

CIRCULATING COPY  
TO BE RETURNED TO REPORTS DESK

DOCUMENT OF INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Not For Public Use

FILE COPY

Report No. P-1224-KO

REPORT AND RECOMMENDATION  
OF THE  
PRESIDENT  
TO THE  
EXECUTIVE DIRECTORS  
ON A  
PROPOSED LOAN  
TO THE  
KOREA DEVELOPMENT FINANCE CORPORATION  
WITH THE GUARANTEE  
OF THE  
REPUBLIC OF KOREA

May 16, 1973

This report was prepared for official use only by the Bank Group. It may not be published, quoted or cited without Bank Group authorization. The Bank Group does not accept responsibility for the accuracy or completeness of the report.

CURRENCY EQUIVALENTS

|                                       |   |                  |
|---------------------------------------|---|------------------|
| Currency Unit                         | = | Won              |
| U. S. \$1.00                          | = | Won 400          |
| Won 1,000                             | = | U. S. \$2.50     |
| Won 1,000,000                         | = | U. S. \$2,500.00 |
| Fiscal Year - January 1 - December 31 |   |                  |

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT  
TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN  
TO THE KOREA DEVELOPMENT FINANCE CORPORATION  
WITH THE GUARANTEE OF THE REPUBLIC OF KOREA

1. I submit the following report and recommendation on a proposed loan in an amount in various currencies equivalent to \$40 million to the Korea Development Finance Corporation (KDFC), to be guaranteed by the Republic of Korea. Interest on the loan would be at 7<sup>1</sup>/<sub>4</sub>% per annum. The loan would be repaid in conformity to a schedule based on the aggregate of amortization schedules of sub-loans made pursuant to this loan. The approximate repayment period would be 17 years, including 2-1/2 years of grace.

PART I - THE ECONOMY

2. The economy of Korea is dealt with in paragraphs 2-7 of the President's Report of the same date on a proposed development credit and loan to the Republic of Korea for a Second Education Project (Report No. P-1245-KO). A Country Data Sheet is attached as Annex I.

PART II - BANK GROUP OPERATIONS IN KOREA

3. For a review of Bank Group lending in Korea, reference is made to paragraphs 8-17 of the President's Report of the same date on the proposed Second Education Project. Annex II contains a summary statement of Bank loans, IDA credits and IFC investments as of March 31, 1973, and notes on the execution of on-going projects.

PART III - INDUSTRIAL SECTOR AND INDUSTRIAL FINANCE

4. The record of Korea's achievement in industrial development from the mid-1960's to date has been impressive. Manufacturing output in 1966-1972 increased at an annual rate of about 20%, or almost twice the rate of GNP expansion. This rapid industrial expansion was the most important cause of the exceptionally large income gains, the attainment of nearly full employment, the phenomenal export expansion, and the structural transformation of a basically agrarian economy into a dynamic industrial one.

5. The government's fiscal, monetary, trade and exchange rate policies were geared in a concerted fashion to accelerate industrialization. Prices of imported machinery and equipment were kept relatively low (through the exchange rate policy) in relation to the rising general price level. "Preferred" sectors, such as import substitution industries and export industries were given full access to imports of machinery and raw materials (often with exemptions from import duties and from other restrictive measures), and low-cost finance through preferential allocation of domestic credits and foreign loans, in addition to fiscal concessions for industrial investment and export.

6. The pattern of industrialization has generally been appropriate. Labor-intensive light manufacturing, such as textiles and clothing, footwear

and artificial hair, electrical and electronic components, etc. has developed to take advantage of the abundant and inexpensive but educated and well-disciplined labor force. Industrial expansion has taken place both in import-substitution and export industries. Generally speaking, the protection and incentive policy has not led to misallocation of resources or to structural imbalances.

7. Given the established light industrial base and the increasingly limited scope for further rapid expansion of light manufacturing, the diversification and deepening of the industrial structure seems a logical next phase of Korea's industrialization. The government's policy has already moved in this direction; a steel mill and a petro-chemical complex have been established, and other basic metal industries, shipbuilding and mechanical engineering industries are being actively promoted. Initially, start-up production costs, the small scale of production and the need to adapt to the new technologies will make some of the newly established industries costly. The continuation of protective/incentive measures is justified for the present on an infant industry ground; however, in the long-run some dismantling of these measures will probably be needed.

8. Sound corporate finance is an important element in future industrial development. The past rapid industrial expansion was financed by mounting high-cost borrowing with a consequent deterioration in the corporate financial structure (equity as a percentage of total assets of an average industrial firm declined from 52 percent in 1965 to 23 percent in 1970). Internally generated corporate funds were inadequate. The capital market has been insufficiently developed to meet financing requirements. Corporate debts were about equally divided among government owned commercial banks and specialized banks, foreign suppliers' credits, and borrowing from "curb" markets (unorganized money markets). Banking funds were predominantly short-term with interest rates ranging from 6 percent (for export production) to over 20 percent (discount on commercial bills). The roll-over of short-term bank loans was customary. Foreign suppliers' credits provided an inexpensive source of investment funds until the devaluation of the Won and revaluation of various currencies in 1971. The "curb" markets satisfied marginal demand for short-term capital with 30-50 percent interest rates. Under mounting high-cost debts - the situation was aggravated by the economic slowdown from mid-1971, which had been preceded by over-investment in capacity - profitability and liquidity positions of industrial firms generally deteriorated.

9. The Emergency Decree and related stabilization measures taken by the government in August 1972 were designed, inter alia, to ease the problems described above, particularly the financial difficulties of industrial firms, and to prevent these problems from disrupting industrial investment. Short-term domestic debts of industries both to the banking system and to the "curb" markets were consolidated by the Decree into medium-term loans with moderate interest rates. The general level of interest rates was reduced; and an Industrial Rationalization Fund was established to aid, and improve the financial structure of, "problem" industries. The Decree yielded immediate and substantial assistance to businesses by providing them the opportunity and time to correct past imbalances and strains in corporate finance.

10. The recent policy trend indicates the government's determination to move towards a more rational financial system. At a macro-economic level, the stabilization measures are expected to create, after a short transitional period, an atmosphere more conducive to increased domestic savings. Since the government intends to keep investment demand in check, a better balance between supply and demand of investment funds can be expected in future - a situation which should mitigate anomalies in the financial system, such as the multiple preferential interest rates, strict credit-rationing by the government side-by-side with "curb" markets, and excessive recourse to foreign suppliers' credits. At an institutional level, the government is trying to channel a greater proportion of savings through organized markets in such a way as to strengthen the financial structure of industrial enterprises. Recently a commercial paper market was created by the establishment of KIFC. The strengthening and expansion of capital markets are being encouraged under a new decree, the Public Corporation Inducement Act which enables the government to require a large range of companies to offer their shares to the public.

#### PART IV - THE PROJECT

11. The KDFC was established in 1967. It was sponsored by the Federation of Korean Industries with the support of the government and the assistance of the Bank and IFC. When it began operations in March 1968 its initial capitalization consisted of share capital of W1.35 billion (\$5 million at the rate of exchange then current W270 = US\$1.00), a government-subordinated loan of W2.025 billion (\$7.5 million) and loans of \$5 million each from the Bank and USAID. USAID's loan was subsequently reduced to \$3 million.<sup>1/</sup> The initial resources available to KDFC, therefore, totaled \$22.5 million equivalent. By the end of 1972 KDFC's net worth had increased to W3.9 billion (\$9.75 million at the current rate of exchange of W400 = US\$1.00) including share capital of W1.8 billion, increased from the original amount by annual stock dividends from 1969 onwards. As of the same date KDFC had received three Bank loans totalling \$55 million and a loan from Caterpillar (Far East) Ltd., of \$5 million, subsequently reduced to \$1 million.<sup>1/</sup> KDFC plans to increase its share capital to W3 billion in 1973, by a stock dividend of 10 percent (already declared) and by a rights issue for cash amounting to W1.02 billion.

12. KDFC was set up to assist the development of private enterprise in Korea mainly by providing medium-term and long-term finance. Although the growth of KDFC's portfolio has been rapid, from W300 million at the end of 1968 to W17.2 billion at the end of 1972, in quantitative terms it is still relatively small, with a share of around 2 percent of total gross domestic capital formation in manufacturing and mining in 1971. In qualitative terms KDFC's role has been more important. Due to the high professional standards it maintains, particularly in the appraisal of projects, it is an acknowledged leader among financial institutions in Korea. In providing term finance to industry, KDFC works alongside two much larger government-controlled institutions, Korea Development Bank (KDB) and Medium Industry Bank (MIB) and branches of five foreign commercial banks. The operations of KDFC, KDB and MIB are complementary, but KDFC faces increasing competition from foreign commercial banks in term lending.

---

<sup>1/</sup> Both the AID and Caterpillar loans were tied to US sources of supply and moved slowly.

13. KDFC has been well-managed from its inception and has been headed by the same President, Mr. C.H. Kim, throughout the period. He is supported by two Vice Presidents and a competent professional staff of 50, including four able department managers. KDFC's organizational structure has served well so far, but the management is currently reviewing the organizational structure to determine whether the growth in KDFC's operations calls for administrative changes.

14. KDFC's operating policies and procedures are generally of a high standard, although KDFC is seeking to strengthen its work on the economic assessment of projects and on project supervision. KDFC's lending rate for Won loans is currently 15.5 percent per annum, in line with the interest rate structure directed by the government. Its lending rate on foreign exchange loans has remained unchanged for the past five years at 10 percent per annum, with its borrowers bearing the exchange risk. That rate is under competitive pressure. As of December 31, 1972, KDFC had approved 109 loans and investments amounting to W23.4 billion (\$58 million equivalent). At the same date, about 82 percent of its portfolio was represented by foreign currency loans. KDFC's financial position and performance have been satisfactory throughout its life. In 1972, earnings represented 38 percent on share capital and 18.9 percent on net worth. Since 1969, KDFC has declared an annual dividend of 20 percent (10 percent in cash and 10 percent in stock). Its portfolio is sound and provisions amply cover any likely losses.

15. KDFC's uncommitted domestic currency resources as of January 1, 1973, together with the proposed share issue of W1 billion, collections and retained earnings, should enable it to undertake the Won commitment it has projected. For projected foreign exchange commitments, KDFC will require additional foreign exchange resources of about \$50 million in the two-year period beginning June 1973, when the third Bank loan is expected to be fully committed. It hopes to raise \$6 million equivalent from KfW. This leaves a shortfall of about \$44 million. The Bank has so far been the principal source of KDFC's foreign exchange resources. With a view to reducing KDFC's dependence on the Bank, KDFC and the government have agreed with the Bank on a plan to diversify KDFC's foreign exchange sources. KDFC has approached IFC for assistance in raising long-term funds in the foreign commercial market, and IFC is willing to give such assistance when market conditions are favorable. In addition, KDFC proposes to approach foreign commercial banks directly for relatively short term funds, which it would blend with the proposed Bank loan. The government has also agreed that KDFC shall in future be free to approach AsDB and KfW for funds with the government's support. Implementation of this plan will take some time and it is important that KDFC should be enabled to maintain continuity of growth. Against the prospective shortfall of about \$44 million, a fourth Bank loan of \$40 million is recommended.

16. The terms of the proposed loan would be similar to those of recent Bank loans to development finance companies. In view of the competence of KDFC's management and staff, its high operational standards, the soundness of its portfolio and its financial position and performance, and so as not to constrain its operations unnecessarily, the Bank Loan Agreement would provide for a debt/equity ratio 4.5:1 in place of the present limit of 3:1. The free limit would be increased to \$750,000 instead of the present \$500,000, with an aggregate free limit of 25 percent of the proposed loan amount.

17. During 1972 KDFC collaborated with a Bank mission in an intensive effort to establish, by a detailed study of a sample of KDFC projects, KDFC's developmental impact in general, and the overall economic rate of return on the projects it had financed. The results of the study have led to the conclusion that the aggregate economic rate of return on projects financed by KDFC is unlikely to be less than 25 percent.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

18. The draft Loan Agreement between the Bank and the Korea Development Finance Corporation, the draft Guarantee Agreement between the Republic of Korea and the Bank, the report of the Committee provided for in Article III, Section 4 (iii) of the Articles of Agreement of the Bank and the text of a Resolution approving the proposed loan, are being distributed to the Executive Directors separately. The Loan and Guarantee Agreements follow the pattern of Bank agreements for loans of this kind.

19. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATIONS

20. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara  
President  
by J. Burke Knapp

Attachments.

May 16, 1973





COUNTRY DATA - KOREA

AREA: 2  
98,477 km

POPULATION:  
32.5 million (1971)<sup>a/</sup>  
Rate of Growth: 2.0% (1971)

DENSITY: 2  
330 per km (1971)

POPULATION CHARACTERISTICS:

Crude Birth Rate (per 1,000): 28.0 (1971)  
Crude Death Rate (per 1,000): 8.0  
Infant Mortality (per 1,000 live births): ..

HEALTH: (1969)

Population per physician: 1,236  
Population per hospital bed: 1,914

INCOME DISTRIBUTION:<sup>b/</sup>

% of national income, lowest quintile: 8  
highest quintile: 43

DISTRIBUTION OF LAND OWNERSHIP:<sup>c/</sup>

% owned by top 10% of owners: 24.3%  
% owned by smallest 10% of owners: 1.5%

ACCESS TO PIPED WATER:

..

ACCESS TO ELECTRICITY:

% of population - urban: ..  
- rural:

NUTRITION:

Calorie intake as % requirements: ..  
Per capita protein intake: ..

EDUCATION:

Adult literacy rate % (1970) 85%  
Primary school enrollment % (1970): 96.9%

GNP PER CAPITA: 280 (US \$ 1971)<sup>d/</sup>

GROSS NATIONAL PRODUCT IN 1972 (\$1 : 100 Won)<sup>e/</sup>

|                         | \$   | %     |
|-------------------------|------|-------|
| GNP at market prices    | 9602 | 100.0 |
| Gross investment        | 2004 | 20.9  |
| Gross National Savings  | 1404 | 14.6  |
| Current Account Balance | 617  | 6.4   |
| Exports of Goods, NFS   | 2020 | 21.0  |
| Imports of Goods, NFS   | 2598 | 27.1  |

ANNUAL GROWTH RATE (% constant prices)<sup>f/</sup>

|                         | 1960-65 | 1965-70 | 1971 | 1972 |
|-------------------------|---------|---------|------|------|
| GNP at market prices    | 5.8     | 11.3    | 9.8  | 7.1  |
| Gross investment        | 15.3    | 33.2    | 6.3  | 11.0 |
| Gross National Savings  | 151.5   | 46.1    | 8.9  | 2.1  |
| Current Account Balance | 20.1    | 38.0    | 26.1 | 38.3 |
| Exports of Goods, NFS   | 24.0    | 37.6    | 10.1 | 39.0 |
| Imports of Goods, NFS   | 8.7     | 31.0    | 11.0 | 6.2  |

OUTPUT, LABOR FORCE AND PRODUCTIVITY (1971):

|                                     | Value Added    |       | Labor Force |       | Value Added per Worker |     |
|-------------------------------------|----------------|-------|-------------|-------|------------------------|-----|
|                                     | (US\$ million) | %     | (million)   | %     | (US \$)                | %   |
| Agriculture                         | 2558           | 29.1  | 4.71        | 48.5  | 543                    | 60  |
| Industry (Mining and Manufacturing) | 1954           | 22.2  | 1.38        | 14.2  | 1,416                  | 156 |
| Services and Other                  | 4279           | 48.7  | 3.62        | 37.3  | 1,182                  | 131 |
|                                     | 8792           | 100.0 | 9.71        | 100.0 | 905                    | 100 |

PUBLIC FINANCES (W billion)

|                           | All Governments |          | Central Government <sup>g/</sup> |          |
|---------------------------|-----------------|----------|----------------------------------|----------|
|                           | 1972            | % of GNP | 1972                             | % of GNP |
| Current Receipts          | 690             | 18.0     | 514                              | 13.4     |
| Current Expenditures      | 523             | 13.6     | 467                              | 12.2     |
| Capital Receipts          | 278             | 7.2      | 154                              | 4.0      |
| Capital Expenditures      | 486             | 12.7     | 242                              | 6.3      |
| External Assistance (net) | 41              | 1.1      | 41                               | 1.1      |

a/ Average for the year.

b/ Rough synthetic estimates based on urban and farm household surveys in 1970 and 1971.

c/ Data based on acreage cultivated by farm households. Data on ownership are not available.

d/ Based on the World Bank "Atlas" methodology. US\$276 per capita on the basis of the 1971 current exchange rate.

e/ Preliminary estimates based on partial data.

f/ 1965 prices for 1960-71; 1970 prices for 1972. 1972 data are preliminary.

g/ Administrative budget of the central government.

COUNTRY DATA - KOREA

| <u>MONEY, CREDIT AND PRICES</u> | <u>1965</u> | <u>1969</u> | <u>1970</u> | <u>1971</u> | <u>1972(3rd Q)</u> <sup>1/</sup> |
|---------------------------------|-------------|-------------|-------------|-------------|----------------------------------|
| Money and Quasi Money           | 97.1        | 670.7       | 890.8       | 1037.6      | 1326.4                           |
| Bank Credit to Public Sector    | 15.7        | 3.4         | - 13.5      | - 24.5      | - 35.7                           |
| Bank Credit to Private Sector   | 78.6        | 640.6       | 861.1       | 1124.4      | 1372.1                           |

(Percentages or Index Numbers)

|                                              |       |        |         |        |                    |
|----------------------------------------------|-------|--------|---------|--------|--------------------|
| Money and Quasi Money as % of GDP            | 12.2  | 33.2   | 35.2    | 34.5   | ..                 |
| General Price Index (1963=100) <sup>h/</sup> | 148.2 | 197.8  | 216.0   | 234.6  | 255 <sup>1/</sup>  |
| Annual Percentage Changes in:                |       |        |         |        |                    |
| General Price Index                          | 10.0  | 6.8    | 9.1     | 8.6    | 8.5 <sup>1/</sup>  |
| Bank credit to Public Sector                 | 110.0 | - 53.0 | - 397.0 | - 83.0 | 30.1 <sup>k/</sup> |
| Bank credit to Private Sector                | 4.8   | 46.7   | 72.6    | 46.9   | 28.2 <sup>k/</sup> |

BALANCE OF PAYMENTS

MERCHANDISE EXPORTS (f.o.b.)  
(AVERAGE, 1969-71)

|                                          | <u>1970</u>             | <u>1971</u> | <u>1972</u> <sup>1/</sup> | <u>(Millions US \$)</u>                  |                                      |                      |
|------------------------------------------|-------------------------|-------------|---------------------------|------------------------------------------|--------------------------------------|----------------------|
|                                          | <u>(Millions US \$)</u> |             |                           | <u>(Millions US \$)</u>                  | <u>%</u>                             |                      |
| Exports of Goods, NFS                    | 1341.0                  | 1567.2      | 2184                      | Clothing                                 | 226                                  | 26.3                 |
| Imports of Goods, NFS                    | 2106.7                  | 2514.7      | 2677                      | Wood & Cork                              | 101                                  | 12.0                 |
| Resource Gap                             | - 765.7                 | - 927.5     | - 493                     | Veneer Sheets & Plywood                  | 98                                   | 11.6                 |
| Interest Payments (net)                  | 59.8                    | 87.5        | 673                       | Textiles                                 | 96                                   | 11.4                 |
| Other Factor Payments (net)              | - 22.8                  | 3.1         |                           | Wigs, etc.                               | 77                                   | 9.1                  |
| Net Transfer Receipts                    | 93.6                    | 105.6       | 110                       | Electric Machines & Equipment            | 49.7                                 | 5.8                  |
| Balance on Current Account <sup>h/</sup> | - 709.1                 | - 912.5     | - 519                     | Others                                   | 194.0                                | 23.3                 |
| Direct Foreign Investment                | 38.0                    | 55.8        |                           |                                          | 841.7                                | 100.0                |
| Net MLT Borrowing                        | 214.0                   | 327.2       |                           |                                          |                                      |                      |
| Disbursements                            | (417.0)                 | (553.0)     |                           |                                          |                                      |                      |
| Amortization                             | (203.0)                 | (225.8)     | 675                       | <u>EXTERNAL DEBT, DECEMBER 31, 1972:</u> |                                      |                      |
| Official Grants                          | 86.6                    | 65.0        |                           | <u>(Million US \$)</u>                   |                                      |                      |
| Other Capital (net)                      | 447.5                   | 382.9       |                           | 156                                      | Public Debt (including undischursed) | .. <sup>z/</sup>     |
| Increase in Reserves                     | - 60.8                  | 68.5        | - 156                     | 7.0                                      | Total Outstanding and dischursed     | 2679.0 <sup>o/</sup> |
| All other items                          | - 16.2                  | 13.1        | 7.0                       |                                          |                                      |                      |
| Gross Reserves                           | 610                     | 568         | 691                       |                                          |                                      |                      |

DEBT SERVICE RATIO (1972):

In % of Exports of Goods/  
Services 16.1<sup>o/</sup>

RATE OF EXCHANGE:

| <u>December 31, 1971</u> | <u>June, 1972</u> <sup>n/</sup> |
|--------------------------|---------------------------------|
| US \$1.00 = 370 Won      | US \$1.00 = 400 Won             |
| W 1.00 = \$.0027         | W 1.00 = \$.0025                |

IBRD/IDA LENDING, MARCH 31, 1973  
(Million US \$)

|                                    | <u>IBRD</u> | <u>IDA</u> |
|------------------------------------|-------------|------------|
| Outstanding & Disbursed            | 105.8       | 44.3       |
| Undischursed                       | 159.1       | 42.6       |
| Outstanding including Undischursed | 264.9       | 86.9       |

<sup>h/</sup> Wholesale Price Index.

<sup>1/</sup> End of September.

<sup>1/</sup> End of the year data.

<sup>k/</sup> Annual percentage change from end-3rd Quarter of 1971.

<sup>1/</sup> Preliminary estimate based on partial data. For this reason, some discrepancy exists between BOP data and national income data for 1972.

<sup>z/</sup> 3021.8 at end-1971.

<sup>n/</sup> Currently effective.

<sup>o/</sup> Estimate.

THE STATUS OF BANK GROUP OPERATIONS IN THE REPUBLIC OF KOREA

A. STATEMENT OF BANK LOANS AND IDA CREDITS  
(as of March 31, 1973)

| <u>Loan or<br/>Credit<br/>Number</u> | <u>Year</u> | <u>Borrower</u>                                                  | <u>Purpose</u>         | US \$ million               |                    |       |
|--------------------------------------|-------------|------------------------------------------------------------------|------------------------|-----------------------------|--------------------|-------|
|                                      |             |                                                                  |                        | Amount (less cancellations) |                    |       |
|                                      |             |                                                                  | <u>Bank</u>            | <u>IDA</u>                  | <u>Undisbursed</u> |       |
| 25                                   | 1962        | Republic of Korea                                                | Railway                |                             | 14.0               | Nil   |
| 110                                  | 1967        | Republic of Korea                                                | Railway                |                             | 10.7               | Nil   |
| 529                                  | 1968        | KDFC                                                             | Dev. Fin. Co.          | 5.0                         |                    | Nil   |
| 600                                  | 1969        | ADC                                                              | Irrigation             | 45.0                        |                    | 34.0  |
| 151                                  | 1969        | Republic of Korea                                                | Education              |                             | 14.8               | 12.1  |
| 622                                  | 1969        | KDFC                                                             | Dev. Fin. Co.          | 20.0                        |                    | 2.2   |
| 669                                  | 1970        | Republic of Korea                                                | Railway                | 40.0                        |                    | 3.1   |
| 183                                  | 1970        | Republic of Korea                                                | Railway                |                             | 15.0               | Nil   |
| 234                                  | 1971        | Republic of Korea                                                | Livestock              |                             | 7.0                | 5.3   |
| 735                                  | 1971        | KDFC                                                             | Dev. Fin. Co.          | 30.0                        |                    | 15.5  |
| 769                                  | 1971        | Republic of Korea                                                | Highway                | 54.5                        |                    | 31.5  |
| 283                                  | 1972        | Republic of Korea                                                | Irrigation             |                             | 15.0               | 14.7  |
| 795                                  | 1972        | Republic of Korea                                                | Irrigation             | 33.0                        |                    | 32.8  |
| 335                                  | 1972        | Republic of Korea                                                | Agricultural<br>Credit |                             | 10.5               | 10.5* |
| 863                                  | 1972        | Republic of Korea                                                | Railway                | 40.0                        |                    | 40.0  |
|                                      |             | Total                                                            |                        | 267.5                       | 87.0               |       |
|                                      |             | of which has been repaid                                         |                        | 2.6                         | 0.1                |       |
|                                      |             | Total now outstanding                                            |                        | 264.9                       | 86.9               |       |
|                                      |             | Amount sold                                                      |                        | 1.3                         | -                  |       |
|                                      |             | Total now held by Bank and IDA<br>(prior to exchange adjustment) |                        | 263.6                       | 86.9               |       |
|                                      |             | Total undisbursed                                                |                        | 159.1                       | 42.6               | 201.7 |

\* Not yet effective.

B. STATEMENT OF IFC INVESTMENTS  
(as at March 31, 1973)

| <u>Year</u> | <u>Obligor</u>                      | <u>Type of Business</u>    | Amount in US\$ million |               |              |
|-------------|-------------------------------------|----------------------------|------------------------|---------------|--------------|
|             |                                     |                            | <u>Loan</u>            | <u>Equity</u> | <u>Total</u> |
| 1968        | KDFC                                | Development<br>financing   | -                      | 0.7           | 0.7          |
| 1969        | Honam Silk Co.                      | Textiles                   | 1.4                    | 0.3           | 1.7          |
| 1970        | Atlas Paper Co.                     | Pulp & paper               | 4.5                    | 0.5           | 5.0          |
| 1971        | Korea Investment<br>& Finance Corp. | Money & Capital<br>markets | -                      | 0.6           | 0.6          |
|             | Total committed                     |                            | 5.9                    | 2.1           | 8.0          |
|             |                                     |                            | ==                     | ==            | ==           |



marked for the purchase of specific equipment required, namely freight cars, diesel locomotives, telecommunications and track maintenance equipment. Progress is generally satisfactory except for delays in the procurement of some equipment under the loan.

4. Credit No. 234 Integrated Dairy Beef Development Project;  
US\$7.0 million Credit of February 11, 1971  
Closing Date: March 31, 1977

The development of about 700 small and medium dairy farms by providing long-term loans and the construction and operation of two dairy products processing plants are the essential elements of the project. There are also management and technical services related to these activities. The project is progressing satisfactorily. To date, nearly 200 Korean farmers are participating; two international purchases of 1,600 dairy heifers have been completed; international competitive bidding for dairy processing equipment (close to US\$1 million) has been accomplished; planning and construction of civil works for two dairy processing plants are well underway; technical services are being strengthened; and applied research for livestock production is already bringing significant results.

5. Loan No. 622 & Second and Third KDFC Projects; US\$20.0 and US\$30.0  
Loan No. 735 million Loans of June 26, 1969 and May 17, 1971  
respectively  
Closing Dates: June 30, 1973 and August 31, 1975  
respectively

The second loan is fully committed and the third should be fully committed this month (May). These projects are progressing satisfactorily.

6. Loan No. 769 First Highways Project; US\$54.0 million of  
June 29, 1971  
Closing Date: November 30, 1975

The project includes building approximately 230 miles of primary national highway between Chonju and Busan; feasibility studies of about 870 miles; and detailed engineering of an additional 680 miles. A highway maintenance study will also be undertaken and a national highway maintenance organization established on a pilot basis in one of the provinces. Construction in progress is on schedule and within cost estimates.

7. Loan No. 795 Yong San Gang Irrigation Project; US\$33.0 million Loan and  
Credit No. 283 US\$15.0 million Credit of February 2, 1972  
Closing Date: September 30, 1977

This is the second major irrigation project financed by the Bank in Korea.

It aims at transforming an area with the highest drought frequency in Korea into one with year-round irrigation and crop diversification. Also there will be increased production of high value crops. The Loan/Credit became effective on September 15, 1972. Consultants are in the field and detailed surveying and designing are proceeding satisfactorily. Cost estimates have increased by about 40 percent mainly because more dam foundation grouting will be required than expected at appraisal and major changes in designs have been made. About 1,400 ha of additional land have been added to the project through revision of original canal lines, thereby offsetting the increased costs. Construction is expected to begin in May 1973. Insufficient funds were budgeted originally for 1973, but the Government after Bank urging has provided adequate Won financing for the year so that construction can proceed on schedule. The provisions for future years will be discussed this summer.

8. Credit No. 335 Agricultural Credit Project; US\$10.5 million Credit of September 29, 1972  
Closing Date: September 1, 1976

This credit supports a three-year lending program for the development of orchards, sericulture, mushrooms and to encourage poultry and swine production. Difficulties encountered by the National Agricultural Cooperative Federation in meeting agreed conditions have delayed effectiveness which is now expected before June 30 of this year.

Korea - Fourth Korea Development Finance Company Project

Borrower: Korea Development Finance Company.

Guarantor: Republic of Korea.

Amount: US\$40 million equivalent.

Terms: Interest rate of  $7\frac{1}{4}$  percent per annum. Repayments would be based on a composite amortization schedule made up of schedules of the individual projects. Terms of such investments would be up to 15 years, including grace periods as appropriate.

Relending Terms: KDFC's Board has authority to determine KDFC's lending rates. At present they are for domestic currency 15.5 percent per annum and for foreign exchange 10 percent per annum.

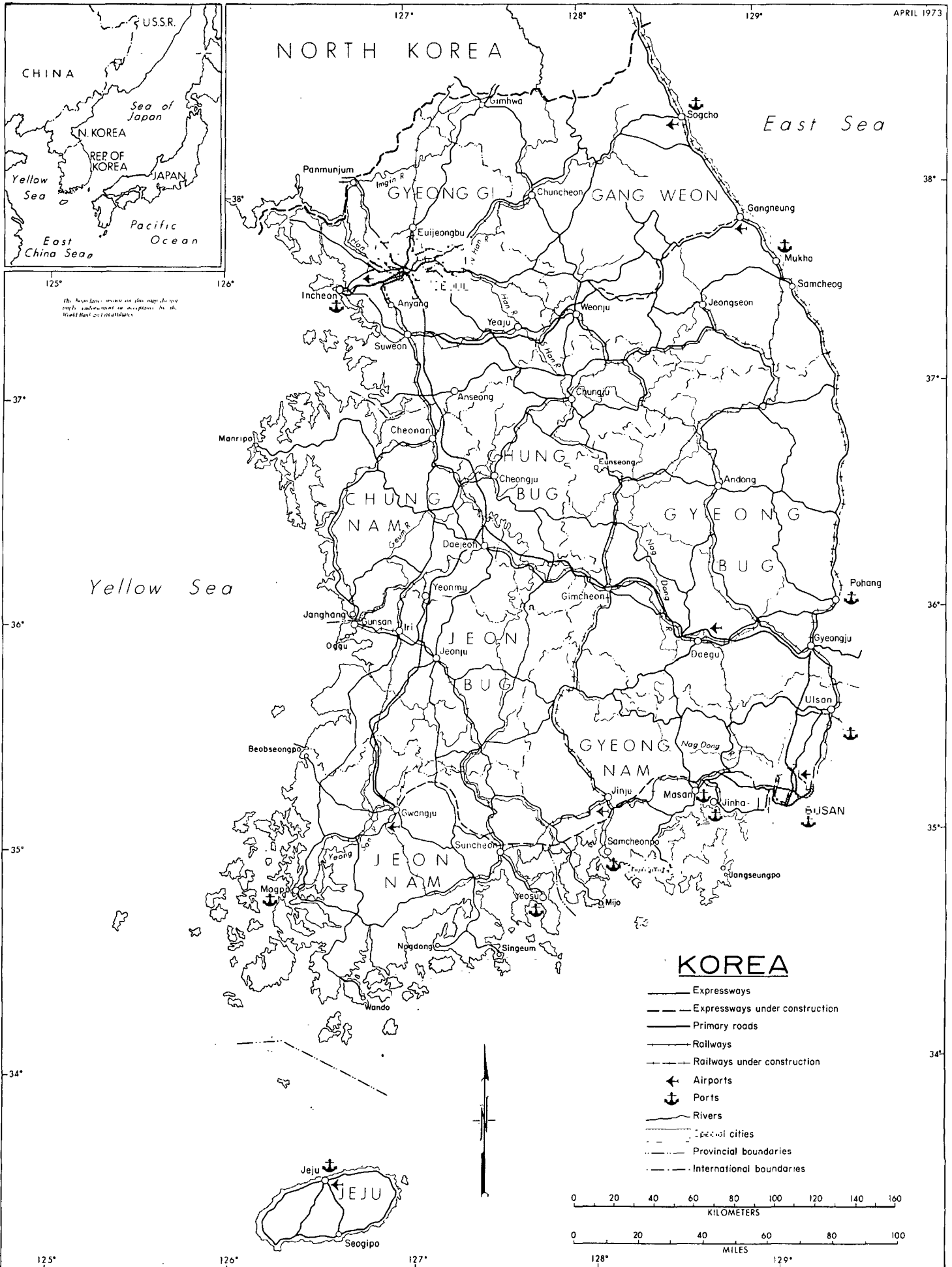
Project Description: The loan would cover a portion of KDFC's expected foreign exchange requirements from mid-1973 until mid-1975.

| <u>Estimated Disbursements:</u> | <u>Calendar Year</u> | <u>US\$ Million</u> |
|---------------------------------|----------------------|---------------------|
|                                 | 1973                 | 1.4                 |
|                                 | 1974                 | 15.4                |
|                                 | 1975                 | 17.0                |
|                                 | 1976                 | 6.0                 |
|                                 | 1977                 | 0.2                 |
|                                 |                      | 40.0                |

Appraisal Report: 123A-KO, April 27, 1973







The basic data sources are the maps of the Republic of Korea and the maps of the World Bank.

### KOREA

- Expressways
- - - Expressways under construction
- Primary roads
- Railways
- - - Railways under construction
- ✈ Airports
- ⚓ Ports
- Rivers
- ⋯ Special cities
- ⋯ Provincial boundaries
- ⋯ International boundaries

0 20 40 60 80 100 120 140 160  
KILOMETERS

0 20 40 60 80 100  
MILES