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REPORT ON IMPLEMENTATION OF THE CROP AND LIVESTOCK REHABILITATION PROJECT

IN THE

DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA

PART I – INTRODUCTION

1. The Crop and Livestock Rehabilitation Project for the Democratic People's Republic of Korea (D.P.R. Korea) was approved by the Executive Board at its Sixty-Second Session in December 1997. A summary of project components appears as Attachment I hereto. During the course of discussion on the project in the Executive Board, a number of concerns were raised and certain safeguards were decided to be instituted to facilitate the implementation of the project. These concerns and safeguards are listed in Attachments II and III. It was further decided in the Board that the Assistant President of IFAD's Programme Management Department (PD) would visit D.P.R. Korea in 1998 to follow up on the project's implementation.

2. Accordingly, the Assistant President, PD, visited D.P.R. Korea in early October 1998, when he met with senior government officials and project personnel; visited project sites, cooperative farms and individual households; and talked to project beneficiaries. He also met with representatives of all United Nations (UN) agencies and non-governmental organizations (NGOs) working in the country. The present report is based on the Assistant President's visit and on the findings of an earlier supervision mission fielded by the United Nations Office for Project Services (UNOPS).

3. The implementation of the project during its first nine months is reviewed briefly (Section II). This is followed, in Section III, by a description of the grass-roots level changes that the project might be instrumental in bringing about. The remaining two sections (Sections IV and V) review developments with regard to the specific concerns and safeguards that were the subject of Executive Board discussion.

PART II – PROJECT IMPLEMENTATION

4. The project became effective on 20 December 1997, within a fortnight of Executive Board approval. Since then, the implementation of both major components of the project, namely, crop rehabilitation and livestock rehabilitation, has proceeded satisfactorily. Some USD 17.4 million, or 62% of the loan, had been disbursed by mid-October 1998.

5. The implementation progress of the two components is outlined briefly below.

Crop Rehabilitation

6. Implementation of this component has been speedy. Key agricultural inputs (fertilizer, plant protection materials and tractor tyres) valued at USD 12.2 million were procured promptly from international sources, following the required international procurement procedures. This was a major achievement, given the short time that was available before the coming crop season and the relative inexperience of the implementing agency with regard to international procurement procedures. Short-term technical assistance arranged by IFAD, in collaboration with the United Nations Development Programme (UNDP)/UNOPS, proved helpful in achieving this. The only procurement shortcoming has been a delay in the delivery of tractor tyres, due to an overseas supplier's failure to comply with the delivery schedule stipulated in the contract.

7. The distribution of inputs to the 585 cooperative farms across 30 counties in three provinces proceeded rapidly and efficiently in April and early-May. Despite the massive scale of the loading and transportation operations, all inputs were on location at the farms within a few days of arrival at the port and other entry points in D.P.R. Korea. Recording, accounting, monitoring and reporting of the input distribution process has been satisfactory. Each cooperative maintains separate accounts that record the volume and costs of inputs received; each county maintains accounts that record the inputs distributed to each cooperative; and the Ministry of Agriculture maintains detailed accounts for each participating county and cooperative.

8. On arrival at the cooperatives, the inputs were distributed on schedule to the appropriate "work teams" in the cooperatives who then applied the inputs to the crops. One minor shortcoming was the less-than-perfect condition of some of the storage sheds where the inputs were kept.

9. When the Assistant President, PD, visited the country in October 1998, the harvesting of maize was almost completed and that of rice was in progress. Harvesting and threshing is scheduled to be completed towards the end of November. Preliminary indications (as at early October) with regard to production are encouraging. Due to the timely availability of project inputs, adequate provision of complementary inputs by the Government, reasonably favourable weather conditions in the project area, and adequate application of labour by cooperative workers, a considerable increase in crop production is expected. Upon completion of the harvesting and threshing, detailed output data will be collected from all 585 cooperatives, while times series and cross sectional comparisons will be undertaken for a sample of 58 cooperatives. A benefit monitoring module is also expected to be introduced to evaluate the income and nutritional impact of incremental production. This process will be verified and analysed through an international monitoring expert. A report is expected to be received in IFAD by mid-January 1999.

10. Part of the increase in cooperative incomes as a result of the additional production will be used by the cooperatives to offset the cost of inputs provided by the project. The remaining net income will be distributed among all cooperative members, based on their work points. The repayments from the cooperative farms from the project-supplied inputs will be placed in a "special fund". This fund

will be used subsequently for further support to crop production and other investments to be identified and agreed upon with IFAD.

Livestock Rehabilitation

11. Most project activities under this component are proceeding on schedule. Substantial progress has been achieved in the procurement of livestock, feed materials and vehicles, rehabilitation of feed processing facilities, construction of poultry development infrastructure, provision of training, development of credit operational procedures, and execution of lending activities. Total expenditure by end-September 1998 amounted to USD 3.7 million, of which USD 3.1 million was from the IFAD loan, representing 63% of the project expenditure target for the year.

12. Specific physical achievements are listed below.

13. **Poultry development**. Two chicken-layer breeding units are close to completion and have been provided with 1 000 breeder chickens. Trucks and vans have been procured for the transportation of building material for each unit and subsequently to facilitate their operations. One combined-layer-and-broiler breeding unit is under construction. The poultry development facility has been equipped and provided with 2 000 layers and 2 000 broilers and will become operational shortly, in advance of appraisal expectations, and the locations for 20 broiler-fattening units have been identified. Support has been provided for Kusong Goose Farm through renovation of four rearing sheds. Approximately 2 000 breeder geese have been procured and supplied to the farm to enhance capacity-utilization and production. The Poultry Engineering Research Institute and the North Pyongan Training Centre have been strengthened through the procurement of transport and training equipment/materials. Training courses for trainers and county technical personnel have commenced.

14. **Rural credit**. The credit sub-component is proceeding in line with appraisal expectations. A credit manual was developed jointly by the Central Bank and an international credit advisor. A full-time credit officer has been appointed specifically for the project credit programme in each county bank branch and each targeted cooperative. Several training workshops have been executed by the bank for branch credit officers and by bank branches for cooperative finance and credit officers. Although there is scope for improvement, bank and cooperative credit officers appear to have become sufficiently familiar with the procedures to be followed. A credit awareness campaign, targeted at households, has been carried out; and loans amounting to USD 0.55 million have been sanctioned and disbursed. Of this, about half has been disbursed to households for poultry, geese, goat, pig and rabbit production activities and the remainder to cooperatives for livestock work team activities. Given the high level of credit demand and the efficiency of credit personnel at various levels, the lending target has been achieved.

15. **Goat and pasture development**. The Kujang Goat Breeding Farm has been strengthened through the construction of goat sheds and supply of transport equipment. The programme for repopulation of goat herds in the project area has been initiated. Two thousand goats have been procured and sold to participating cooperatives and households, in line with the annual workplan targets. Pasture development activities are proceeding on schedule, with some cost overruns.

16. **Feed and feed mills**. Renovation of five feed mill structures has been completed and another two will be completed in November 1998. Seven hammer mills procured from China are now on location at the respective sites. All feed mills are expected to be operational by the end of November 1998. Livestock feed has been procured and distributed to ensure feed availability for project-supported facilities.

17. **Support to livestock institutions**. Project design envisaged limited support to selected livestock institutions, including a central livestock support centre, feed analysis centre, a biomedicine factory, a layer grandparent breeding farm, a broiler grandparent breeding farm, and ten county veterinary service centres. Such support includes office and laboratory equipment, vehicles and operating costs. Implementation has commenced only recently, but the planned activities are expected to be completed by January 1999.

PART III – POSSIBLE CHANGES THROUGH THE PROJECT[1]

18. The project promotes gradual change and innovation at the grass-roots level. Production credit is to be provided to individual households for diverse needs, starting with credit for the rearing of small animals (such as goats, geese, chicken, rabbits, etc.) in the farmers' backyards. This will encourage household decision-making and lead to greater individual initiative and entrepreneurship. The output from the livestock-based enterprises (meat, milk, eggs and live animals) will be mostly disposed of through the local-level "farmer markets", a process which has already started. The jump in production can be expected to create increasing activity in these emerging local markets, and possibly also an increase in the numbers and diversity of the markets. Enhanced incomes through credit is expected to generate additional demand for inputs (e.g., for breeder goats) and to trigger, again through the markets, a supply response - for example, of good-quality animals produced in breeding units at the cooperative and state farms.

19. The production surpluses thus generated are likely to lead to further changes in the longer run. Date of collection and compilation will need to be expanded, questions of pricing policy and terms-of-trade will come to the fore, and individual cooperative farms might diversify into new activities or specialize narrowly into activities where they find comparative advantage, for example, some specializing in crop production and others more in livestock. The end result of such specialization is likely to be greater efficiency in production and a larger aggregate output, in turn leading to improved nutrition and food security.

20. The project promotes greater sensitivity to economic and commercial considerations and to pricing, costing, and cost-recovery issues, including: lending rate charged by the bank; interest rate charged by the Government for its credit-in-kind supply of fertilizers to the cooperatives; fertilizer price charged to the cooperatives; and cost recovery for the supplied inputs. The cost recovery from the cooperatives fosters efficiency of resource use, maximization of returns, and attention to both economic and technical efficiency.

21. The project encourages decentralized operations, with counties, cooperatives and work teams as the focus of project implementation. For the project management unit, the project introduces the concept of a "service" function as opposed to top-down direction. The project also cuts down on layers of bureaucracy by providing for a direct channel of communication between the Ministry of Agriculture in Pyongyang and the counties and cooperatives at grass-roots level. To reorient the higher echelons towards a service-providing role, the project provides capacity-building technical assistance in the fields of procurement, input distribution planning, audit/accounting, banking, and monitoring. One of the project's spin-offs has been greater availability information and more physical access to the countryside, a possible prelude to a more comprehensive opening-up process. A greater appreciation of the benefits of external technical assistance (despite its high cost) seems to be entering into official thinking. This will also enhance the attraction and acceptance of international NGOs sources of such technical assistance and training.

[1] See also paragraph 46.

22. The project generates grass-roots participation through representation of cooperative chairmen in the project management unit; beneficiary workshops; and by inviting the cooperatives to formulate plans and projects for the use of the "special fund" created from repayments for the fertilizer provided to the cooperatives under the project.

23. The project promotes these changes gradually, by assisting – not undermining – the existing basic rural institution, namely, the cooperative farms - which, besides being a smoothly functioning vehicle for the organization of production, also provide the rural population with a safety net, a receiving and delivery mechanism, a means of participation, and a spirit of community.

PART IV – CONCERNS RAISED IN THE EXECUTIVE BOARD

24. The concerns raised in the Executive Board at the time of project approval are listed in Attachment II (as circulated in document EB 98/63/INF.4). The position with regard to the various concerns is described below.

25. **Do conditions exist for effective project implementation? Would resources be put to good use? Does the absorptive capacity exist to handle the considerable scale of the project?** The speed and quality of project implementation to date (see Section II above) suggests an affirmative answer to all these questions. Capacity-building through technical assistance provided to the project by IFAD in collaboration with UNOPS and UNDP has partly been responsible for this, but the effective implementation is mainly attributable to the capacity of government and grass-root institutions (such as the cooperative farms) to get things done effectively. The work culture of the people also has been conducive to successful implementation.

26. **Will financing of the various inputs automatically generate higher production?** Preliminary indications are that higher production is indeed being generated in the project area (actual figures are expected to be available around January 1999 - see paragraph 9 above). In the cooperative farms visited, incremental paddy production over 1997 levels was tentatively thought to be 2-2.5 t/ha. The increased production can be attributed to the provision of key inputs through the project; to the accompanying provision by the Government of complementary inputs such as seeds; the support mechanisms/structures in place (such as the Government breeding farm in the case of livestock); the institutional ability in the Government to provide timely support; and the ability within the cooperative farming system to mobilize labour effectively. In addition, there is a conducive work ethic at all levels. Areas of improvement exist, however, with respect to upgrading technology, refining the technical packages, optimizing the input application, seed quality, etc.

27. **Will markets exist to absorb the intensive production?** Marketing the produce of the cooperatives and of the individual households is not a problem, especially in present times of scarcity. The Government's public distribution system readily purchases rice and maize; "farmer markets" are springing up where food items can be bought and sold; and people in the neighbourhood are also able informally to buy/sell or barter things among themselves. The project's credit sub-component adds fuel to this process by enhancing the people's purchasing power.

28. **Can the prices be trusted to provide the necessary incentives?** For most food items (food grains and animal products) self-consumption within the household or cooperative farm is a major incentive to produce. The system of distribution within a cooperative farm and the "sideline production" allowed to individual households in the small private plots also contain built-in material incentives. As regards agricultural prices as such, at the present time, the administered prices for the major inputs and outputs appear to be cost-covering and conducive to production, with little or no implicit tax or subsidy. This applies, for example, in the case of fertilizer, which is a major item in the IFAD project.

29. **Is beneficiary participation there?** The cooperative farms provide a forum for participation. The farms are comparatively small in size, with small work teams and sub-work teams as the units of operation. Team and sub-team leaders, cooperative chairmen and other key functionaries are elected from the farm workers themselves (the elections are held annually by secret ballots and all members can participate). Issues are discussed and decisions taken by consensus in routinely held team and sub-team meetings and in the periodic general meetings attended by all cooperative workers. The project strengthens the participatory process through beneficiary workshops and representation of cooperative chairmen in the project management unit, and through the project's credit sub-component that places decision-making in the hands of individual households.

30. **Will fodder and good-quality feed be available?** With animal numbers presently depleted, fodder from natural pastures is not a constraint. Even in the event of a subsequent revival in numbers, adequate natural pastures and scrubland exists in the project area although there is still a shortage of grains (such as maize) as feed. The project enhances feed and fodder availability through regeneration of grasslands, increased production of rice and maize, and import of feed materials from outside the country. It also encourages a gradual shift from pig-rearing, which depends on some quantity of grain feed for optimum results, to the more heavily grass-consuming animals such as goats, geese and rabbits.

31. **Will not the livestock production negatively affect the food balance for human consumption, while its positive effect on people's nutrition would take longer to materialize?** The project focuses on grass-eating, quick-reproducing animals such as goats, geese and rabbits. It also includes chickens, which are good scavengers and the best and fastest converters of grain. Incremental produce of milk, meat and eggs through project-supported animal production has a direct and quick nutritional impact. The project will also have a nutritional impact through an income effect; food grain-deficit households will be able to use the additional incomes generated from sale of animals and animal products to purchase more food grain for family consumption from food-surplus sources within or outside the project area. The project provides for imports of animal feed, to that extent releasing grains for human consumption. In addition, the project's crop component will enhance overall availability of food grain for human consumption, while the grasslands improvement activity will enhance fodder availability and release grains for human consumption.

32. **Will the credit sub-component be workable and demand-driven? Will it not be too risky?** The credit sub-component is implemented through the existing well-established network of Central Bank branches and the cooperative farms. Additional staff and training is provided in each; and awareness-raising campaigns are conducted among people in the project area. A credit manual has been prepared to provide guidelines for the working process, and experience with the implementation of the credit sub-component to date is positive and encouraging (see paragraph 14). Motivation and awareness on the part of the credit officers in the cooperatives is of a high order. The record-keeping is meticulous. The cooperative farm is able to provide quick and universal access to credit by the poor, at virtually zero transaction cost to both the lender and the borrower.

33. The risk to the lending bank is mitigated by the county offices that guarantee all loans to cooperative farms, while loans to individual households are guaranteed by the cooperative farms. Risk will also be mitigated through the strengthening of audit capacity, credit staff and loan appraisal by the banks and the cooperative staff. Initially, lending is for simple, livestock-rearing activities for which the skills and tradition already exist in the project area. The project provides also for the strengthening of veterinary-care institutions, which would tend to reduce the risk arising from animal mortality.

34. A demand-driven process has been initiated within the project by requesting households to identify their own credit needs and make individuals applications for credit on newly-prescribed application forms. In the event demand for credit outstrips supply (as has been the case), the sub-work teams in the cooperatives examine and clear the applications to ensure that credit reaches the most deserving households, keeping in mind both technical and targeting criteria. (In respect of the latter, priority is given to households with poor living conditions, large numbers of dependants, women-headed households, and households with old or handicapped people.) Implementation experience and household interviews indicate that people at the grass-roots level perceive the credit as being demand-driven.

35. The following aspects will require further attention and clarification for the future:

- possible inadequacy of staff and increased operational costs due to the expected rapid increase in the volume of credit;
- future appropriateness of the present lending rate (of 5%) charged by the bank;
- possible loan defaults due to *force majeure* (such as animal mortality) and the norms/procedures for rescheduling of loans that be adopted in such cases;
- the proportion of credit that should be channeled to cooperative farms compared with individual households (at present about equal); and
- the possibility/advisability of setting up separate revolving funds for each cooperative farm.

36. **Counterpart funds generated by fertilizer sales to cooperatives - their accrual, tracking and disposal.** The sale of fertilizer and other inputs to the cooperative farms has been recorded in, and can be tracked through, new books of accounts introduced by the project at the cooperative, county and Ministry of Agriculture levels. Repayments for fertilizer will be made by the cooperatives to the county offices (around January 1999, after the harvesting and threshing) and, from there, deposited in a "special fund" with the Ministry of Agriculture. The recording and tracking of the repayments will be through the same books of accounts as for the original sales of the inputs to the cooperatives, referred to above.

37. The "special fund" is expected to be used for small-scale, quick-return investment projects at the cooperative farm level, to be agreed upon between IFAD and the Government. The cooperatives will participate in the planning and execution of such projects, and will be also expected to contribute part of the cost in order to have a sense of ownership. Involvement of international NGOs may be also possible in these local schemes.

38. **Monitoring.** The physical implementation of the project is monitored closely by the Ministry of Agriculture and the county offices. Records are maintained at the cooperative, county and Ministry of Agriculture levels for the inputs distributed and the output produced. An inputs distribution monitor (expatriate) was fielded three times this year to monitor the progress of the project. The project management unit also has monitoring officers on its staff, who visit project sites and activities regularly; the Central Bank closely monitors the credit sub-component in the field; and UNOPS supervision missions monitor project implementation twice-yearly. Reports on project progress are prepared on the basis of these monitoring activities. UNOPS is helping to enhance the quality of the reporting by improving the content and formats of the reports, including those on the project's livestock component and the credit sub-component.

39. **Possible macroeconomic and policy-related factors behind the current shortage**. The project as such does not address the larger macroeconomic policy-related issue that may impinge upon the overall economic problems facing the country. However, it does have the potential to serve as a vehicle for gradual improvement, innovation and policy change, starting at the grass-roots level, as outlined in Section III above. The larger sector-wide issues in agriculture are to be addressed by sector studies, one of which was recently initiated by the Food and Agriculture Organization of the United Nations, in collaboration with the other Rome-based UN agencies. Such wider issues are expected also to be the subject of documentation for the forthcoming UN Round Table meeting on D.P.R. Korea. The immediate problem presently facing the country is the serious shortage of fuel and fertilizer, and the shortage of foreign exchange to purchase such items. Other issues relate to the present standstill in industry, the generally low level of technology, creation of a better enabling environment for foreign private capital investment, possible modification of cropping practices to achieve sustainable food security in the face of scarce land, and the present poor import capacity. A positive and encouraging feature, however, is the country's ability to use foreign assistance effectively and speedily, as demonstrated in IFAD's project. (For discussion of similar and related issues, see Section III above and paragraphs 41-46 below.)

40. **The availability and reliability of statistical information** has been improving over time. The system of collecting and recording data at the local level is less of a problem than its compilation, analysis and further dissemination. It has been observed in the field that crop production is carefully measured, following accurate scientific methods. Given the special circumstances, greater confidence-building has generally been required before external donors can access the statistical information. IFAD's experience in this respect has been comparatively favourable.

41. **Government policy framework**. Food grain self-sufficiency at national and local levels has been a cornerstone of government policy from the start. Due to the scarcity of land and the population having more than doubled since the 1950s, a highly intensive system of cultivation came to be practised, with increasing mechanization, agrochemical use, irrigation, and electrification. By the late 1980s, signs of overstrain and obsolescence had begun to be visible, and, in the 1990s, the system entered into a serious crisis on account of two extremely severe external developments: the sudden disruption of the all-important trade and payments relationship with the former Soviet Union and the socialist bloc; and unprecedented floods, drought and other calamities during 1994-97, which extensively damaged the irrigation and drainage structures, coal mines, electricity generation, etc. A serious shortage of key inputs, especially fertilizer, fuel and spare parts, has emerged as the most serious immediate constraint. The country is finding it difficult to recover from the situation on its own, and the Government has come to seek food and financial assistance from abroad, for what it professes is a transitional period of recovery and readjustment.

42. In the emerging scenario, government policy is directed to three sets of issues.

43. First, the rehabilitation and modernization of the productive capacity. This includes in particular the following: flood damage rehabilitation; rehabilitation of irrigation infrastructure; provision of key inputs (especially fertilizer) for agriculture, and spare parts/raw materials for industry; and modernization of outmoded technologies. In this, the Government is aware that the required inputs cannot be made available on a sustainable basis without the development of a national capacity to import. It is confident, however, that an agricultural and industrial revival can be achieved eventually, since it claims that the basic conditions exist for such a revival. Initial financial and technical assistance from external sources (a few hundred million dollars, by one government estimate), accompanied by available substantial domestic resources would be able to jump-start industrial and agriculture revival over a period of a few years. Against doubts raised about the prospects for the industrial sector competing on international markets and the required structural

changes to improve competitiveness, the Government professes to be trying to create an attractive environment for foreign investment through free-trade zones, joint ventures and favourable banking and other regulations.

44. Second, gradual reorientation of land use towards a more diversified and sustainable agriculture. This would include, *inter alia*, a shift away from maize monoculture towards more extensive cultivation of leguminous crops, fodder, oilseeds and root crops; greater use of bio-fertilizers and bio-pesticides; energy- and water-saving irrigation techniques; minimum tillage techniques to save tractor fuel; shift of emphasis from grain-consuming monogastric animals to grain-feeding ruminants such as goats; introduction of high-protein maize varieties; and promotion of vegetables and fish culture. Adaptive research along these lines has been initiated.

45. Third, the strengthening and reorientation of rural institutions and organizations. This includes: provision of equipment and training for sectoral institutions, including the research and training centres; modernization of the rural financial system through provision of management training and seed capital; permission and encouragement to set up rural marketing channels and service agencies; and strengthening of skills and management in the cooperative farms (which perform vital functions in the country's rural society).

46. Over time, the Government has been accommodating (with a mix of pragmatism, flexibility and caution) certain specific changes in procedures, organizations and institutions in the rural areas. Thus, farmer markets have been allowed gradually to emerge; demand-driven production credit to individual households has been introduced; farmer side-line activities have been encouraged, interest rates adjusted, cost and repayment principles recognized; international standard of procurement, auditing and accounting have been learnt and internalized, new means of farmer participation accepted; more decentralized, bottom-up management approaches adopted; foreign missions have been given access to the interior, more data made available; surveys, such as on nutrition, allowed; sector-wide agricultural study have been accepted, cropping practices and patterns have been reconsidered, targeting of disadvantaged households adopted, special "counterpart funds" set up for sustainability; foreign investment has been encouraged, financial and economic training initiated; and NGOs invited. IFAD's projects and activities have initiated or facilitated a number of such adaptations, the future course of which is a matter for observation and dialogue (such dialogue between IFAD and the Government will be facilitated by the relationship of confidence that has developed).

47. **Prospects for the availability of fertilizer and other inputs after the current crop period**. The following are some of the favourable factors for the availability of fertilizer and other inputs beyond the current crop period: (i) the project will bring funds into the hands of the cooperatives to buy inputs - firstly, by generating additional incomes that will be ploughed back into the purchase of inputs; and secondly, part of the "special fund" (see paragraphs 36-37) could be used by the cooperative farms to finance inputs for the next season; (ii) the Government will have more foreign exchange at its disposal for importing fertilizer and other inputs - first, because part of the country's export earnings from sericulture production (promoted by the IFAD-financed Sericulture Development Project) could be used to import fertilizer or other inputs (as foreseen under that project); and, second, as a result of foreign exchange savings arising from food grain import-substitution on account of increased grain production through the project; (iii) a possible source of additional foreign exchange to enable import of fertilizer and other inputs could be additional financial assistance (in hard currency) that might be provided to D.P.R. Korea by multilateral or bilateral donors to top-up the "special fund" mentioned earlier. (The "special fund" may attract donors since it would be used for viable small-scale development schemes at the grass-roots level. The forthcoming UN Round Table meeting on D.P.R. Korea will provide an occasion for the expression of such donor interest and commitment, especially given the Government's good record in

implementing the IFAD project. Preliminary talks in this respect have been initiated with international NGOs operating in D.P.R. Korea.); (iv) possible direct provision of fertilizer from other international sources - for example, from China, on commercial or concessional terms or from other donor sources as part of the ongoing UN appeal for humanitarian assistance to D.P.R. Korea, which includes a specific appeal for fertilizer donations; (v) possible rehabilitation of the existing fertilizer plants in the country through external assistance, including the possibility of corporate joint ventures; and (vi) requirements for imported chemical inputs will be reduced due to the Government's current efforts to increase domestic production and use of bio-fertilizers, bio-pesticides and organic manure, and to enhance soil fertility by transferring rich alluvial soil from stream beds to crop fields through massive mobilization of labour (which the cooperative farms are well able to organize).

PART V – SAFEGUARDS

48. The safeguards for more effective implementation that had been agreed in the Board are listed in Attachment III. The position with respect to these safeguards is described briefly below.

49. **Mid-term review in Project Year (PY) 2 instead of PY 3**. The mid-term review is planned to be undertaken towards the end of 1999.

50. **Assistant President, PD, to visit D.P.R. Korea in 1998**. The visit took place in early October 1998 and the present report is based on the Assistant President's findings.

51. **Intensive monitoring through internationally-recruited technical assistance**. The following IFAD missions and international technical assistance (funded through UNDP, an IFAD Special Operations Facility grant and the project itself) have been fielded or used to follow up on project activities and build up local implementation capacity: (i) in December 1997, a project management specialist; (ii) in the same month, a procurement specialist/ (iii) in January 1998, an accountant/financial management specialist and, in the same month, an inputs distribution planner/project management specialist; (iv) in March 1998, a mission composed of the UNOPS Portfolio Manager and the IFAD Country Portfolio Manager visited D.P.R. Korea; (v) in the same month, a credit specialist; (vi) in April 1998, an inputs distribution monitor; (vii) in July 1998, an accountant/financial management specialist; (viii) in August 1998, an inputs distribution monitor; (ix) in September 1998, a monitoring specialist; (x) in September 1998, again, a mission comprising the IFAD Assistant President, PD, the IFAD Country Portfolio Manager and the UNOPS Portfolio Manager visited D.P.R. Korea: and (xi) in November 1998, an inputs distribution monitor.

52. **Preparation of a crop inputs distribution plan**. An inputs distribution plan was completed by the Ministry of Agriculture in March 1998, with assistance from capacity-building technical assistance. This inputs plan formed the basis for the monitoring work undertaken by the expatriate inputs distribution monitor in April and August 1998.

53. **Access to project areas and project facilities**. The missions outlined in paragraph 51 above have had free access to project areas and facilities.

54. **Two UNOPS missions per annum**. UNOPS missions visited the project twice - in March and September 1998.

55. **Collection and analysis of field-level data by project monitoring staff**. Project staff within the Agriculture Production Department (crop subproject) and the Livestock General Bureau (livestock subproject) of the Ministry of Agriculture have established systems for collecting field-level data from participating units. A considerable body of project-related data has been collected but

further work is required to analyse such data. The September 1998 supervision mission has advised the Ministry of Agriculture of this requirement.

56. **Setting up a system of accounts and audit for the crop component**. Separate accounts were set up for the project, based on the Government's accounting system which is precise and detailed. With international technical assistance organized in collaboration with UNDP and UNOPS, the accounting system is being harmonized to bring it in line with international norms, e.g., with regard to improved cross-referencing, and to keeping supporting documents in several appropriate locations. In the case of the crop sub-component, cross-referenced data on inputs supply were found to be available at the cooperative, county and Ministry of Agriculture levels. Further technical assistance and training expected to be organized for further internalization of international norms and standards. Financial statements have been prepared as of 30 June 1998 for the crop component, and are now being updated for the period up to 30 September 1998. An audit of the project accounts for the period up to 30 September 1998 will be submitted to IFAD by 31 December 1998.

57. **Credit manual**. A credit manual containing guidelines for the management and operation of the credit sub-component has been prepared by an international credit consultant and the Central Bank. The manual was reviewed and approved during the start-up workshop. Credit disbursement is now proceeding on the basis of that manual.

58. **Capacity-building**. IFAD, UNOPS and UNDP collaborated in arranging local capacity-building in the following fields: (i) procurement: mission by an international procurement specialist in December 1997; (ii) project management: missions by international project management specialists in December 1997 and January 1998; and (iii) financial management and accounting: missions by an international financial management specialist/accountant in January and July 1998. UNOPS has been monitoring the project to ensure that project personnel satisfactorily internalize the project management, financial management and procurement procedures.

59. **Training and exchange visits**. Local training has been conducted in technical livestock fields and for credit. Some training and exchange visits abroad succeeded in identifying technical packages and in upgrading skills in loan disbursement and project administration. (This included active participation by a number of project staff at the IFAD Workshop in Kunming, China, in June 1998.)

60. **Baseline survey**. The baseline survey has been undertaken. The data therein is useful for project monitoring and evaluation.

61. The Executive Board is requested to note the information contained in the present report on the implementation of the Crop and Livestock Rehabilitation Project in D.P.R. Korea.

CROP AND LIVESTOCK REHABILITATION PROJECT

I. PROJECT COMPONENTS

1. The project's two major components are crop rehabilitation and livestock rehabilitation.

Crop Rehabilitation

2.. The crop component will deliver a package of inputs to the country's most productive grain growing area (the so-called "rice bowl" provinces), so as to have maximum impact on grain production in the coming crop season (1998). Funds generated by the sale of these inputs will be deposited into a "special fund" by the Government to be used subsequently to finance further poverty-alleviation activities. The project will finance and supply key inputs that will include 46 000 t of fertilizers, 100 t of pesticides/weedicides, 1 200 sets of tractor tyres and 600 rolls of plastic sheeting. To monitor and support the distribution of the inputs, the project will also finance four man-months of technical assistance.

Livestock Rehabilitation

3. This comprises five major sub-components: (a) poultry development; (b) rural credit; (c) goat and pasture development; (d) general livestock support (feed mills, livestock support fund and institutional support); and (e) project management.

4. **Poultry development**. This sub-component will include: poultry breeding; broiler fattening; chicken processing; and poultry training. Poultry breeding consists of: (a) six small-scale chicken-layer breeding units (1 500 bird capacity), with hatchery; (b) a broiler-breeding unit (capacity 5 000 birds), with hatchery; and (c) support to an existing goose-breeding farm to upgrade its capacity. Twenty small-scale broiler-fattening units (5 000 bird capacity) will be constructed on selected cooperatives with no other livestock or crop development opportunities. A cooperative-managed small-scale chicken processing plant will be installed, equipped with slaughtering, plucking, cleaning, eviscerating, chilling and packing facilities. The Poultry Research Institute will be strengthened and will provide poultry training to county-level staff, veterinary officers, breeding farm and hatchery personnel, and feed mill processing personnel. Training will also be provided to members of cooperative farms.

5. **Rural credit**. The project will finance: (a) loans to individual households initially to finance livestock (mainly for feed and rearing stock) and, later, other side-line activities; (b) working capital loans to cooperatives (mainly for feed), poultry-breeding units, broiler-fattening units and feed mills; and (c) institutional support for training. Separate credit lines will be established and managed by the Central Bank for extending loans to individual households and cooperative farms. The typical size of loan to individual households is expected to be KPW 130 (USD 60), for activities such as raising a small flock of chickens (about a dozen birds), a few geese, or a goat in the backyard.

6. **Goat and pasture development**. Areas of sloping land under cultivation and scrub will be converted to pasture, with a grant of USD 50 per ha for 16 000 ha. Depending on the degree of slope, scrub land will be cleared, ploughed and planted with leguminous or other fodder species. Some small soil-conservation measures will be undertaken, such as gully rehabilitation. About 20 000 breeding goats will be procured and supplied to cooperative farms and individual households.

7. **General livestock support**. Under this sub-component, the project will finance: (a) rehabilitation/construction of eight feed mills; (b) support to livestock institutions serving cooperatives and individual livestock holders (by providing stock, vaccines, etc.); and (c) the livestock support fund that can be drawn upon to finance activities to improve implementation of the project or

apply new innovative technology to improve the incomes of poor households (including production of goat milk cheese, crop-residue enhancement through application of yeast technology and trials to quantify the benefits of layer-house lighting).

8. **Project management**. Under this sub-component, the project will establish and operate the office for the project director and a project management unit in the project area.

II. PROJECT COSTS AND FINANCING

9. Total project costs, including price and physical contingencies, are estimated at USD 32.1 million over the five-year implementation period (see table below). An IFAD loan equivalent to USD 28.9 million will finance agricultural inputs, vehicles and equipment, civil works, livestock and feed procurement, credit lines, and training and operating expenses. The Government's contribution will finance some civil works and incremental salary costs.

10. IFAD will separately provide a Special Operations Facility grant of USD 60 000 to finance essential project start-up activities.

Summary of Project Costs [a/]
(USD million)

Components	**Local**	**Foreign**	**Total**	**% of Foreign Exchange**	**% of Base Costs**
Crop rehabilitation	-	**14.1**	**14.1**	**100**	**47**
Livestock rehabilitation					
1. Poultry development	2.2	2.2	4.4	50	15
2. Rural credit	3.5	2.2	5.7	39	19
3. Goat and pasture development	2.3	0.5	2.9	19	10
4. General livestock support	0.7	1.4	2.1	67	7
5. Project management	0.2	0.7	0.9	78	3
Sub-total	**8.9**	**7.0**	**16.0**	**45**	**53**
Total base costs	**8.9**	**21.2**	**30.1**	**70**	**100**
Physical contingencies	0.5	0.4	0.9	43	3
Price contingencies	-	1.1	1.1	100	3
Total project costs	**9.5**	**22.7**	**32.1**	**71**	**107**

a/ Discrepancies in totals are due to rounding-up of figures.

ATTACHMENT II

CONCERNS RAISED IN THE EXECUTIVE BOARD WITH RESPECT TO THE IMPLEMENTATION OF THE CROP AND LIVESTOCK REHABILITATION PROJECT IN THE DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA

1. Given the relatively less-known nature of the country's socio-economic system and institutions, do conditions exist for effective project implementation? Would resources be put to good use? Will financing of the various inputs automatically generate higher production? Does the "absorptive capacity" exist to handle the considerable scale of the project? Will markets exist to absorb the intensive production? Can the prices be trusted to provide the necessary incentives? Is beneficiary participation there?

2. With particular reference to livestock, will fodder and good-quality feed be available? Will not the livestock production negatively affect the food balance for human consumption (while the positive effect, on people's nutrition, of the higher-value animal production brought about through the project is likely to improve only in the longer term)?

3. The project's credit sub-component appears to be risky. Will it be workable? Will the Central Bank be able to manage the considerable volume of credit? How will both individual credit and cooperative credit be managed simultaneously? How will the credit be operated on a "demand basis"?

4. What will the envisaged "counterpart funds", accruing from fertilizer sales to the cooperatives, be spent on? Through which budgetary or other monitoring system will fertilizer sales, the cost recoveries from the sales and the accrual of these amounts to the "special fund" (for subsequent use on poverty-focused efforts) be tracked?

5. There will be need to establish an effective overall system for monitoring the flow of funds, the flow of goods and the overall implementation of the project; the monitoring of the livestock component and the credit sub-component might be particularly complicated.

6. It would help in finding solutions to the country's present difficulties if the (possibly) macroeconomic and policy-related factors behind the current shortage of inputs (in addition to natural calamities) were also given due consideration. A related problem concerns the availability and reliability of statistical information. In particular, some Board members would be interested in receiving information on the Government's policy framework for conducting the project.

7. Looking beyond the IFAD-financed provision of key inputs for the coming crop season, what would be the prospect for input availability over the longer-term? What are the Government's policy/programmes to assure continued supply of fertilizer once the IFAD-financed activities come to a close?

ATTACHMENT III

CROP AND LIVESTOCK REHABILITATION PROJECT
SAFEGUARDS FOR EFFECTIVE PROJECT IMPLEMENTATION

1. Mid-Term Review in PY 2 rather than PY 3.

2. Special follow-up in 1998 by the Assistant President, PD, with regard to project implementation and policy changes resulting from project interventions.

3. Intensive monitoring of the project's crop and livestock activities through internationally-recruited technical assistance at each key stage of the project.

4. Completion of a detailed inputs distribution plan, prior to project start-up, to provide the basis for monitoring by an internationally-recruited crop inputs distribution coordinator.

5. Full and free access to all project areas and facilities for nationally- and internationally-recruited project personnel.

6. Increased frequency of missions by the cooperating institution (UNOPS) - twice yearly.

7. Collection and analysis of field-level data by monitoring staff at each key stage of the project.

8. Setting up of a system of accounting and audits for the crop component. Proper auditing of accounts, acceptable to IFAD, to be completed as a pre-condition for further disbursements to the livestock component of the project.

9. Preparation of detailed technical guidelines on credit, to be prepared in consultation with IFAD, as a pre-condition of IFAD loan disbursements for the credit sub-component.

10. Capacity-building in financial management, accounting, procurement, and general project management.

11. Enhancement of local technical capacities through project-supported training and exchange visits.

12. Undertaking of a baseline survey, to be completed at the time of project start-up, recording the key monitoring indicators for the project.