

Agriculture Development Project

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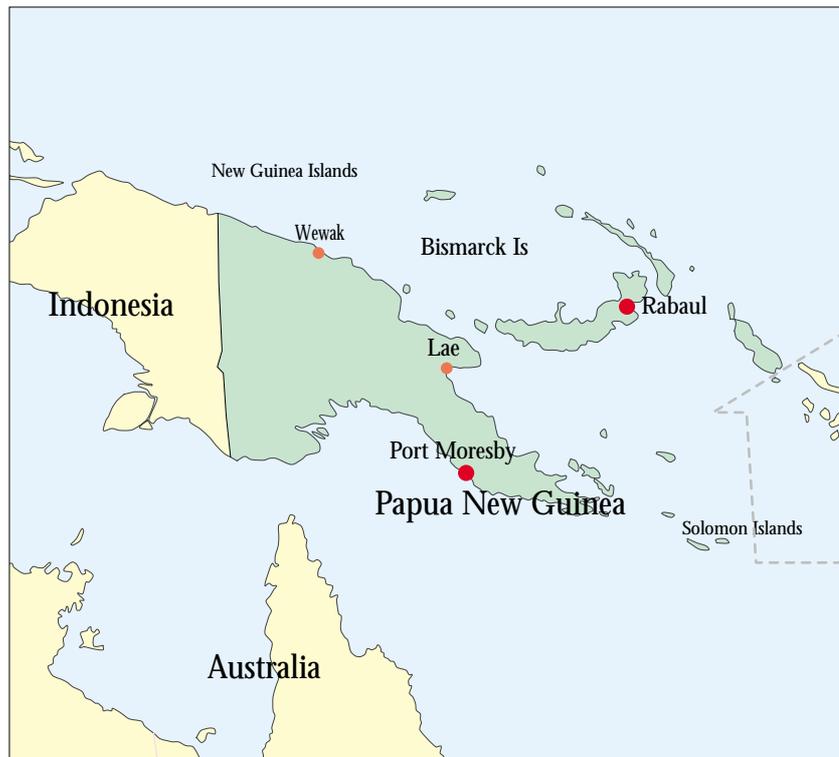
1 Project Summary and Japan's ODA Loan

(1) Objectives

The objectives of this project are to maintain the coffee and cocoa production standards and raise the quality of these products, as well as to contribute to the improvement of the international balance of payments by increasing agricultural income through the diversification of other agricultural products by providing sub-loans to small-scale farmers through Agriculture Bank of Papua New Guinea (later, Rural Development Bank, hereunder, RDB).

(2) Project Scope

This project is Two-Step-Loan, with the funds lent by JBIC channeled to RDB, which is the executing agency for this project, via the PNG administration, and thereafter, sub-lent to end-users. The scope of sub-loans at the time of planning were coffee, cocoa, and other agricultural products, new export cash crops, food crops for import substitution, and crops for nutrition improvement. The loan period and sub-loan interest rate were as follows at the time of planning.



	Loan Period	Sub-loan Interest Rate
Less than 10,000 Kina	Within 8 years (within 4 years for grace period)	8.5% per year
10,000 Kina or more	Within 15 years (within 5 years for grace period)	10.5% per year

(3) Project Cost

(Unit: ¥1,000)

	Plan	Actual	Difference
Sub loan	2,557,000	2,029,350	△527,650
Purchase of vehicles	48,000	72,360	+24,369
Consulting service	66,000	111,513	+45,513
Total	2,671,000	2,213,232	△457,768
Contingency	11,000		△11,000
Grand total	2,682,000	2,213,232	△468,768

(4) Borrower/Executing Agency

Government of Papua New Guinea / Agriculture Bank of Papua New Guinea (later, Rural Development Bank)

(5) Outline of Loan Agreement

Loan Amount	¥2,682 million
Loan Disbursed Amount	¥2,213 million
Date of Exchange of Notes	August 1988
Date of Loan agreement	November 1988
Loan Conditions	
Interest Rate	2.7%
Repayment Period (Grace Period)	30 years (10 years)
Procurement	General Untied
Final Disbursement Date	April 1999

ExchangeRate: 1 Kina = ¥148, Rate at the time of appraisal (1988)

2 Analysis and Evaluation

(1) Project Implementation

Loan Status by Project/Product

Project	No. of loans	Loan amount (1,000 Kina)	Composite ratio
Coffee	902	4,926,662	24.4%
Transport (passenger)	222	3,068,743	15.2%
Fishing	991	2,144,080	10.6%
Poultry	418	1,473,106	7.3%
Cattle farming	95	1,356,866	6.7%
Transport of produce	132	1,307,514	6.5%
Cocoa	418	1,205,962	6.0%
Cocoa processing	485	1,093,815	5.4%
Transport (goods)	49	991,318	4.9%
Oil palms	632	779,128	3.9%
Housing	157	689,825	3.4%
Gardening	62	413,360	2.0%
Others	193	718,427	3.6%
Total	4,756	20,168,806	100.0%

(Source: PCR)

Target Projects and Loan Conditions

Sub-project	Planned Target	Actual Target	Loan Limit	Loan Period (Year)	Loan Interest (%)
Small-scale agriculture	○	○	Less than K10,000	8	8.5-10
Large-scale agriculture	○	○	K10,000 or more	15	1.5-12
Small-scale coastal fishing	○	○	Less than K10,000	8	8.5-13
Small-scale oil palms (not including new fields)	○	○	Less than K10,000	8	8.5-12
Small-scale oil palms (new fields)		○	Below K10,000	15	11-12
Transportation vehicles		○		2-3	20-22
Small-scale forestry		○		3-7	13-15
Livestock industry		○		5-15	10-12
Processing of agricultural products		○		3-15	10-15
Large-scale fishery		○		2-7	14.5-22
Rural housing		○	Below K5,000	10	5-10
Small loans for women and young persons		○	Below K5,000	2	8-10
Loans for disadvantaged underdeveloped areas		○	Below K10,000	12	5-8

(i) Provision of Sub-Loans

Project formation was delayed due to commodity rate sluggishness, but on the other hand the strong yen and weak kina increased the possibility of kina-denominated loans, and consequently loan disbursements took longer than initially planned. However, the loan period was extended in two times a total of 4 years, and as the result of Special Assistance for Project

Implementation (SAPI) from JBIC, thus strengthening the implementation scheme, ¥2,029 million were lent in the end, compared to the initially estimated amount of ¥2,557 million.

The target of the sub-loans were coffee, cocoa, and other agricultural products, including new export cash crops and crops for import substitution, and crops for nutrition improvement. However, based on the SAPI recommendation of December 1995, 9 new projects were added for sub-loans as matching the project objective of agricultural promotion.

The sub-loan recovery status stands at 1,643 loans recovered out of 4,756 loans made, and 184 loans that are irrecoverable. Moreover, there were 428 loans whose recoverability was doubtful out of the 2,929 remaining loans as of the end of March 1999.

The operation of a revolving fund began in 1997 with the establishment of a management information system (MIS). The repeat loan rate on a loan approval basis compared to the cumulative sub-loan repayment total (amount approved for repeat loan) was 39.3% as of December 1998.

(ii) Procurement of Vehicles and Implementation of Consulting Service

The project implementation schedule was extended due to the extension of the loan disbursement period, and therefore additional vehicles were procured as required.

In addition to the initially planned sub-project support consulting and lending training, the establishment of the Management Information System (MIS) was implemented using part of the loan funds regarding consulting services. This made it possible to collect the information necessary to raise RDB's lending efficiency and improve its management capabilities. Consultants were hired in order to enable the smooth implementation of this project and support adequate management of obligations. These actions contributed to the rationalization of RDB's operations and its management improvement, and also the efficient implementation of this project.

(2) Project Effects and Impacts

(i) Rural and Agriculture Promotion

Ultimately, 2,213 million yen in project funds were lent through this project, and various cases of expanded production activities, productivity increases, and raised income have been reported. While this financing assistance is not the sole reason involved, for businesspersons for whom investment expenditures for seeds, fertilizer, tools, and machinery come first, the introduction of easy-to-use institutional banking can be said to play an important role in raising interest in business. Furthermore, this project has also created employment opportunities, as shown by an interview survey of 299 persons out of the 20,000 covered by this project, or 1.8% of all PNG job seekers.

Other results include (1) many cases of the automation or streamlining of agricultural work and the release of workers from heavy or dangerous labor through the introduction of new agricultural machinery and the use of fertilizers by end-users through this project and (2) the appearance of a wide variety of agricultural produce on markets, in greater quantities as well as higher quality. Moreover, the food situation has improved along with higher incomes, in the form of greater food purchases by individuals and the consumption of excess agricultural produce. However, another impact of this project is that some traditional produce such as taro, bananas, beans, and potatoes cultivated as commercial crops, which fetch low prices but have high nutritional value, has been somewhat neglected.

(ii) Improvement in Capability of Financial Institutions

The organizational capabilities of RDB have been strengthened thanks to management improvements implemented with the help of consultants hired using loan funds along with the introduction of MIS and vehicle procurement. As a result, the functions of RDB have been improved and the institutional banking system in rural areas has been enhanced.

(iii) Environmental Impact

The majority of sub-projects in this project consist of small-scale projects by small-scale farmers distributed over various regions. In the case of sub-projects involving individual farmers, the scale is 2 to 3 ha, while in the case of sub-projects involving groups, the scale is on the order of 10 ha. Furthermore, in the case of coffee and cocoa, which account for the majority of sub-projects, projects consist of replanting of existing agricultural land. Thus, no adverse environmental impact has been observed in particular for this project.

3 Lessons Learned

(1) It is important to increase the implementation capabilities of the executing agency through the strengthening of human resources to enable the rapid and smooth implementation of financial intermediary loans.

As part of this project, consultants were hired using loan funds in order to improve lending operations, management operations, and make project progress reports. As a result, the implementation capability of the executing agency was raised, and it became possible to implement sub-loans in a smooth manner. On the other hand, reports on the project's progress

were systematically made to the JBIC, and efficient monitoring of ODA lending operations was made possible. It is important to seek to raise implementation capabilities and reporting capabilities by strengthening human resources, including hiring outside specialists when the executing agency does not have suitable personnel for specific tasks.

(2) Since the implementation and monitoring of financial intermediary loans depend heavily on the information system capabilities of the executing agency, aid for strengthening the executing agency's information system is important. Since this project involved a large number of small sub-loans, the provision of information system to manage lending operations was indispensable. Through the introduction of an information system, it became possible to collect sub-loans management information and management information, enabling accurate sub-loans management and management analysis by the executing agency. This information system of the executing agency for implementation and monitoring of this project can be said to be indispensable, and pressing ahead to establish it within the shortest delay possible was a sensible decision.



Head Office of Rural Development Bank



Coffee Bean Processing Machine, purchased through the Loan from RDB



End-user's Coffee Farm, Manager and RDB Staff in Foreground