

UNITED STATES GOVERNMENT

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489-663-0000/01

Memorandum UNCLASSIFIED PD-ABA-675 65396

TO : Mr. Dennis P. Barrett, AID/REP DATE: October 12, 1977

FROM : *James R. Callaway* / *E. A. Gales*
James R. Callaway, BEO/Edwin A. Gales, GDO-DL

SUBJECT: Loan Completion Review, AID Loan No. 489-H-047
(2nd Transmission and Distribution) 489-663

REF: AID Manual Order 1264.1, Section IV - "Loan Completion Review and Report"

I. The Loan

The Loan Agreement dated June 17, 1967 between the Government of the Republic of Korea ("Borrower"), the Korea Electric Company ("Beneficiary"), and the Government of the United States of America, acting through the Agency for International Development, made available an amount up to \$12,700,000 to assist in financing the reasonable U.S. dollar cost of goods and services required for construction of electric power transmission and distribution facilities. The amount of the loan was subsequently reduced to \$10,637,307. Actual disbursement amounted to \$10,501,473 with the balance to be deobligated. The terms to the borrower are forty years, including a ten year grace period, and an interest rate of one percent (1%) per annum during the grace period and two and one-half percent (2½%) per annum thereafter.

Borrower terms to the Beneficiary are twenty years with a grace period of two years, and an annual interest rates of six percent (6%). Borrower repayment is in U.S. currency and Beneficiary repayment to the Borrower is in Korean currency. All interest and principal payments due under this loan are current.

II. Purpose of the Loan

The purpose of this loan was to finance foreign exchange costs of the engineering services and importation of equipment and materials required for construction of transmission and distribution facilities. This project is widespread and affects

every area of the country-wide system although there is a concentration in the Seoul-Inchon and the Southeast areas.

The project originally included 36 sub-projects identified as the "Appendix to AID Loan Agreement 489-H-047" and attached to Amendment No. 1 to the Loan Agreement. One sub-project was subsequently deleted at the request of KECO.

All AID financed commodities have been delivered, and all underground cable and pipes have been installed under the streets and in the substations. To date all sub-projects have been completed successfully except one (Hyonje substation) where there is a construction delay due to a design change. Scheduled completion date is December 31, 1977.

III. Reviewing of Existing Covenants

The Loan Agreement contains the following covenants and warranties concerning the project, and a standard provisions annex; all of which are deemed to have been met.

- A. Particular Affirmative Covenants and Warranties
- B. A Standard Provisions Annex

Covenants Concerning Procurement

- Source of Procurement
- Method of Procurement
- Date of Procurement
- Small Business Notification
- Marine Insurance
- Construction Contracts -
 - Third Country Personnel
- Construction Contractors -
 - Investment Guaranties

Covenants and Warranties Concerning the Project

- Execution, Completion and Operation
 - of the Project
- Utilization of Eligible Items
- Information and Marking
- Notice of Material Developments

General Covenants

Non-taxation
Commissions, Fees and Other Payments
Renegotiation of Terms

Remedies of A.I.D.

Events of Default; Acceleration
Termination of Disbursements;
Transfer of Goods to A.I.D.
Refunds
Waivers of Defaults
Expenses of Collection

IV. Review of Reporting Requirements

In accordance with the reporting requirements as set forth in Section 5.2 of the loan agreement and Article VI, Implementation Letter No. 1, Borrower has submitted (1) Monthly Progress Reports (2) Quarterly Shipping Reports and (3) Certified Annual Financial Reports on a timely basis. The Quarterly Shipping Reports were discontinued after procurement under the loan was completed. In view of the fact that one sub-project is still remaining to be completed, the Beneficiary is still providing financial and monthly progress reports although the AID input is complete. A certified annual financial report is to be submitted to EPB for review and monitoring by the ROKG. EPB will in turn provide A.I.D. with an annual composite summary report.

V. Residual Monitoring Responsibilities

It is recommended that AID monitoring relative to this loan be continued through December 1977. The Loan Committee recommends, however, that upon completion of the remaining sub-project that USAID/K should notify the Minister, Economic Planning Board, ROK, that active monitoring of the loan is being terminated and that henceforth it will be the responsibility of the EPB, as the designated representative of the ROKG, to ensure that the project remains viable and successful. As part of this responsibility, EPB will prepare and submit to A.I.D. an annual composite summary

report, as described in AID's letter to the Minister of the EPB dated December 18, 1975, for all completed projects monitored by AID/W including this project.

VI. Findings and Recommendations

A. Findings

The Loan Committee believes the following findings represent an accurate status of the loan:

1. The objectives of the loan will be completely satisfied when the remaining sub-project is completed.
2. No covenants are being violated, and no violations are anticipated in the foreseeable future.
3. All interest and principal payments to the ROK from Borrower and to AID from ROK are current.
4. There are no outstanding audit recommendations.

B. Recommendations

Authority to implement this loan is delegated to the AID/Representative, USAID/Korea. Under the authority delegated, the Loan Committee recommends that all active monitoring of this loan be terminated upon completion of the remaining sub-project, in accordance with the conditions outlined in Section V, Residual Monitoring Responsibilities above. The Loan Committee further recommends that this memorandum be accepted as the Loan Completion Report (as required by M.O. 1264.1), and that all official files related to this loan be transferred to AID, Washington, in early calendar year 1978.

Approved: Dennis P. Barrett
Dennis P. Barrett
AID/Representative

Disapproved: _____

Date: October 14, 1977