forestation projects. As the borrowers under the project loan, state-owned forest farms will participate in this project either alone or by leasing the forestlands from local villagers, hiring farmer households for forestation, tendering and management or working with villagers or individual farm owners.

6. Special groups

（1） Poverty-stricken communities and poor households

Farmer households living in extremely poverty-stricken communities with limited or no access to land resources, water and power supply and transport services would be undoubtedly the disadvantaged groups in this project if they participated in the project. Given their low income, poor knowledge and skills and inadequate resistance to risks, they might be unable to receive fair and reasonable treatment with respect to profit allocation if they leased forestlands to companies/forestry households. There is a potential risk that the poor households and small farmers living on agricultural income in the project areas might be marginalized in the process of planning and implementation of the project. The results of analysis of farmer datasheet indicates that farmer households differ remarkably from each other in terms of average area of forestland and income structure, meaning that farmer households have different preferences and relevance to the forestation model proposed in this project.

（2） Migrant workers

After the project is put into operation, the project areas will see growing demand for migrant seasonal workers and may migrant workers from poor areas will work as seasonal workers on forest farms. The survey findings indicate that forestry provides these unskilled farmers with job opportunities, and migrant workers regard forestry-related seasonal work is less risky than coalmining although the living and working conditions are harsh for seasonal workers in forestry industry. In forestlands just outside cities, these seasonal workers would find it easier to receive medical services than they would in their hometown. But they generally have to deal with poor living conditions and have difficulty in accessing drinkable water. In poor areas, water shortage is a commonplace for local residents.

（3）Women

Women have the same access to political and economic decision making rights, as well as education and employment, but they differ slightly from men when it comes to family life and social division of labor. Women have sufficient say in decision making process concerning collectively or household-owned forestland use, but men are generally the decision maker when it comes to financial decisions in family life. Women spend 7.45 hours on farming or other production activities and 3.18 hours on household chores per day on average. Most of

respondents believe women will be given job opportunities in the project, but the workload on women will not be increased.

The capacity building activities of this project will provide local communities and farmer households with training opportunities. Trainees including women will acquire new forestation skills. The implementation of this project will give women opportunities to develop and help improve the socioeconomic status of women and promote the gender equality.

7. Governments of project counties/township governments

The governments of project counties have the obligation to provide counterpart funding and issue letter of commitment to repayment in favor of EIB loan and urge county-level forestry departments to implement this project. The township governments will assist county governments involving companies and farmer households in cooperative forestation, provide details about administrative villages when the forestry bureau is selecting project villages, mobilize administrative villages to get involved in the project and keep track of the quality of project deliverables submitted by each administrative village.

8. State Forestry Administration

As the implementing agency for this project, the State Forestry Administration is responsible for providing technical guidance, organizing and coordinating project activities, providing comprehensive

services, supervising and evaluating the project activities and communicating with external stakeholders. The State Forestry Administration is responsible for making arrangements for project preparation and framework design, defining the project objectives, scope of works and components of project, and conducting project personnel training to improve the capabilities of project management team. After the commencement of the project, SFA will be responsible for conducting project progress monitoring and performance evaluation and submitting semiannual progress reports and completion report to EIB.

9. People's government at the provincial or autonomous region level

Forestry departments at the provincial or autonomous region level are responsible for making preparations for project components in respective administrative regions. After the project commences, these forestry departments will be fully responsible for the progress, quality and effectiveness of component projects in respective administrative regions. The finance departments at the provincial or autonomous region level are responsible for providing counterpart funding and letters of commitment to repayment of loan as well as maintaining the project accounts. After the completion of the project preparations, the people's governments at the provincial or autonomous region level will sign project agreements with EIB. All of the three participating provinces (i.e. Henan, Guangxi and Hainan) have rich experience in implementation of

international loan projects.

10. Non-participant households in and nearby the project areas.

The farmer households that did not participate in this project and those farmer households living nearby the project areas will learn new methods, experience and skills from the implementation of the project in the project areas, which will in turn produce positive impact on their professions.

Chapter 5. Main findings from SIA

1. Scope of project

This project involves forestation and existing forest reformation to develop rare, high-quality tree species as strategic reserves by bringing in state-of-the-art and proven sustainable forest management theory and practices, with focus on development of high-quality, native tree species resources. This project is geared towards identifying the sustainalbe management approach to rare timber forests in line with the Chinese national conditions, facilitating the development of rare, high-quailty tree species, increasing the timber reserves and market supply capabilties and providing a point of refrerence for science-baseed development of modern forestry sector in China.

2. Social impact assessment

The project will produce the following positive impacts from the

perspective of social impact assessment.

Thanks to the use of participatory consultation process at the design phase of the project, farmer households may participate in this project by signing contracts or applying for bank loans on the voluntary basis, thus changing the traditional top-down approach to the forestation project lifecycle from decision making to project planning, and making the project design more in line with local needs. The forestry departments in the project areas gave attention to coordination between agricultural, water conservation and environmental authorities at the design phase of the project, which makes the overall benefits of this project more remarkable.

In the project areas and surrounding areas, farmer households rely upon crop farming and working in the city as main sources of revenue. The implementation of this project will help make greater use of the forestland and wood resources in mountainous areas, drive the local transportation and service sectors and increase the service income. The residents in the project areas and neighboring areas will generate additional income by participating in nursery development, forestation, tendering, management and harvesting activities. In addition, the pavement and repair of forest roads as part of this project will improve the working and living conditions for local residents.

The implementation of this project will promote the adoption of

advanced production techniques in local areas, improve the forest management performance and drive the forestry production towards intensive management and sustainability in the project areas. Meanwhile, the implementation of this project will underpin the stable supply of timber resources, drive the local timber processing industry and related industries and increase the fiscal revenue of local governments.

However, given the different levels of economic development across the project areas, the willingness to participate in the project varies from region to region. In economically developed areas in east of Guangxi, farmers have a variety of income-generation opportunities and they are more concerned about selection of tree species, loan extension criteria and requirements and profit allocation. In poor and mountainous areas in west of Guangxi, ethnic minority communities regard this project as an invaluable source of revenue, actively participating in this project. With respect to loan and repayment, farmer households in the project areas are concerned about the loan risk and other risks. Based on previous experience, they are concerned about the inability to generate income from forestation due to potential ban on logging or the formidable costs of logging permit. Farmers believe that the date of issuance of logging permit shall be the date when the commercial timber forest grows mature, and the related costs shall be reduced significantly. Although the business model of collaboration between companies/forestry households and

farmer households is feasible, poorly-designed profit allocation process might worsen the already serious income gap and subsequently jeopardize the interests of poor households.

The implementation of this project will help realize sustainable forest management to a certain extent and ensure safe production of timbers in the country. In the meantime, the project will help readjust the agricultural industry structure and socioeconomic structure and facilitate the harmonious development of population, economy, society, ecology and resources in the project areas.

（1） Increasing the timber supply. During the calculation period, the project will generate 12,123,000 cubic meters of timber, 23,000 tons of rubber, 87,000 tons of fruits and 988,000 tons of firewood. Meanwhile, the implementation of this project will play an important role in improving the stand structure, increasing the per unit area forest stand output, supporting the sufficient supply of timbers in the country and promoting sustainable social and economic development.

（2）Providing job opportunities to local residents. In the first five years of the project implementation, the tendering, forest management and forest road maintenance activities as part of the project will involve 5.153 million man-days. 853,000 jobs will be generated on average in each year of the project lifecycle, which is equivalent to 3708 rural residents getting employed each year (assuming 230 man-days per year). This will provide service income of 68.222 million Yuan to project participants each year, calculated on the basis of 80 Yuan per man-day.

During the operation of the project, the forest tendering, management and logging activities will involve 16.166 million man-days. 3.233 million jobs will be generated on average each year as a result, which is equivalent to 14057 rural residents getting employed (assuming 230 man-days per year). Moreover, the transportation of timbers and bamboos will bring indirect service income and drive the related industries such as transportation and materials production.

（3） Adjusting the industrial setup in rural areas and making full use of the abundant resources in mountainous areas. With the collective forest tenure reform and the objectives of the 12th five-year plan for forestry sector, the implementation of this project can increase farmer income stably in the long term and contribute to the construction of a new socialist countryside. It is estimated that the project will generate income of 12.44 billion Yuan and benefit 4 million farmer households and 13.37 million rural residents, with each forest worker generating additional income of 124 Yuan on average per year.

（4）Driving the related industries. After the project is implemented, thanks to the increased forest coverage, the related industrial sectors will be promoted, water conservancy facilities better protected, the ecological environment improved and the forest tourism industry gain momentum as more tourists will be seen in forests. Moreover, the increased forestry production and output will drive the local timber processing industry and transportation industry.

（5） Improving the forest management practice. The project will

help increase the technology content of project deliverables, promote the commercialization of scientific payoffs, increase the land utilization rate, facilitation of the transformation of way of economic growth and deepen the exchange and cooperation between the local forestry sector and the outside world, all through technology transfer, demonstration, training and tour of observation. These will inevitably broaden the horizon of local residents and allow participating households to acquire at least one practical skill, thus improving the forest management practice across the board in the project areas.

3. Impacts on ethnic minority people.

There are 11.134 million people living in the project areas, including 0.836 million people of ethnic minority, of whom 41,000 ethnic minority people are participating in this project, or 33.5% of total participating population. The distribution of participating ethnic minority people in these three participating province is shown in the following table.

Table 5. Statistics of ethnic minority households participating in the project in Guangxi

Participating population (household, person)				Population in project areas (person)	
Total number of households	Total population	Ethnic minority (household, person)		Total population	Ethnic minority population
		Number of households	Persons	Population	Population
58467.0	45946.0	5832.0	23926	8214391	642305

Table 6. Statistics of ethnic minority households participating in the project in Henan.

Participating population (household, person)				Population in project areas (person)	
Total number of households	Total population	Ethnic minority (household, person)		Total population	Ethnic minority population
		number of households	Persons		
5657.00	31490.00	26.00	113.00	10690889.00	102403.00

Table 7. Statistics of ethnic minority households participating in the project in Hainan

Participating population (household, person)				Population in project areas (person)	
Total number of households	Total population	Ethnic minority (household, person)		Total population	Ethnic minority population
		number of households	persons		
11603	45108	4351	16916	442936	91188

4. Findings of survey of ethnic minority people

It is one of the basic principles of the project that ethnic minority people have the same access to the project as Han Chinese in the project areas. All ethnic minority people except seniors are proficient in use of Mandarin. Many of forestry technicians in the project areas are ethnic minority and can speak the language of ethnic minority groups. The survey findings suggest that ethnic minority households are highly supportive of this project and concerned about such issues as loan extension and repayment, profit allocation, risks, suitability of selected tree species, equal opportunity to participate in the project, market prospects and harvesting quota. Most of ethnic minority households are

willing to participate in the project by leasing forestlands to enterprises or forest farms or providing seasonal unskilled labor. The ethnic minority communities in the project areas have become experienced in production arrangements, and ethnic minority households don't expect economic benefits to be generated from the project in the short term but that the long-term benefits will be substantial. Some ethnic minority villagers expect harvesting quota to be given to ethnic minority regions in the first place and hope that the project will help improve the transportation infrastructure and water supply in ethnic minority regions. The SIA team believe that the implementation of the project will promote the economic development, improve environmental quality and environmental pollution control capabilities in the ethnic minority regions as well as help narrow the gap between ethnic minorities and Han Chinese and facilitate the sustainable development of ethnic minority regions. In the business model of collaboration between companies/forestry households and farmer households, the project will help local ethnic minority people make use of the role of natural villages and other traditional community organizations.

Chapter 6. Social Risk Analysis

1. LARGER FARMER HOUSEHOLDS HAVE DIFFERENT OPPORTUNITY OF PARTICIPATION IN THE PROJECT THAN SMALL-SCALED FARMER

HOUSEHOLDS

1. Given the limited access to project information and inadequate capabilities, farmer households tend to be in disadvantaged situation when negotiating with companies/forestry households about possibility of joint operation. The previously executed contracts suggest that the following issues need to be addressed.

（1） The rent of forestland is too low, even below 40 Yuan per mu per year in some extreme cases.

（2） The profit allocation process is not well defined and the forestland leasing contracts did not specify whether the allocation is made based on gross income or total profits.

（3）Some forestland leasing contracts set the payment cycle of rent at 5 years and provide that the lessee will be deemed in serious default in case of delay of more than two years in payment, which jeopardizes the interests of farmer households.

（4） The beneficiary of compensation resulting from land requisition by government during the leasehold is not clearly identified, and the percentage of compensation for loss of wood on leased forestlands is too low.

（5） There are no specific provisions in the leasing contracts concerning funeral and interment according to local customs during the term of leasehold.

（6） The forestland leasing contracts did not specify clearly the return of woods on the leased forestlands to the lessors of forestlands upon expiration of the term of contract.

（7）Prior to leasing of any forestlands, no third-party valuators were engaged to valuate the forestlands and provide comments on the reasonableness of rent, revenue sharing and payment terms for both parties' reference.

These problems are attributable to the asymmetry of information and knowledge between communities or farmer households and companies/forestry households. These problems, if left unresolved, might result in failed cooperation between the two parties and subsequently hinder the successful implementation of the project.

The project team shall take the following measures to address the aforesaid problems:

（1） The contracts between farmers and companies/forestry households shall be executed on the basis of freewill, fairness and good faith through friendly consultations, defining the area and location of leased land, term of contract, rent, confirmation of transfer fee and transfer fee, rights of each party, liabilities for default, expiration and early termination of contract.

（2） Reputable forestry enterprises/forestry households with solid financial strength shall be selected for participation in the project. The

country-level forestry bureau executes on-lending agreements with entities and individuals participating in the project, defining the timeline of loan repayment, installment of repayment and penalty provisions.

（3）Prior to leasing of any forestland, a third-party agency shall be engaged to valuate the forestland and provide comments on the reasonableness of the rent, profit allocation and payment terms.

2. CONFLICT BETWEEN ECOLOGICAL PROTECTION AND FARMER INCOME OBJECTIVE

The SIA team found that the ecological protection objectives differ remarkably from the income growth the farmers expect to achieve through participation in the forestation project, which might result in conflicting objectives if farmers were forced to participate in the rare, high-quality timber forest sustainability project. The government's goal is to ensure the ecological function of forestry, i.e. the "public goods" nature of ecology, while bringing economic profits to farmers. Farmer households usually base their decisions to participate in the project on economic benefits, taking into account the ecological protection function. This will result in disagreement between these two objectives with respect to selection of tree species and post-planting management practice. To this end, it is suggested that the forestry department consult with the affected individual households and stakeholders to achieve a solution that can meet these two objectives.

As described earlier, the restrictions on use of forestlands and

forestry resources (such as ban on grazing after planting, restriction on logging of firewood and harvesting of non-timber products) might immediately affect the short-term income of contracting households. Poor households relying upon short-term income from forest products will also be significantly affected. To address this problem, the approach to management and utilization of forests shall be developed through consultation with community-level stakeholders. It is very important to take into account how much farmer's livelihood is reliant upon forestry resources when selecting the tree species and determining the post-planting tendering practice and forest product utilization process.

While ensuring the ecological benefits of the project, consideration shall be given to the economic benefits of farmer households to the maximum extent in order to incentivize them to participate in this project.

3. POOR AND VULNERABLE SOCIAL GROUPS ARE UNABLE TO PARTICIPATE IN THIS PROJECT

Based on the stakeholder analysis and the SIA results, the SIA team developed a social impact matrix for this project as follows:

Table 8. Impacts on rich and poor farmer households

Farmer household	Positive impact	Negative impact	Conclusion
Rich households	Significant impact on households who have contracted a large area of barren hill and land; strong capability to participate in this project.	No remarkable impact on their livelihood.	Essential beneficiaries of the project

Poor households	Less positive impact on poor households than on rich households; weak capability to participate.	Limited opportunity to participate due to limited access to land and labor and lack of financial resources.	They might be marginalized in the absence of special measures to ensure poor households participate in the project.

If stakeholders did not participate in consultation and project planning, poor households and vulnerable social groups in local communities might be marginalized in the process of planning and implementation of the project, especially in the decision-making process. The auction of land use right also proves that poor households can not win auction due to lack of labor, personal capabilities, social network and social capital. There is a risk that poor households can not participate in the project design and implementation process.

Rich households differ remarkably from poor households with respect to the opportunity and capability to participate in this project. Rich and innovation-minded households will find it much easier to secure loan and other support than poor households do. Therefore, poor households and other vulnerable social groups shall be given the equal opportunity to participate in the project design and implementation phase and be empowered through participatory consultation in order to improve their managerial capabilities.

Poor communities and poor households suffer the following disadvantages: compared with high-income or middle-income households,

low-income households have limited financial resources and rely upon farming and forestry production since they have no alternative source of revenue. Therefore, they expect quick economic return on both ecological and economic forests. They would be discouraged from investing in the project if the short-term utilization of woods is restricted or prohibited. For this reason, low-income farmer households without alternative source of revenue have lower motive and capabilities to participate in the project. A more realistic opportunity for them is to provide labor service and work as forest rangers after the forestation phase.

Chapter 7. Suggestions concerning project design and implementation

1. IDENTIFY THE TARGET GROUPS FOR DIFFERENT PROJECT OUTPUTS

1. When it comes to forestation on barren hills and lands and sandy lands, the main target group to consult and negotiate with should be those large-scaled farmer households who have contracted or auctioned barren hills and lands and sandy land in the 1990's or who are interested in contracting these lands.

2. With respect to plantation and reformation of multifunctional protection forests on existing forestlands, the main target group to consult and negotiate with should be those existing operators or contractor in possession of forestland use right. When identifying the stakeholders,

priority shall be given to small and medium-sized farmer households due to that fact that they represent a large portion of the local communities. Poor households shall participate in consultation about this output.

3. Village officials, village committee members and villager representatives are also main target groups when it comes to project design and implementation.

4. Consideration shall be given to the sufficient involvement of women, poor people, poor ethnic minority people and poor migrant workers.

2. IMPLEMENT PARTICIPATORY DESIGN

The primary objective of participatory design is to ensure farmers will participate in this project of their own accord and the project stakeholders make decision as to whether or not to participate in this project based on sufficient understanding of the benefits and risks of the project. A participatory project manual has been prepared for this project in order for participants to fully understand the requirements, conditions and steps of this project (see the following table).

Table 9. Participatory project manual

Step	Main activities/tasks	Methods and tools used	output	Main participants

Step 1: Publicity and mobilization, farmers ' sign-up	1. Project management office produces and distributes project brochure and publicizes the project through various channels. 2. Develop and distribute application form through village officials. 3. Hold a villager meeting to explain the benefits and risks of the project.	1. Villager meeting, 2. Distribution of brochures.	Villagers (including women and poor households) fully understand project information	1. City-level forestry bureau prepares project brochure. 2. Forestry technicians participating in project design at the city and town levels. 3. Village officials and villagers.
Step 2: consultation with stakeholders	1. Collect the completed application forms from farmers and categorize them by type of land use right. 2. Consult with different types of households on selection of tree species, forestation model, seedling production and supply, tendering arrangements, restriction on use of resources, compensation scheme, training and technical service needs. 3. Onsite design of project activities. 4. Confirm the area of forestation and discuss forestation model and methodology.	1. The project design team coordinates and hosts the group discussion. 2. Different types of farmer households participate in the consultation meeting. 3. Field survey	1. List of participants in the project. 2. Compensation scheme agreed upon with related households on selected tree species, forestation model, tendering and restriction on use of resources. 3. Consultation with farmer households to identify the land lots available for project implementation.	1. Forestry technicians at the city and town levels, as representative of the project owner. 2. Land contractors as project participants. 3. Farmers subject to restriction on use of resources. 4. Officials at the town and village levels.
Step 3: execution of project agreement	1. Development of project agreement and consultation with farmers. 2. Execution of agreement with participating farmers or village committee's representatives. 3. Publication of the list of participating farmers and explanation of the results of consultation.	1. Farmer consultation meeting. 2. Villager meeting, publication of lists.	1. Execution of project participation contract with farmers. 2. All villagers understand the consultation results and project information.	1. Farmers participating in the project; 2. Village officials, as the counterparty representing the collectively-managed land. 3. Representatives of city-level forestry bureaus.

3. ENSURE ETHNIC MINORITY PEOPLE WILL PATICIPATE IN AND BENEFIT FROM THIS PROJECT

The following measures are suggested in order to protect the rights and interests of disadvantaged groups and ethnic minority people:

1. Develop and implement a preferential policy in favor of disadvantaged groups. The project shall ensure the involvement of

women, poor people and poor ethnic minority groups, take into account the input from local residents when determining the business model and ensure residents participate in this project in person or through trusted representatives with informed consent.

2. Give sufficient consideration to the benefits of poor ethnic minority groups in the process of project design. The government and forestry departments shall take measures to facilitate the involvement of ethnic minority residents, share results and protect the rights, interests, traditions and culture of ethnic minority people in order to ensure the sustainability of this project.

3. Ensure ethnic minority people receive training in capacity building. The training program shall respect the customs and habits of ethnic minority people, combine local knowledge with sustainable utilization of natural resources and explore new approaches to project management. Local language may be selected and used in the training process in order to contribute to the local culture.

4. Give sufficient consideration to the benefits and interests of ethnic minority people living scattered. In areas where ethnic minority people concentrate, the interests and benefits of ethnic minority people tend to be taken good care of thanks to the well-established policies and institutions. On the contrary, ethnic identity and interests of some ethnic minority

people living scattered are neglected, which shall be given sufficient consideration in the project implementation process.

4. GENDER MAINSTREAMING OF INTEGRATED FORESTRY DEVELOPMENT PROJECT.

The SIA team found that the rare, high-quality timber forest sustainability project will provide women with career opportunities as women have become the mainstay in agricultural and forestry production. To ensure more women will participate in and benefit from this project, the SIA team provides the following suggestions:

1. Women should participate in the whole project lifecycle, ranging from project planning, implementation to monitoring and evaluation. Consultation and negotiation with women at the project design phase is an important step to ensure their active involvement in the project implementation. Group interview or discussion with women shall be conducted earlier on at the project planning phase. The village-level forestry development planning should involve women and consideration should be given to the queuing and scoring results of woman group discussion when identifying the forestation model and subsequent tendering measures in the process of project planning.

2. Women should become the main beneficiaries of most of forestry-related technical training programs. The minimum number of training sessions or percentage of training program that women attend

shall be guaranteed. It is further suggested that ad-hoc technical training be provided to women if they are involved in related project activities.

5. MONITORING AND EVALUATION OF SOCIAL IMPACTS

To ensure the realization of the project objectives, a social impact monitoring and evaluation system will be established at the provincial, county and town levels, and the monitoring of social impacts and effectiveness of participatory design will be an important part of the overall project performance monitoring and evaluation. The suggested project performance monitoring and evaluation system is shown in the following table:

Table 10. Project performance monitoring and evaluation framework matrix

Step	Main tasks and activities	Responsible organization and level	Requirements
1. Establishment of monitoring and evaluation system and teaming			
1.1 Formation of a province-level monitoring team	Identify the province-level monitoring and evaluation tasks, identify personnel and define job responsibilities.	Project management office at the provincial department of forestry	Staffing
1.2 Formation of county-level monitoring teams	Identify the county-level monitoring and evaluation tasks, identify personnel and define job responsibilities.	County-level forestry bureau	
1.3 Formation of teams at the town and village levels	Identify project performance monitoring and evaluation tasks; appoint personnel.	Township forestry station	
2. Setting of monitoring and evaluation indicators	Selection and identification of ecological indicators, selection and identification of economic indicators, selection and identification of social and participation indicators.	Project management office at the provincial and county levels	
3. Establishment of monitoring and evaluation framework	Develop a performance monitoring and evaluation matrix. Contents and tasks of monitoring and	SFA, provincial project management office, county	

and identification of methodology	evaluation, data acquisition method, targets and levels, responsible organizations and levels.	project management office	
4. Training of monitoring and evaluation personnel at various levels	Hold a two-day training session covering objectives, activities, steps and methodology of monitoring and evaluation. Participatory approach: group interview, interview with farmer households, field survey, questionnaire-based survey, acquisition of statistics and other secondhand data.	SFA-sponsored training for province-level project personnel; province-level project personnel train project personnel at county and town levels.	Training budget and trainers
5. Top-down implementation of monitoring and evaluation	Village-level data acquisition, town-level data acquisition, county-level data reduction and analysis, preparation of project monitoring and evaluation report.	Forestry personnel at the county level, forestry technicians at the town level.	Staffing and financial safeguards
6. Communication and sharing of results of monitoring and evaluation	County-level monitoring and evaluation results submitted to provincial project management office, which consolidate and submit the same to the national project management office; provide guidance and make necessary adjustments to the project implementation dynamics based on the reported monitoring and evaluation results.	Project management office at national, provincial and county levels.	

（1） Social impact monitoring and evaluation indicators

In order to ensure the project will generate good social benefits and impacts and the farmer households will participate in the project, it is suggested that the following social impact monitoring indicators used: (1). Number of villages, entities and farmer households of different sizes participating in the project; (2). The number of affected farmer households participating in consultation and their proportion to the total number of affected farmer households 9%); (3). The number of poor

farmer households participating in consultation and their proportion to the total number of poor farmer households; (4)the number of women participating in and benefiting from the project and their proportion to the total number of project participants; (5)The total amount of service fee received by farmer households participating in forestation and tendering parts of the project in the fifth year of the project implementation (Yuan/household).

（2） Method for monitoring and evaluation of social impacts

Establish a top-down, participatory monitoring and evaluation system in the project. The participation of communities and farmer households in the monitoring and evaluation is the main characteristic of the system. Suggested specific steps are as follows: ①. Collect data about samples and model households through semi-structured interview and questionnaire to acquire the information about individuals participating in and benefiting from the project; ② . Conduct group discussions (including woman teams and ethnic minority teams), interviews with insiders and representatives of farmers' association, and invite stakeholders in local communities to rate the impacts and benefits of the project;③ Interview with officials at county (including state-owned forest farms) and town levels, collect information about project performance, including ecosystem improvement, income growth, improved capabilities to implement policies and provision of technical

service to farmers; secondhand data may be collected at the county and town levels and compared with the baseline data in the SIA process. ④ Develop conclusions by analyzing the collected quantitative and qualitative information and reflect these findings and conclusions in the annual, interim and final monitoring and evaluation reports, which will be submitted to the competent authorities and distributed to related officials at the town and village levels.

（3）Implementation of social impact monitoring and evaluation;

Monitoring of the effectiveness of participatory design at the project design phase: the effectiveness of participatory consultation at the village-level planning phase shall be monitored and evaluated by the project management offices at the provincial and county levels.

Monitoring and evaluation at the project implementation phase: The monitoring and evaluation of how farmer households participate in and benefit from the project and the social impacts after the project implementation shall be conducted at the same time as the performance monitoring and evaluation in the process of project implementation. Generally speaking, data acquisition reflecting the farmer participation and social impacts should be real-time and consistent. The town-level forestry stations shall be responsible for acquiring data reflecting the social impacts in real time.

Based on the acquired data, the social impacts of the project shall be evaluated on a semiannual basis. The evaluation results and conclusions shall be incorporated in the semiannual and annual progress reports. The county-level project management office shall be responsible for producing the project performance monitoring and evaluation report and submitting the same to the province-level project management office.