

EXECUTIVE SUMMARY

(of the Final Report)

Mid -Term Review

“Pilot Project to Support Socio-Economic Development of Rural Areas in the DPRK” (SED)

Unryul, Unchon Counties (South Hwanghae Province),
Hoechang County (South Pyongan Province)



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Project:	Pilot Project to Support Socio-economic Development of Rural Areas in DPRK (SED)
Award ID:	00074805
Project ID:	00087041
Start date:	June 2013
End Date:	July 2018 ¹
Implementing Agent:	UNDP/DIM
Total Project Budget:	USD 5,240,309 ²
2017 Planned Budget:	USD 2,285,450

The MTR was undertaken by an International Consultant – *Mr Alexander Grushevskiy*, who was accompanied in the meetings and site visits by Mr. *Yu Hua*, Project Manager; Mr. *Kyong Il Ri*, Programme Analyst; Mr. *Jong Kwang Ho*, National Training Coordinator; and Mr. *Byol Song Kim*, Project Administrative Assistant.

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¹ A two-year extension was approved for the project (from end of July 2016 to July 2018).

² USD 912,000 was added for the two-year project extension.

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Executive Summary

The *Pilot Project to Support Socio-economic Development of Rural Areas in DPRK* (SED) was launched in June 2013 after two years of consultations, review and approval process. The project is implemented by UNDP in direct implementation modality (DIM) in cooperation with UNIDO, for specific components, through a UN Agency to UN Agency Contribution Agreement signed in November 2016.

Being designed as a development intervention, SED also had a strong humanitarian dimension the project addresses the evolving priority needs of people in DPRK through an integrated intervention aiming first of all at improving nutritional security and overall reducing poverty alleviation in rural areas of the country. In line with national development priorities and the 2017-2021 United Nations Strategic Framework (UNSF), the SED's objective is to improve the living standards of people in three pilot counties in DPRK by way of revitalizing food and daily necessity production units, expanding raw material bases, as well as strengthening local capacities needed for such development.

The SED's outcome is formulated as follows: "Increased standards of living and sustainable livelihood".

The project is implemented in partnership with local counterparts at the local/county level targeting communities (Ri) in rural/semi-rural areas of DPRK³ under overall coordination of the National Coordinating Committee (NCC) and technical guidance of line ministries.

The project outputs include:

Output 1: Employment and income generation in rural community industries improved for more productive activities, improved standards of living and livelihoods including convenience food processing by local household cooperatives in rural areas:

1.1 Production improvement of selected local food processing factories.

³ Namely Unryul, Unchon counties in South Hwanghae province, and Hoechang county in South Pyongan province.

- 1.2 Wild fruit and edible plant processing for nutrition improvement and food security in the mountainous areas of DPRK.
- 1.3 Enabling the production and processing of protein rich plants.

Output 2: Household food security improved and income generating activities enhanced for rural population:

- 2.1 Capacity Building of Local Raw Material Bases for Soap and Paper (Clay) Production.
- 2.2 Production revitalization of Daily-Necessities Factories (DNF) based on their own raw material bases.

Output 3: Rural production systems and institutions strengthened for efficient utilization of livelihood:

- 3.1 Capacity Building of Community Organizations for More Productive Activities and Improved Income Generation.
- 3.2 Support to Community Capacity for Knowledge Dissemination for Local Sustainable Production.

The experience, best practices, and lessons learned from implementation of SED could be applied later on in other rural areas of DPRK and possibly expanded to a wider range of sectors and industries to meet the local humanitarian and development needs.

The pilot project, with a budget of USD 4,328,309, was initially expected to be completed by July 2016. Slow progress was however recorded from the start, resulting from various administrative and technical difficulties encountered, which were beyond control of the UNDP PMT and CO. With approval from UNDP HQ in December 2015, the project was extended for two years till July 2018, its total budget being increased by USD 912,000 to a total of USD 5,240,309. Progress under the SED project was however further negatively affected by a series of additional challenges, ranging from general geopolitical tensions at the regional and international level, and newly introduced regimes of sanctions, to increasingly restrictive procedures for financial transactions and procurement. The cooperation between UNDP and UNIDO has also been marked with difficulties and frustrations, in view of the changing environment and inherent constraints, notably the lack of banking channels, UNDP's stringent

internal control framework, and remote management by UNIDO, UNIDO being a non-resident agency in DPRK.

Under these circumstances, as per UNDP Programme and Operations Policies and Procedures (POPP) requirements, an external mid-term review of SED was initiated by the UNDP CO with the following major purposes:

- to assess progress in the project implementation and analyse reasons for delays and deviations;
- to identify successes and failures, major bottle-necks and to formulate the lessons learned; and
- to provide recommendations to the project management on any necessary adjustments and corrections for the remaining part of implementation.

This mid-term review was launched on 11 August 11 2017 with the desk study of project documents, reports, and other information related to the implementation of activities under the project. The international consultant travelled to DPRK and from 11 to 22 September 2017 conducted in-country consultations and interviewed key SED international (UNIDO) and national stakeholders. The three target counties (Unryul, Unchon, and Hoechang) were visited for verification of results and collection of feedback and comments from the local counterparts and beneficiaries.

The key findings presented below were made on the basis of the above mentioned documentation review, consultations and interviews with stakeholders and beneficiaries, as well as observations from the various site visits.

The in-country Project Management Team (PMT) consists of professional and dedicated experts, who are well aware of the project management arrangements and specific technical details related to the project implementation.

Good working relations were established with the key stakeholders and beneficiaries both at the national and local level; except for the frustrations expressed by some of the local actors at the slow pace of implementation of some components, the implementation of SED activities are overall welcome and supported in all the three

target counties.

Despite continuing efforts of the PMT supported by the UNDP Country Office senior management to accelerate the implementation of the SED activities to realize the planned outputs and contribute to the project Outcomes, the overall progress is however still limited: vast portions of the interventions anticipated in target communities are seriously delayed, which has led to increasing disappointment among stakeholders and beneficiaries, to the point that it has become a reputational risk for UNDP DPRK.

While interventions that are under the control of the PMT and supported with needed resources are in progress or already completed, limited progress was achieved to date in the implementation of a whole range of other SED planned activities.

The analysis suggests that the delays have been mainly related

- the requirement for vetting and clearance of items by the UN SC established Committee in New York for any international procurement;
- the closure of banking channels has led to cash conservation mode measures in most of 2016,
- Increasingly restrictive procurement policy for DPRK, which severely limits the ability of the UNDP Country Office to procure goods and services, whether international procurement or in-country procurement. Procurement policies were being revised from February to April 2017, the DPRK Country Office's delegated authority for procurement and threshold for international procurement was drastically reduced to USD 25,000 on 27 April 2017, the Country Office being also advised to undertake international procurement off-shore (e.g. from UNDP Procurement Support Office in Copenhagen, or UNDP China) as a standard practice.

It should be noted that the delivery of specific components of the SED project, notably the procurement of un-sophisticated construction materials for the rehabilitation of facilities, or the design and manufacturing of wild fruits and plants processing equipment, are best achieved through national procurement, to ensure sustainability of the investment (spare parts, maintenance, etc.)

Increased paper-work and transaction costs, and back and fourth communication with the UNDP Bangkok Regional Hub (BRH) have significantly hampered progress towards expected results.

UNIDO interventions are *de facto* limited to technical assistance and advice provided by international consultants⁴.

Against this frustrating background, the establishment and operationalisation of the Model Centers for Pistia Production in Unryul and Unchon counties may be considered as a success of the SED: equipment provided by UNDP is in use and well maintained; both centers produce enough Pistia to meet their own needs and to distribute as seeds to other farms and households within and outside target counties. Relevance, effectiveness, sustainability and impact of this intervention are obvious, and this model can be recommended for further replication within and outside the target counties.

Promotion of use of wild fruits and plants in Hoenchang county may be considered as a partial success: knowledge about their nutritional value was disseminated and accepted in the target communities. Due to delays in the procurement of industrial lines for wild fruits and plants processing, local households have not had the opportunity to supply local food processing facilities (FPF) with wild fruits and herbs, therefore not benefitting from more and varied products and also from income generation, even though the gathered wild fruits and plants were used to meet household needs.

Other SED activities are in the early stages of implementation (like support to Spirulina production, upgrading and development of local FPF, capacity building of local skills

⁴ UNIDO has no opportunity to transfer money to DPRK and therefore cannot execute national procurement of goods and services (UNDP could make payments on behalf of UNIDO but the funds currently available to UNDP-DPRK are limited due to closure of money transfer channels); international procurement of goods and technology by UNIDO should be approved by the UN Sanctions Committee, what requires time exceeding the lifespan of the project; etc.

development institutions) or are not launched yet, and therefore it is too early to provide their comprehensive analysis.

Overall, SED activities have proved relevant, especially as they have been planned/modified in consultation with local stakeholders and beneficiaries, and their implementation was anticipated by local communities, which has contributed, inter alia, to the preparation of premises of factories for equipment to be supplied (both for production lines and capacity building)-

Whether the activities are to be implemented by UNIDO or UNDP (depending on the component concerned), the feasibility of the planned interventions (and consequently – their sustainability) requires however additional attention taking into consideration the following key factors:

1. Scarcity of energy resources to support the planned activities; and
2. Lack of funds in the target counties to conduct construction/renovation works in line with standards of Good Manufacturing Practice (GMP), which should precede an installation of production lines.

The anticipated contribution of the activities under consideration to the improvement of nutrition of targeted population, and to employment and income generation should also be taken into account, and if possible estimated, so as to measure the success of the interventions.

An additional factor which needs to be taken in to consideration as it may impact on future decisions related to the SED project, is the uncertainty that still surrounds the future of the UNDP Country Programme: the Country Programme Document (CPD) for UNDP in DPRK expired at the end of December 2016, and its extension, or a new CPD was not approved by the Executive Board. In the absence of formal extension of the CPD, only existing projects may continue (based on the SBAA and the signed project documents), but new investments or expansion may not be considered by UNDP.

Currently, also depending on the future of the UNDP CPD and progress registered

during the upcoming months, the management of the SED project is faced with three scenarios:

1. To complete the project and related planned/approved activities within timeframe allocated by the extension document (till July 2018);
2. To seek a no-cost extension of the timeframe of the project beyond mid-2018 (taking into account that two other projects will continue)
3. If the CPD is formally extended or renewed, to consider the extension of the timeframe of the SED project together with allocation of additional budget.

Under scenario 1, the PMT should prioritize and focus on activities that have registered most progress to date (Spirulina production), while trying to accelerate the national procurement of equipment for food processing factories (in all three counties) and most feasible daily necessity factories (e.g. soap factory in Unchon), as well as equipment provision for training and skills development centers.

The revision of the project plans till July 2018 may release additional funds which could be allocated to the replication of the successful model of Pistia production in the target counties.

The completion of the majority of activities as foreseen in the Project Document does not appear feasible in the remaining months, however. Moreover, 6 to 9 months will not be sufficient for the required capacity building, further undermining sustainability and impact of the SED intervention.

Under scenario 2, whereby a no-cost extension would be sought, there would be of course more time for the implementation of planned activities but in this case the management of the SED project will be dangerously stretching an already tight budget potentially compromising the full the implementation of activities as anticipated by the target communities. To make a no-cost extension more effective and feasible, it is advisable to reassess priorities within the already planned SED activities, and to focus on those interventions with the highest relevance and impact (therefore reallocating both time and money).

Although possibly more hypothetical at this stage, the third scenario is probably the

most desirable one from the perspective of ensuring an effective contribution to the SED outcomes and ensuring lasting and sustainable impact. Such an approach to the SED finalization would allow SED to reach major goals but also provide an opportunity:

- to support replication of the most successful models within or beyond target counties,
- to introduce new products with rich nutritional values, and
- to contribute to the improvement of the access to energy sources (ideally based on the results or in cooperation with other UNDP project, which is currently under implementation in DPRK – Sustainable Energy Solutions (SES)).

In any case, regardless of decisions made by UNDP with respect to the future of the SED project beyond mid-2018, the management of the SED projects should take every measure, and seize every opportunity, and not spare any effort to accelerate the rate of delivery.

From this perspective the following steps may be recommended:

1. To re-assess a feasibility of delivery of the tasks currently allocated to UNIDO by the UNDP PMT and the additional resources (if any, both in terms of time and money) needed for this purpose, taking into account experience to date as well as recent changes in the working environment of the project
2. Based on the above assessment, to revise the current agreement with UNIDO with appropriate tasks and budget being reallocated so as to increase the responsibilities of UNDP in the implementation at county/ri level, thus also reducing transaction costs, and to restrict UNIDO's contribution to the provision of international technical expertise.
3. In the process of procuring goods, both materials and equipment, rely as much as possible on resources available and/or produced locally, which not only helps expediting delivery, but also saves transportation costs and, even more importantly, simplifies provision of after-sale maintenance and support, and therefore sustainability.
4. Under current circumstances, the UNDP Country Office, while ensuring due diligence and compliance, should continue exploiting every opportunity to simplify administrative procedures and cut corners, e.g. accelerate approvals for procurement, rely on UNDP China, and develop other effective strategies.

Other key recommendations include as follows:

1. To further discuss, through the Project Steering Committee (PSC), the possibility of obtaining support from the Government of DPRK in the replication of SED successful models within and outside target counties (currently – Pistia centers but other activities may be added to the list later on).
2. To carry out internal reviews and identify the most feasible activities with the biggest impact on nutritional status, employment and income generation, to be considered for further replication.
3. To reassess planned intervention with consideration of limited access to the energy supply (for the small-scale operations - foresee use of tools operated manually, possibility to use solar, thermal sources (especially in case of Unchon county), provision of generators for the bigger scale operation, etc. - with eventual contribution from the SES project).