

Dairy Facilities Improvement Project (2)

Report Date: March 1999
Field Survey: December 1998

1 Project Summary and Japan's ODA Loan

This project aimed to meet growing demand for milk and dairy products in South Korea and to protect and nurture small dairy farmers. Specifically, the project is designed to expand the Seoul Milk No.3 Factory(*), which is located in the Pan Wol Industrial Complex in Gyeonggi Do Ansan city, around 35km southwest of Seoul, in order to increase the factory's raw milk treatment and processing capacity.

The ODA loan covers the entire foreign currency portion of the project cost, and part of the local currency portion.

Borrower	Government of Korea
Executing Agency	Seoul Dairy Cooperative
Loan Amount	¥2,448 million
Loan Disbursed Amount	¥1,507 million
Date of Exchange of Notes	September 11, 1990
Date of Loan Agreement	October 31, 1990
Final Disbursement Date	January 9, 1996

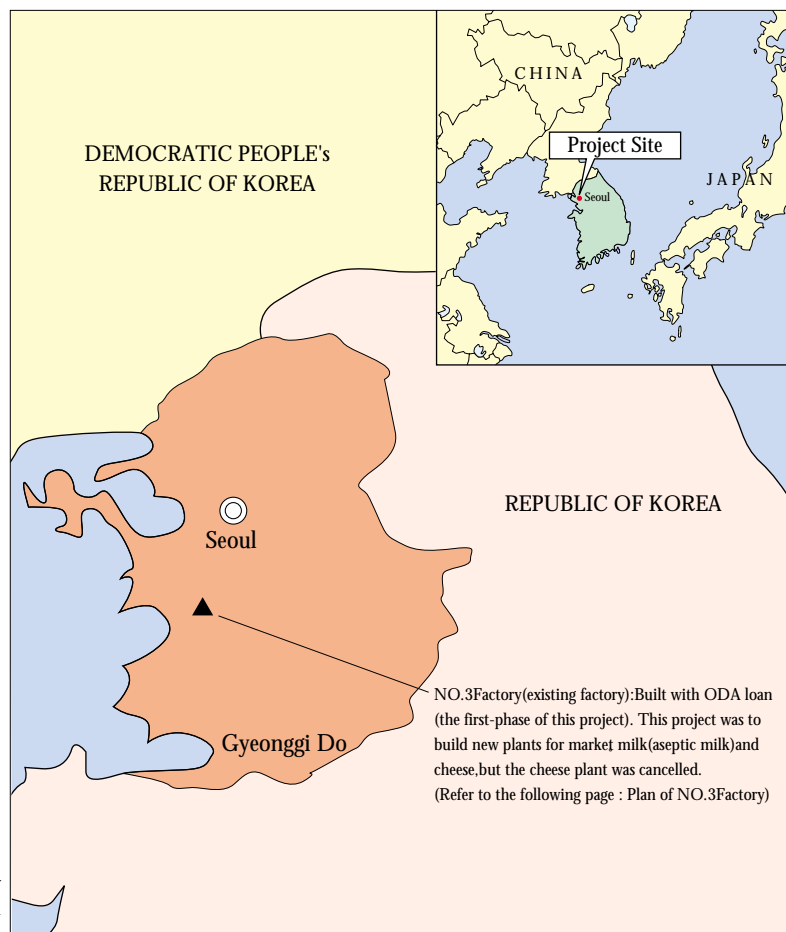
2 Analysis and Evaluation

(1) Project Scope

The initial plan was for expansion of facilities with the capacity to treat and process 570 tons per day of raw milk, but the scale was reduced to expand only market milk plant with a capacity of 200 tons per day. This change was a response to the slackening off of the milk consumption in South Korea after 1988 and was judged to be appropriate.

(2) Implementation Schedule

The reappraisal of the scope of the project delayed the start of the civil works (the tender procedures) by seven months, but the facilities were completed six months ahead of schedule. Completion was early because the time required for tender was reduced and the construction work continued even in winter, when conditions are generally disadvantageous for such work. This acceleration depends much on efforts by the executing agency (SDC) to bring the project into commercial production in time for the next demand growth season (March ~ September in South Korea).



(*The factory was built in FY 1985 under the Dairy Facilities Improvement Project with an ODA loan to South Korea.

(3) Project Cost

The foreign currency portion of the project cost underran by around ¥900 million. The underrun was mainly due to the above-mentioned reduction in the scope of the project which brought the equipment purchasing cost below the plan. The size of the factory (floor space) was increased from the plan, which increased the local currency portion of the cost.

Comparison of Original Plan and Actual

Item	Plan in 1990	Actual
1. Project Scope	(Raw milk treatment/processing capacity)	(Raw milk treatment/processing capacity)
Market milk plant	360 tons/day	200 tons/day
Powdered milk plant	180 tons/day	0 tons/day (cancel)
Cheese plant	30 tons/day	0 tons/day (cancel)
2. Implementation Schedule		
Project commencement (start of civil works) ~	October 1991 ~ May 1993	May 1992 ~ June 1993
Project completion (end of test run)	(20 months)	(14 months)
3. Project Cost		
Foreign currency	¥1,885 million	¥945 million
Local currency	5,860 million won	6,507 million won
Total	¥3,139 million	¥1,943 million
Exchange Rate	1 won=¥0.214	1 won=¥0.153

(4) Project Implementation Scheme

The executing agency was Seoul Dairy Cooperative (SDC), which worked together with its supervisory agency, National Livestock Cooperatives Federation (NLCF) to carry out the project. Procurement of the facilities (plant) was executed by international competitive tender, which was awarded to companies from Denmark and Singapore. The performance of these companies was good, including deliveries made ahead of the schedule.

No consultants were employed for this project.

(5) Operations and Maintenance

Operations and maintenance for this project is handled by the SDC No.3 Factory. The number of workers at the No.3 Factory has increased since the appraisal was conducted. The facilities are automated and is operated efficiently.

(6) Project Effects and Impacts

(i) Quantitative Effects:

(a) Increased Receiving Capacity for Raw Milk : The implementation of this project increased the raw milk receiving capacity of the SDC Seoul No.3 Factory from 181,000 tons/year in 1990 to 221,000 tons/year in 1997.

(b) Financial Internal Rate of Return : FIRR = 24.2%. (13.7% at the time of appraisal in 1990).

(c) Job Creation: The implementation of this project created 20 new jobs in the milk plant of the SDC Seoul No.3 Factory (between June and September the factory works at full capacity with three shifts, creating another ten seasonal jobs).

(ii) Qualitative Effects

(a) A Strengthened Base for the SDC Cooperative Members : The implementation of this project secured a reliable recipient for the raw milk produced by the SDC cooperative members, contributing to the protection and improvement of their livelihoods.

(b) Increased income for dairy farmers: The annual household income for the SDC cooperative members rose from 16.8 million Won in 1990 to 49.3 million Won in 1997, thanks to this project and other factors.



Seoul No.3 Factory (from Main Gate)



The Market Milk Processing Plant extended under this project.



A Milk Processing Plant purchased and set up under this loan.