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REPORT AND RECOMMENDATION  
OF THE  
PRESIDENT  
TO THE  
EXECUTIVE DIRECTORS  
ON A  
PROPOSED LOAN  
TO THE  
MEDIUM INDUSTRY BANK  
WITH THE GUARANTEE  
OF THE  
REPUBLIC OF KOREA

November 5, 1975

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Currency Unit	=	Won
Won 485	=	US\$1.00
Won 1,000	=	US\$2.06
Won 1,000,000	=	US\$2,061.86

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 MEDIUM INDUSTRY BANK

1. I submit the following report and recommendation on a proposed loan in an amount in various currencies equivalent to \$30.0 million to the Medium Industry Bank (MIB) to be guaranteed by the Republic of Korea. Interest on the loan would be at 8-1/2 percent per annum. The loan would be repaid in conformity with a schedule based on the aggregate of the amortization schedules of MIB's sub-loans, and would have a maximum repayment period of 18 years, including three years of grace.

PART I - THE ECONOMY

2. The latest Economic Report ("Current Economic Position and Prospects of the Republic of Korea") was distributed under cover of SecM75-437 dated June 9, 1975. The Country Data Sheets are attached as Annex I. An Industrial Sector Mission report is under preparation.

3. Korea's economic performance over the last decade has been outstanding. It entered the sixties with one of the lowest income levels in the world; it had little experience of participation in international trade; and it lacked natural resources. Despite these unpromising beginnings, Korea embarked on a course of export-oriented industrial growth that has led to its recognition as one of the most successful examples of development. Its rich endowment with the human capabilities for economic success, the availability of considerable entrepreneurial talent, a social environment which is conducive to rapid economic change, and a national dedication to unambiguous economic goals, all contributed to Korea's impressive performance. In the period 1964-74, the GNP growth rate averaged 10 percent a year in real terms, reaching the record level of 16.5 percent in 1973. This, together with a decline in population growth (from about 2.7 percent per year at the beginning of the period to 1.7 percent at present), caused per capita income to more than double in the period. The mainspring of economic growth has been the increase of exports of manufactures (from about \$65 million in 1964 to over \$4 billion in 1974). The ratio of exports to GNP rose rapidly from 4 percent in 1964 to 27 percent in 1974, and the manufacturing sector as a proportion of GNP increased from 12 percent to 28 percent in the same period. Agriculture, despite an annual growth rate of about 3.5 percent during the last decade, declined as a proportion of GNP (from 43 percent in 1964 to 23 percent in 1974).

4. Total real investment grew ten-fold between 1964 and 1974, and the ratio of investment to GNP rose from 13 percent to 29 percent. External resource requirements also grew rapidly, averaging about 9 percent of GNP during 1970-71, roughly the same level as in the early 1960's. The marginal

saving rate during the last decade was 30 percent, which indicates that large capital inflows did not weaken efforts to mobilize resources domestically. However, Korea entered upon a period of rapid growth with a very low level of domestic savings and, therefore, the Government pursued a policy of relatively heavy dependence on external capital in the interest of a rapid acceleration of investment and growth. Moreover, since exports during 1964-74 were rising at an average rate of nearly 47 percent, the burden of additional external debt was not excessive, and the debt service ratio stood at around 13 percent in 1974.

5. Korea's performance in attempting to achieve a balanced distribution of the benefits of growth is also creditable. However, despite the fact that income distribution in Korea is generally more equitable than in comparable developing countries, the absolute gap in incomes between the urban and rural areas widened during the 1960's despite substantial migration to the cities, a modest reduction in the farm population, and high yields per unit of land under cultivation. Growth of labor productivity in agriculture was nevertheless considerably slower than in manufacturing. Since 1967, the Government has attempted to raise farm incomes and to provide other incentives for increasing foodgrain production through a price support system covering rice and barley. It broadened its efforts to achieve more widely and evenly distributed income growth by pursuing policies of decentralizing industry and emphasizing investment in the less developed regions. Also, in 1971, the Government initiated the Sae Maeul (New Community) Movement as a nationwide self-help program, aimed at increasing productivity and incomes (especially in the rural areas where nearly half the population still lives) and at improving the quality of rural life. Partly as a result of these various measures, average rural household incomes are now nearly in line with those of average urban households.

#### Recent Trends

6. During the last three years the Korean economic situation has been subject to sudden and sharp changes. Beginning with the latter part of 1972, the Korean economy experienced an unprecedented boom. 1973 was an exceptional year, even by Korean standards, and set new records of growth in GNP, exports and savings. In the latter part of 1973, Korean economic aspirations were expressed in terms of official targets for the early 1980's of \$1,000 per capita GNP and \$10 billion of exports. The long-term strategy implied the continuation over the next decade of an overall rate of GNP growth of about 10 percent per annum but with reduced dependence, in relative terms, on net inflows from abroad.

7. The favorable economic developments of 1973 were interrupted by external developments in 1974. The sharp rise in the price of petroleum beginning in late 1973, the recession in Korea's principal export markets, Japan and the U.S., in 1974, and the high level of foodgrain and other import prices, combined to bring about a major change in the short-term economic position of Korea. With its heavy dependence on foreign trade, Korea was inevitably severely affected by these international developments.

8. The higher costs of energy and food imports alone placed a severe burden on the economy and the balance of payments. Korean dependence on imported fuels is not only extremely heavy but also, because it is very closely linked to essential industrial and transport uses, cannot be readily reduced. The additional cost of petroleum added almost \$800 million to the import bill in 1974 (considerably more than twice the current account deficit in 1973) and a doubling of the prices of foodgrains increased foreign exchange requirements in 1974 by more than \$300 million, despite a decline in the volume of these imports. Together, the increase in the costs of petroleum and foodgrains accounted for about 45 percent of Korea's increased import bill in 1974 and for 25 percent of total import payments. The cost of imported raw materials and intermediate goods also increased appreciably and compounded the balance of payments problem. The magnitude of the effects of these adverse developments can be gauged by the fact that Korea's terms of trade deteriorated by 18 percent, or about 5 percent of GNP, in 1974 compared with 1973.

9. This terms of trade loss combined with a simultaneous setback to export growth resulted in an appreciable slowdown of the economy in 1974. Real export growth, which had reached a peak of 52 percent per annum during 1972-73, was only 9 percent in 1974; this was attributable primarily to the deep recession in the U.S. and Japan. The volume of Korea's exports to Japan declined by about 6 percent during 1974 and its trade deficit with Japan widened to \$1.2 billion compared to \$0.5 billion in 1973. The volume of exports to the U.S. increased even in 1974. It is noteworthy that Korean exports to countries other than the U.S. and Japan showed a marked increase during 1974 denoting considerable initial success of the intensifying market diversification efforts. Although exports have revived somewhat in 1975, they are estimated to increase by only 14 percent during the year as compared with an average of 36 percent during the 1970-74 period.

10. Imported inflation has also led to a very sharp upward pressure on the domestic price level. In addition to the sharply higher prices of imported petroleum and foodgrains, the average unit value of other imports increased by 45 percent during 1974. Consequently, the rate of domestic inflation accelerated; in calendar year 1974, consumer prices rose by about 26 percent and wholesale prices increased by about 45 percent. Since the middle of 1974, the rate of domestic inflation has slowed somewhat, reflecting seasonal factors, the slower increase in the prices of imported goods and the dampening effects of rising inventories of manufactured goods.

#### Government Policy Response

11. Until the end of 1974, the Government followed policies which were based on the premise that worldwide economic recovery would commence by early 1975. Thus, the principal objectives of policy in 1974 were to ease the adjustment to higher oil and other import prices, and to avoid the slowing of domestic investment and employment growth.

12. In general, the Government has accepted necessary price adjustments arising from higher energy and other import costs; one major exception to this general policy was its unwillingness to place on consumers the full burden of higher import costs of basic foodstuffs. Thus, although prices paid by consumers for foodgrains increased, substantial subsidies are involved in the sale of wheat and rice. Complete avoidance of subsidies at a time of growing unemployment and declining real wages in manufacturing would have been difficult. The Government is greatly concerned with the heavy burden these subsidies have placed on the budget and their reduction is a major objective of the Government.

13. Selective credit measures to assist the most distressed industries were another element in the Government's effort to cushion the impact of recession in 1974. These measures were intended to enable industry to finance stocks of specified raw materials, and to carry raw materials and finished goods inventories that had become excessive as a result of the decline in export demand. Small- and medium-sized firms which were particularly hard hit by the onset of the recession were assisted by a large credit program embracing both working capital and investment loans. These firms also benefitted from a preferential (government subsidized) interest rate of 12 percent, 3 percent below the normal bank rate on such loans. Similarly, special subsidized credit facilities were made available to the machinery industries and to finance equipment purchases by export industries. All told, such programs provided credits totalling some W 200 billion (\$495 million), equivalent to over 20 percent of the increase in total credit to the private sector in 1974. Overall monetary policy, which had been made quite tight in the first half of 1974, was significantly eased after mid-year. The increase in domestic credit in the second half of last year was more than double that in the January-June period and, over the year as a whole, domestic credit expanded by about 50 percent compared with an increase of only about 30 percent in 1973. However, owing to the contractionary influence of the external deficit, the money supply increased by only about 30 percent, compared with 40 percent in 1973.

14. In December 1974, the Government introduced a further set of special measures to offset the sluggish demand for exports and to relieve the liquidity problems of exporters. It expanded the program of export financing, undertook to purchase excess inventories of finished goods from industries particularly hard hit by the fall in export demand, and increased credits to exporters for the purchase of imported and domestic materials. On December 7, 1974, the currency was devalued by 17.5 percent to W 485 per U.S. dollar. The devaluation was not expected to increase exports appreciably because of the depressed state of Korea's overseas markets, but like some of the other measures, it was intended to improve the liquidity position of manufacturing enterprises. It should also improve the competitive position of import substitution industries which had been weakened during the year. But the devaluation has also contributed to continued inflationary pressures in 1975. Among measures taken by the Government to help the low income groups are substantial income tax relief, a 30 percent increase in salaries of Government employees and the initiation of public works projects, mainly in the urban areas, to alleviate unemployment. The rural areas appear to

have been hit less hard by the economic slowdown. The terms of trade moved further in favor of the farmers during 1974 as the support price for rice was adjusted sharply upward.

15. It was largely because of the efforts to sustain the 1973 momentum of growth that the real GNP rose in 1974 by more than 8 percent; sizeable gains were recorded in both consumption and investment. However, notwithstanding the support provided by Government, there was a sharp slowdown in industrial output, private fixed investment and export sales in the second half of 1974.

16. The impact of the adverse turn of events in 1974 was borne primarily by the balance of payments. The current account deficit widened from \$0.3 billion in 1973 to \$1.8 billion in 1974 and may be somewhat larger in 1975. Even this expectation assumes a substantial improvement in the latter half of this year, since the current account deficit in the first four months of 1975 alone amounted to \$1.2 billion; however, by July there were signs that import and export trends were coming into better balance. The financing of the 1974 deficit involved a very large reduction (\$738 million) in net international reserves (to \$300 million); so far this year the continued deficit has meant further reduction in net international reserves. The financing of the large anticipated balance of payments deficit for 1975 will require a major increase in disbursements of medium- and long-term loans.

#### Longer-Term Prospects

17. Before the international developments of late 1973 and 1974, Korea appeared to be set on an economic course which could have led to its exceeding its long-range economic goals. However, the changes since the long-term framework was formulated in 1973 have necessitated a re-examination of both the objectives and the strategy. Although revised plans have not been completed, it appears that the target for the average annual increase in GNP will be lowered to 8 percent, and that the pattern of future growth will be somewhat different from that originally envisioned. Nevertheless, industrial development will remain an important element of the long-term strategy. Greater emphasis is also being given to increasing agricultural production and rural incomes. The preparation of the Fourth Plan (1977-81) affords an opportunity for a careful reconsideration of strategy; the Government has been extended financial assistance by the UNDP to meet the cost of consultants (and fellowships for Korean staff) to assist with the preparation of the Plan during the next 12 months, and the Bank is acting as Executing Agency.

18. Korea will in all probability be capable of sustaining an annual growth rate of GNP of 8 percent during the next decade, provided the large external capital inflows required to meet the sizeable balance of payments deficits are available on reasonable terms. Considering that 90 percent of Korea's exports now consist of manufactured goods, that its links with the Japanese economy remain strong, that vigorous efforts are being made to

penetrate new markets (especially in Europe and the Middle East) and that some progress has already been made in diversifying the industrial structure, a long-term real growth rate of exports of at least 12 percent appears possible even if world trade in manufactures should expand at a much slower rate. However, this would represent a substantially slower export growth than in the past, and Korean plans already envisage greater emphasis on import substitution in three key areas (a) foodgrains, (b) energy and (c) machinery production, all of which will probably mean sharply higher investment costs per unit of output.

19. The Government is aware of the need for careful monetary and fiscal management in the months ahead. The ability to contain the balance of payments deficits will depend partly on the speed of the recovery of exports and partly on the Government's determination to narrow the fiscal deficit and to reduce the rate of domestic credit creation. However, substantial reduction in the current account deficit is likely to take several years unless the upturn in the U.S., Japanese and other OECD economies is very sharp in the years after 1975. Finding the means to finance the external deficits will continue to be Korea's most urgent economic challenge. The servicing of the sizeable foreign borrowing required should not pose serious difficulties for Korea given the present debt service ratio and the long-term prospects for continued export growth, provided that the proportion of debt incurred on short- and medium-terms and at high interest rates is not excessive. The debt service ratio stood at about 13 percent at the end of 1974. It is expected to rise moderately to around 16 percent by 1980 and decline to less than 15 percent by the mid-1980's.

## PART II - BANK GROUP OPERATIONS

20. As of September 30, 1975, Korea had received 21 Bank Loans and 8 IDA Credits, amounting in total to \$854.7 million in loans and \$107.0 million in credits (taking into account cancellations and the refinancing of one IDA Credit in a subsequent Bank loan).

21. Nearly one-half of the total has been for the transport sector -- \$219.7 million for railways, \$101.5 million for highways and \$80 million for ports. \$130.5 million has been lent for agriculture projects. The Korea Development Finance Corporation (KDFC) has received \$150 million and the Korea Development Bank (KDB) \$60 million in Bank loans for relending to private industry. A program loan of \$100 million was made for the financing of urgently required imports of capital and intermediate goods. A total of \$80.3 million has been provided for three education projects; \$25.0 million for a tourism project; and \$15.0 million for a secondary cities project.

22. Excluding one project that was subsequently cancelled, IFC had, by September 30, 1975, entered into nine commitments: five in the financial sector and one each in the fields of textiles, electrical and electronic products, synthetic fibers and tourism, totalling \$30.5 million (net of participations



and cancellations). Currently, IFC has under advanced consideration a zinc smelting project and a project involving the leasing of industrial equipment; under preliminary consideration are projects in the fields of steel products, cement distribution, electric motors, bearings, and tire manufacturing.

23. Korea's ambitious industrial development programs require large capital expenditures in the private sector, a situation which enhances the need for IFC presence. With the closer relationship established as a result of recent promotional efforts, we expect IFC's activities to continue expanding rapidly. IFC would seek projects that would: (i) result in foreign exchange revenues or savings; (ii) contribute to modernize or deepen the industrial structure; and (iii) increase value added in manufacturing.

24. As of September 30, 1975 about \$519 million of the total Bank lending remained undisbursed on effective Loans and Credits. The rate of disbursements has increased in recent months. Annex II contains a summary statement of Bank Loans, IDA Credits, and IFC Investments as of that date and Notes on the execution of ongoing projects. As indicated in the Notes, progress on project implementation is generally satisfactory, although difficulties have been encountered with some projects and most seriously with the Pyongtaek-Kumgang and Yong San Gang Irrigation Projects (Loan 600 and Loan 795/Credit 283, respectively).

25. The emphasis which the Government places on agricultural and rural development will be reflected in the programs for FY76 and 77. A Second Integrated Dairy Development Project was approved recently; in addition, a rural infrastructure project has just been appraised and the Miho and Naeseong Cheon area development project pre-appraised. A second stage of the Yong San Gang Irrigation Project and the Okseo Irrigation and regional development project have already been identified and are under preparation. Follow-on projects in agricultural credit and agricultural products processing are also under consideration.

26. The further development of the industrial and agricultural sectors and the anticipated growth of exports will require concurrent infrastructural development. Although the transport sector will be given relatively less emphasis than in the past, the investments required are large, and thus there is considerable support for this sector in the proposed program.

27. The Government is intensifying its efforts to prepare projects suitable for external official financing in the fields of infrastructure, agriculture and regional development. The foreign exchange component of such projects is low, partly because they consist largely of civil works, and Korea's construction industry is efficient and well organized and wins an overwhelming proportion of contracts put out to international competition; its dependence on imports is expected to lessen in the future. Moreover, the country's capacity to meet its requirements of machinery and equipment from domestic sources is also increasing. Korea's need for official aid therefore cannot be met if financing is confined to the foreign

exchange costs of projects. For this reason the Bank should continue to be prepared to finance, in appropriate cases, a portion of local costs.

28. The share of the Bank Group in Korea's total external debt (disbursed) outstanding at the end of 1974 was about 6.0 percent, and the share of debt service was of the order of 2.4 percent at that time. These ratios are expected to increase somewhat by the end of the present decade.

### PART III - THE INDUSTRIAL SECTOR AND INDUSTRIAL FINANCING

#### Industry and its Financing

29. The industrialization strategy followed by Korea over the last decade was based on a recognition of the limitations placed on it by the country's relative lack of natural resources. Planning for the development of industry centered around the aim of expanding the export of manufactures rather than on concentrating principally on import-substitution. An important ingredient in the success of this policy was the fact that formal education in Korea had by the 1960's reached a level comparable with that of countries with considerably higher income levels. This gave Korea the advantages of a skilled and adaptable labor force as well as the ability to quickly develop efficient managerial talent. Furthermore, Korea adopted a policy of developing labor-intensive industries such as textiles, clothing, electronics and plywood, whose capital requirements are modest. In this respect, it is noteworthy that the expansion of Korea's industrial structure in recent years (1970-74) absorbed only 23 percent of total fixed investment, and that value added per worker increased by about 10 percent per annum over the last decade, reaching about \$2,000 in 1974. The extent to which the Korean economy depended on its light industry can also be gauged from the fact that in 1972 it accounted for nearly 90 percent of the exports of the manufacturing sector and about 80 percent of the value of total merchandise exports.

30. This export-oriented strategy served Korea well in a period of continuous growth of the world economy but it has also made Korean industry vulnerable in a time of recession. Korea's industrial plans in recent years have, therefore, been aimed at diversifying the economy and developing more integrated industries. Since 1970, over half of the total industrial investment has been allocated to the chemical, petroleum and basic metal industries to ensure the supply of inputs at stable prices. The establishment of Korea's first integrated steel plant at Pohang (currently being expanded from 1 million to 2.6 million tons), the large shipyard at Ulsan, and the naphtha cracking plant and related operations at the Ulsan oil refining complex, marked the first steps in the deepening of the industrial structure.

31. Notwithstanding the further changes in Korea's plans that are likely to result from the re-examination of its industrial strategy, it is

apparent that the re-structuring and expansion of Korea's industrial sector will require a heavy outlay of capital. The Government has embarked on a major effort to mobilize the funds required. A National Investment Fund (NIF) was established in December 1973; it is expected to finance a sizeable proportion of the investment needs of Korea's major industries by the early 1980's. The Minister of Finance is in charge of the Fund, but in effect delegates its management and operation to the Governor of the Bank of Korea. The resources of the Fund will be mobilized mainly by issuance of NIF-Bonds (which are purchased by banks, savings institutions and certain pension and trust funds) and the remainder by direct subscription by the Government. The funds will be onlent through the banking system and development finance companies for investments in fixed assets (about two-thirds) and for working capital needs (one-third) of major industries.

32. The timely provision of long-term finance for the key industries will depend to a large extent on the efficient operation of the NIF and the tapping of other sources of funds such as Korea's three major development finance companies - KDFC, KDB, and MIB. These three institutions were responsible for 64 percent of total medium- and long-term loans in Korea in 1973. The proposed loan would be the Bank's first to MIB. A fifth loan to KDFC was made in July this year and the first to KDB, which is the largest financial intermediary in Korea, in March. The magnitude of the demand for term finance in Korea is such that these three institutions, even if their operations increase significantly, will continue to act in a complementary rather than a competitive manner.

33. There is a clear 'de facto' demarcation of functions between MIB, and the other Korean institutions providing term finance for industry. The MIB Act explicitly confines its financing to "small and medium scale enterprises". Such enterprises are defined in the Act as those which either have less than 200 employees or total assets with specific limits as determined from time to time. At present the assets limit is set by the Government at W 50 million (this limit is being increased to W 300 million) for MIB's domestic currency lending and at W 600 million for its foreign currency lending. MIB intends to use the proceeds of the Bank loan for enterprises with total assets below W 600 million.

#### Small and Medium Scale Industries (SMI)

34. Small- and medium-sized manufacturing enterprises have made a significant contribution to the successful transformation of Korea's sluggish agricultural economy of the 1950's into one of dynamic growth, based on increasing industrialization. Although, as indicated in paragraph 30 above, there has been an increasing amount of industrial investment in the chemical, petroleum and basic metal industries since 1970, investment in SMI has also grown. As a result, it retains a prominent position in the country's economic profile as evidenced by its exports in 1974 of \$1,640 million or 36 percent of Korea's total merchandise exports, its share of 45.3 percent of total industrial employment, and 27.9 percent of industrial value added.

35. In view of the important role that SMI has to play in the modernization and expansion of the manufacturing sector, the Government has ensured that it has a strong institutional base. The Small Industry Bureau (SIB) of the Ministry of Commerce and Industry performs an important regulatory function in formulating, coordinating and implementing policies in the SMI sector. In addition, the National Federation of Medium Industry Cooperatives provides its 158 member SMI Cooperatives throughout the country with such services as the coordination of business activities, maintenance of quality standards, assistance in arranging credit, technical and marketing assistance and guidance, and sponsorship of industrial estates.

36. The three main sources of finance for SMI are: (a) the MIB, which provides both short-term won credits and long-term loans in domestic and foreign currencies; (b) the Citizens National Bank (CNB), which provides loans of up to W 10 million (\$20,619) to small enterprises with less than 50 employees and cottage industries; and (c) the fifteen commercial banks in five of which the Government has a substantial shareholding. As of December 31, 1974, MIB had provided about 20 percent of the outstanding loans to SMI from these sources and CNB about 13 percent.

37. Government efforts to assist SMI have been intensified recently. The measures adopted include: (a) the establishment of a Credit Guarantee Fund, which provides guarantees to enable small enterprises with viable investment projects but inadequate collateral to borrow from commercial banks and financial institutions (the scheme is administered by the MIB); (b) a statutory requirement that the commercial banks make at least 30 percent of their loans to small and medium enterprises; (c) the establishment of local industrial estates catering to small enterprises; and (d) a scheme to encourage the development of small factories in rural areas as an integral part of the "Sae Maeul" (New Community) Movement, with the objective of augmenting off-farm employment opportunities in these areas.

#### PART IV - THE PROJECT

38. A report entitled "Appraisal of the Medium Industry Bank" (No. 865-KO dated November 4, 1975) is being distributed separately. A Loan and Project Summary is attached as Annex III. Negotiations were held in Washington from October 13 to 17 with a Korean delegation led by Mr. Yong Woon Kim, MIB's Deputy President.

### The Company

39. MIB, a Government-owned institution, <sup>1/</sup> established in 1961, to promote and assist Korean SMI, is by far the most important source of term finance and technical assistance for this segment of the country's industrial sector. Its financing comprises both long-term operations (e.g., loans and guarantees in domestic and foreign currencies) and short-term commercial banking operations (e.g., working capital loans, deposits, letters of credit, etc.). Over the years, MIB has built up an efficient organization with good standards of internal operation; it enjoys a high degree of operational autonomy vis-a-vis the Government. MIB's importance can be gauged by the fact that, at the end of 1974, it had 18,570 borrowers - almost 70 percent of the total number of small and medium scale enterprises operating in Korea. Approximately 90 percent of MIB's financing has gone to the highly export-oriented manufacturing sector.

40. In addition to being a significant source of finance for Korean SMI, MIB plays an important qualitative role. Its Extension Service Department (ESD) has benefitted from a staff training scheme which involved the attachment of foreign advisors to it under a UNDP/ILO program which began in 1967. As a result, ESD has become an extremely important and effective source of technical assistance and extension services for SMI firms in Korea. MIB performs a variety of other developmental functions, including the preparation of feasibility studies on specific SMI activities and the conduct of professional seminars.

### Management and Organization

41. MIB's activities and administration are governed by the Act under which it was established in 1961. The Act, which has been successively amended, sets out general policies and broad guidelines, supplemented in more detail by Presidential Decrees. MIB is also subject to the General Banking Act and the control of the Superintendent of Banks insofar as its commercial banking activities are concerned. In addition, its operations are guided by a Policy Statement (adopted in 1969) which outlines its operational and financial policies and procedures. The Minister of Finance exercises broad supervisory powers over MIB's general strategy, policies, budgeting and planning through his authority to approve: (a) MIB's annual Operational Plan; (b) the Operating Manual which spells out MIB's operational and administrative procedures in some detail; (c) MIB's Annual Budget; and (d) its annual accounts and the allocation of its profits. The Ministry of Commerce and Industry exercises broad influence over MIB's overall policies through its representation on its Board of Policy.

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<sup>1/</sup> Except for a very small percentage (about 0.5% of MIB's present paid-in share capital) of shares originally owned by private shareholders in the Korea Agriculture Bank, a part of whose assets and liabilities were transferred to MIB at its inception. The MIB Act did not allow private shareholders to participate in subsequent issues of its shares.

42. At the apex of MIB's management structure are the Board of Policy and a Board of Directors. The Board of Policy convenes about four times a year, and has seven members including MIB's President (who acts as Chairman), one representative each from the Ministry of Finance, the Ministry of Commerce and Industry, the Bank of Korea, the National Federation of Medium Industry Cooperatives, and two representatives of small entrepreneurs. Executive authority is vested in the Board of Directors, which is also composed of seven members including MIB's President (who acts as its Chairman), the Deputy President and five Directors, each of whom is in charge of one or more of its Departments. This arrangement provides an opportunity for key Government officials and representatives of industry to contribute to the deliberations of the Board of Policy, while also concentrating executive authority in the Board of Directors, thereby helping MIB to maintain its autonomy so far as operational matters are concerned.

43. The chief executive is MIB's President. Since March 1975, this post has been occupied by Mr. Kim Woo-Keun, formerly a Governor of the Korea Exchange Bank, who has extensive experience in banking and finance. As of December 31, 1974, MIB's total staff numbered about 3,200; of these approximately a quarter were professionals. About 30 percent of the staff were assigned to the head office and the remainder to 60 branches and 15 deposit offices. MIB's staff is of good caliber. Staff training is thorough and methodical. The work relating to the proposed Bank loan will be handled mainly by MIB's Foreign Loan Department (FLD), a well managed, though presently understaffed, unit with 42 employees of whom 17 are professionals. MIB's management plans to increase the Department's strength in 1975 and 1976, with a view to improving both its appraisal and follow-up capacity.

#### Operations and Resources

44. From its inception in 1961 to December 31, 1974, MIB made financial commitments aggregating W 2,844 billion (\$5.9 billion equivalent), most of which was for short-term working capital loans. Its approvals of term loan commitments to that date totalled W 85 billion (\$175 million equivalent). It began to make foreign currency loans in significant amounts only in 1969, when substantial foreign exchange resources became available to it as a result of the Asian Development Bank making its first loan to MIB. As of December 31, 1974, of MIB's total outstanding loan portfolio of W 157.8 billion (\$325 million), W 109 billion (\$225 million) or about two-thirds represented working capital loans and the remaining W 49 billion (\$100 million) equipment loans. Slightly more than one-half (by amount) of MIB's equipment loans were made in foreign exchange. Apart from direct lending, MIB also administers (without financial liability) on behalf of the Government, the Credit Guarantee Fund (CGF). As of December 31, 1974, the total of outstanding guarantees under the CGF was W 20.2 billion (\$42 million), equivalent to about 15 percent of MIB's own outstanding loan portfolio.

45. MIB provides a full range of commercial banking services to SMI. These include deposit facilities, foreign exchange transactions, opening of letters of credit, and issuance of export/import licenses on behalf of the Government. However, its main commercial banking function is extending short-term working capital loans which it has provided to over 17,000 of its clients. The average outstanding amount of MIB's working capital loans was W 3.1 million (\$6,500). Commercial banking operations accounted for as much as 75 percent of MIB's gross income in 1974, and were financed entirely from demand and time deposits, which totalled W 129.1 billion (\$266 million) as at December 31, 1974.

46. Term financing by MIB consisted exclusively of domestic currency lending until 1964 when, following an amendment to its Act, MIB began to make term loans in foreign currencies. Approvals of term loans (in both domestic and foreign currencies) have recently increased sharply, reaching W 19.6 billion (\$40 million equivalent) in 1974, - about three times the annual level in 1971-72. By the end of 1974, over 1,500 of MIB's clients had received term loans and over half the total amount of outstanding term loans (\$101 million) was accounted for by MIB's foreign currency lending.

47. The overwhelming proportion (89 percent) of MIB's financing (both long- and short-term) has gone to the manufacturing sector. Textiles accounted for 30.5 percent of total loans outstanding as of December 31, 1974, metal products and machinery 20.5 percent, and chemicals, rubber and plastics 10.6 percent. The average size of MIB's domestic currency long-term loans is about W 14 million (\$29,000) and that of its foreign currency loans about \$125,000.

48. An examination of a sample of MIB's recent appraisal reports indicates that they are of generally acceptable standards, especially in their analysis of collateral and the technical, financial and marketing aspects of projects which are the most pertinent for small business lending. The main weakness in MIB's appraisal work at present is the inadequate coverage of a project's economic benefits. Following discussions with the appraisal mission, MIB's management intends to correct this deficiency through: (a) a more systematic and extensive analysis of economic benefits (such as value-added, net balance of payments, and employment effects), and (b) the calculation of the financial and economic rates of return for projects under the Bank loan requiring MIB's financing for \$0.5 million or more, as a preliminary to applying such an analysis to most of its sub-projects.

49. The main responsibility for project follow-up rests with MIB's local branches, except for projects financed by MIB's foreign currency loans, the supervision of which is undertaken jointly by FLD and the branches. Its follow-up work is generally good and contributes to the excellent quality of its portfolio. Follow-up procedures are well thought-out, reporting requirements are generally complied with by MIB's clients, and plant visits by MIB's staff are frequent. The management is regularly informed of the

progress, status, and problems relating to projects. However, MIB's follow-up work would be made even more effective if it had an evaluation mechanism for determining the extent to which the financial and economic benefits expected at the time of appraisal are actually achieved. At the Bank staff's suggestion, MIB intends to implement an appropriate system for monitoring the performance of sub-projects under the Bank loan.

#### Resource Structure

50. A noteworthy feature of MIB's resource structure is its heavy dependence on deposits which, as of December 31, 1974, amounted to W 129.2 billion (\$266 million) of which W 57.8 billion (\$119 million) were time deposits (of over one-year maturity) representing 64 percent of MIB's total long-term won resources, and W 71.4 billion (\$147 million) were demand deposits representing 88 percent of MIB's total short-term won resources. MIB uses its short-term deposits for financing only short-term working capital loans, and its long-term resources (including deposits for over one year) for financing its term loans. In addition, MIB's deposits are subject to the reserve requirements stipulated by the Bank of Korea from time to time (presently 17 percent for time deposits and 21 percent for demand deposits). Its practice of matching the maturities of deposits with those of investments made therefrom, together with the reserve requirements, ensure that MIB's deposits, are employed in a financially prudent manner. MIB's long-term won resources (other than deposits) are rather limited and amount to about W 32 billion (\$66 million) including its present equity capital 1/ and borrowings from: (a) Government (W 15.5 billion, \$32 million); (b) the NIF (W 1.5 billion, \$3 million); and (c) the Industrial Rationalization Fund 2/ (W 10.5 billion, \$21.6 million).

#### Financial Situation

51. As of December 31, 1974, MIB's total assets amounted to W 213 billion (\$439 million) of which the outstanding loan portfolio was W 159 billion (\$325 million) or 74 percent of total assets. Apart from an inadequate equity base, MIB's overall financial condition is satisfactory, and is reflected in a portfolio of excellent quality. At the end of 1974, arrears of principal and interest represented 3.5 percent of the total outstanding portfolio. The debt service cover averaged about 1.4 for the 1971-74 period, with the current ratio ranging from 1.6 to 1.9. MIB's

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1/ W 4.4 billion (\$9.0 million).

2/ The Industrial Rationalization Fund (IRF) was set up in 1972 and is administered by KDB. It provides finance to industries producing essential consumer goods, intermediate products, machinery and agro-industries. IRF has obtained its resources by borrowing from the Government and foreign sources, and by issuing its Industrial Finance Debentures.



profitability has been modest, averaging slightly over 7 percent of net worth in the same period. This does not reflect inefficiency but is largely attributable to the fact that, as a Government-owned development institution, MIB undertakes a range of developmental functions which are not primarily profit-oriented (its extension services, for instance, are provided at a nominal fee and it maintains a large network of branches and deposit offices to serve the outlying areas of the country). MIB has not, so far, made provisions for doubtful accounts. In spite of the good quality of the portfolio, it would be consistent with sound banking practices for MIB to make such provisions so as to enable it to write off eventual bad debts without having to reduce its net worth. Following discussions with the appraisal mission, MIB has indicated that it intends to make provisions for 1975 and thereafter.

52. MIB's present under-capitalization is reflected in a high debt/equity ratio. As of December 31, 1974, its net worth amounted to about W 4.4 billion, (of which W 3 billion, \$6.2 million, represented the paid-in share capital, and W 1.4 billion, \$2.9 million, reserves and retained earnings). As of the same date, its long-term debt stood at W 113.9 billion, \$234 million, (inclusive of time deposits of W 57.8 billion, \$119 million), giving a long-term debt/equity ratio of 23.8:1. Total indebtedness (inclusive of short-term liabilities and demand deposits) amounted to W 208.8 billion (\$430 million), reflecting a total debt/equity ratio of 46.0:1. The Government and MIB's management realize the need for strengthening MIB's capital structure. MIB has agreed to maintain its long-term debt/equity ratio at a level not exceeding 10:1 and the Government has undertaken to provide MIB with such capital as shall be necessary to bring the ratio within this limit by December 31, 1976 (Sections 4.05 and 4.07 of the Loan Agreement and Sections 2.02 and 2.03 of the Guarantee Agreement).

#### Economic Impact of MIB's Projects

53. MIB's processing of requests for working capital loans consist largely of an evaluation of collateral and borrowers' credit standing. As regards equipment loans, no systematic compilation of the actual economic performance (for instance, in terms of employment, value added and exports) has been made for projects which have been completed. However, an analysis of the available data on 174 projects for which MIB approved foreign currency loans in the two-year period 1973-74 indicates that these projects have generated a total investment of W 33.6 billion (\$70 million equivalent). Annual incremental sales attributable to these projects are estimated to average W 70 billion (\$144 million equivalent), of which 49 percent (\$79.8 million) is expected to be exported. The direct additional employment generated by these projects was 22,369, at an average investment cost of W 1.5 million (\$3,800 equivalent) compared with a national average investment cost of \$5,500 per employee for Korean industry as a whole.

54. An ex-ante calculation on a representative sample of 20 recently approved projects shows that in most cases the economic rate of return was in excess of 30 percent, and the financial rate of return above 20 percent.

55. With a view to broadening its developmental impact in support of general Government policies and programs, MIB has formulated a development program for the next two years, 1976-77, which includes inter alia:

- (a) increasing the proportion of its lending to areas outside Seoul and Busan (which account for less than 40 percent of MIB's existing portfolio) to not less than 50 percent of its total lending during the 1976-77 period;
- (b) expanding the scope of its technical and extension services, including in-plant consultancy services. For this purpose, an appropriate program (agreed by the Bank) for strengthening the staff of the Extension Services Department for the period 1976-77 will be implemented;
- (c) stepping up efforts to undertake sector studies, feasibility and market studies on selected SMI activities, with a view to identifying suitable investment opportunities and/or improving the operation of existing industries. For this purpose, MIB's staff will be strengthened appropriately.

#### Business Prospects and Resource Requirements

56. MIB estimates that commitments of equipment (i.e. long-term) loans in both domestic and foreign currencies in 1975 are expected to increase to W 23.8 billion (\$49 million) - or 22.5 percent above the actual level of W 19.6 billion (\$40 million) in 1974, and thereafter by about 20 percent annually. Its commitments of term loans for the five-year period 1975-79 would account for 15.4 percent of total fixed investment in the SMI sector, compared with 19.0 percent in 1974. These projections of term loan commitments are based on its assessment of resources likely to be available to it. MIB should be able to exceed its business forecast if it succeeds in raising additional long-term resources. Various possibilities are being explored such as the issuance of MIB bonds with an interest subsidy by the Government and increased borrowings from the NIF. MIB's commitments of short-term working capital loans are projected to increase at the same rate of about 20 percent per year from W 610.3 billion (\$1.2 billion) in 1974 to W 1,604.1 billion (\$3.3 billion) in 1979. It expects to be able to raise additional deposits and to obtain refinancing facilities from the Bank of Korea to finance its expanding short-term operations. To meet its projected foreign exchange commitments, MIB will need new foreign currency resources totalling \$152.8 million for the four-year period 1976-79, including \$62.7 million for the two-year period 1976-77. The proposed Bank loan of \$30 million would finance about one-half of MIB's foreign exchange commitments over the next two years, 1976-77, with the balance expected to be financed by another Asian Development Bank loan.

### Relending Terms

57. Interest rates applied by MIB to SMI borrowers are generally the same as those applied to larger industries by commercial banks and other financial institutions. Its foreign currency loans have an interest rate of 10.5-11 percent with the ultimate beneficiary bearing the exchange risk. Local currency loans carry an interest rate of 15.5 percent but preferential rates are granted for selected activities such as exports (9 percent) and machinery industry (12 percent). Deposit rates range from 1.0 percent to 5.4 percent for demand deposits, and from 12.6 percent to 15.0 percent for time deposits of between 3 and 24 months. Although not directly comparable, public debentures yield about 21 percent per year and the average dividend yield on common stock was 13.6 percent in 1974. The Bank has expressed its concern that the prevailing 15.5 percent standard domestic currency lending rate is on the low side in relation to recent inflation rates and the rate (17-20 percent) at which financial intermediaries could mobilize private domestic long-term funds. The Government has indicated that a serious examination of the issue was being carried out with a view to determining what action has to be taken and its appropriate timing. The Bank's dialogue with the Government on this subject is continuing.

58. In view of the quality of MIB's appraisal work and the proven ability of its management to make sound investment decisions, a free limit of \$0.5 million is recommended. There would be no aggregate free limit under the proposed loan. With the proposed free limit, it is estimated that roughly one-quarter of the number of sub-projects under this loan (accounting for about one-half of the loan amount) would require prior approval by the Bank.

### Justification

59. The continued growth of SMI in Korea is an important element of Korea's development strategy, especially as it relates to employment creation in the country as a whole and the deconcentration of industry. MIB's experienced and competent staff and its relations with the Government and business community make it a particularly suitable channel for providing finance and technical assistance to SMI enterprises.

60. For the future, MIB's growth is not expected to be constrained by lack of demand for the financing and other services it offers. The main objective of the proposed Bank loan, in addition to the provision of finance for investment in SMI, is to assist MIB in expanding its operations on an economically and financially sound basis by improving its appraisal standards, staffing pattern and financial structure. Further, MIB's intention of directing a greater share of its lending for the establishment and expansion of SMI enterprises in the areas other than the Seoul and Busan industrial complexes will help in the realization of more equitable regional distribution of jobs and income. In sum, the proposed loan will increase the flow of resources to SMI, contribute to greater regional dispersal of investment and achieve important institution building objectives by strengthening the capability of MIB to service the needs of the SMI sector in Korea.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

61. The draft Loan Agreement between the Bank and Borrower, the draft Guarantee Agreement between the Guarantor and the Bank, the Report of the Committee provided for in Article III, Section 4 (iii) of the Articles of Agreement and the text of a draft resolution approving the proposed loan are being distributed to the Executive Directors separately. The Loan and Guarantee Agreements follow the normal pattern of Bank agreements for loans of this kind. Features of the Agreements that are of special interest are referred to in paragraph 52 of this Report.

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

PART VI - RECOMMENDATION

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

Robert S. McNamara  
President  
by J. Burke Knapp

Attachments

November 5, 1975

# ANNEX I

Page 1 of 3 pages

## COUNTRY DATA - KOREA

AREA  
98,177 km<sup>2</sup>

POPULATION  
33.16 million (mid-1971)

DENSITY  
71.9 Per km<sup>2</sup> of arable land

### SOCIAL INDICATORS

	Korea		Reference Countries		
	1960	1970	Thailand 1970	Turkey 1970	Japan* 1970
<b>GNP PER CAPITA US\$ (ATLAS BASIS) /1</b>	11.0 /a	31.0 /b	22.0 /b	37.0 /b	2,310 /b
<b>DEMOGRAPHIC</b>					
Crude birth rate (per thousand)	4.0 /c	28	4.3 /d,e	38 /d,e	19.4 /b
Crude death rate (per thousand)	11 /c	8	10 /d,e	13 /d,e	6.5 /b
Infant mortality rate (per thousand live births)	..	..	80-90 /e	14.5 /e	11.7 /b
Life expectancy at birth (years)	56	65	59 /d,e	55 /d	72
Gross reproduction rate /2	3.1 /h	2.6 /d	3.2 /d	2.6 /e,h	1.0 /d
Population growth rate /3	3.0 /h,i	2.2 /i	3.1 /i	2.5 /i	1.1 /i
Population growth rate - urban	6 /i,j	6 /i	5 /k	4.5 /i	2.4 /e
<b>Age structure (percent)</b>					
0-14	43	40 /b	45	42	24.2 /b
15-64	54	57 /b	52	54	68.5 /b
65 and over	3	3 /b	3	4	7.3 /b
Age dependency ratio /4	0.9	0.8 /b	0.9	0.9	0.5 /b
Economic dependency ratio /4	1.5	1.4	1.1	1.1 /x	0.7 /b,k
<b>Urban population as percent of total</b>					
Family planning: No. of acceptors cumulative (thous.)	28 /i	41 /i	13 /k	39 /b,l	72 /e
No. of users (% of married women)	..	..	550	484 /o,p	..
	..	..	10	8.2 /k	..
<b>EMPLOYMENT</b>					
Total labor force (thousands)	7,500	12,100 /u	16,900	14,500 /r	52,900 /ak,al
Percentage employed in agriculture	66	52 /u	78	67	19.1
Percentage unemployed	9	4.1 /u	..	4 /ae	1.3 /ak,al
<b>INCOME DISTRIBUTION</b>					
Percent of national income received by highest 5%	17 /a,ai	15 /e,ei	..	32 /g,t,v	..
Percent of national income received by highest 20%	42 /a,ai	37 /e,ei	..	60 /g,t,v	..
Percent of national income received by lowest 20%	7 /a,ai	10 /e,ei	..	3 /g,t,v	..
Percent of national income received by lowest 40%	20 /a,ai	24 /e,ei	..	10 /g,t,v	..
<b>DISTRIBUTION OF LAND OWNERSHIP</b>					
% owned by top 10% of owners	27	28	..	53	..
% owned by smallest 10% of owners	3	2	..	0.9	..
<b>HEALTH AND NUTRITION</b>					
Population per physician	3,000 /e,w	1,870 /b	7,250 /f	2,190 /f	850 /f
Population per nursing person	..	1,360 /f,w	2,950 /f	1,830 /f	3.0 /f
Population per hospital bed	2,600 /c,z	1,800 /b	820 /f	480 /f	30 /f
Per capita calorie supply as % of requirements /5	85	103	105	110	106
Per capita protein supply, total (grams per day) /6	53	65	52	78	76
Of which, animal and pulse	13 /c	19 /y,z	17 /aa	22 /aa	45
Death rate 1-4 years /7	..	..	..	15 /b	1.0 /f
<b>EDUCATION</b>					
Adjusted /8 primary school enrollment ratio	96	98 /b	83 /f	111	100
Adjusted /8 secondary school enrollment ratio	27	41	13 /k	28	90
Years of schooling provided, first and second level	12	12	12	11	12
Vocational enrollment as % of sec. school enrollment	14	15 /f	12 /y,ab	14	20
Adult literacy rate %	..	92 /b,g,sc	..	55 /ad	99 /r,y
<b>HOUSING</b>					
Average No. of persons per room (urban)	2.8	2.7	..	1.9	1.0 /e
Percent of occupied units without piped water	88 /af	80 /af	..	64 /ag	5 /e,ak
Access to electricity (as % of total population)	28 /ah	80 /b	..	41 /ah	..
Percent of rural population connected to electricity	12 /ah	40 /b	13	18 /ah	..
<b>CONSUMPTION</b>					
Radio receivers per 1000 population	32	127 /b	83 /b	107 /b	658 /b
Passenger cars per 1000 population	0.4	2 /b	7 /f	5 /b	134 /ak
Electric power consumption (kwh p.c.)	71	392 /b	164 /b	304 /b	3,909 /b
Newsprint consumption p.c. kg per year	1.8	3.4 /b	1.4 /b	2.2 /b	19.9 /ak

Notes: Figures refer either to the latest periods or to the latest years. Latest periods refer in principle to the years 1956-60 or 1966-70; the latest years in principle to 1960 and 1970.

/a The Per Capita GNP estimate is at market prices for years other than 1960, calculated by the same conversion technique as the 1972 World Bank Atlas.

/b Average number of daughters per woman of reproductive age.

/c Population growth rates are for the decades ending in 1960 and 1970.

/d Ratio of population under 15 and 65 and over to population of ages 15-64 for age dependency ratio and to labor force of ages 15-64 for economic dependency ratio.

/e FAO reference standards represent physiological requirements for normal activity and health, taking

account of environmental temperature, body weights, and distribution by age and sex of national populations.

/f Protein standards (requirements) for all countries as established by USDA Economic Research Service provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are somewhat lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

/g Some studies have suggested that crude death rates of children ages 1 through 4 may be used as a first approximation index of malnutrition.

/h Percentage enrolled of corresponding population of school age as defined for each country.

/a Computed by applying to the 1970 figure the growth rate of GNP per capita in real terms from 1960 to 1970; /b 1972; 1962; /c 1965-70; /d Derived from sample survey estimates (240,000 persons), excluding 17 eastern provinces; /e 1971; /f 1968; /g 1965-67; /h 1960-72; /i Seoul city and municipalities of 5,000 or more inhabitants; /j Municipalities; /k Administrative centers of provinces and districts ("Vilayet" and "Kaza" centers); /l For the definition of urban, see UN Demographic Yearbook 1973, p. 127; /m 1950-55; /n 1964-June 1974; /o 86 percent being IUDs; /p Ten years and over; /q 15 years and over; /r Wage and salary income of households; /s Households; /t 1974; /u Disposable income; /v Number on the register not all working in the country; /x Ratio of population under 15 and 65 and over to labor force of ages 15 and over; /y 1969; /z Estimate; /aa 1964-66; /ab Data on vocational education refer to public schools and includes technical education at the post-secondary level; /ac Definition unknown; /ad Persons six years old and over who tell the census takers that they can read and write; /ae Registered unemployed; /af Water piped inside; /ag Inside or outside; /ah Percentage of dwellings with electric lighting; /ai 1964; /aj 1965-60; /ak 1973; /al Estimate based on a labor force sample survey.

\* Japan has been selected as an objective country due to the similarity of the present Korean economic structure to that of Japan in the mid-fifties (with the same principle resource base, i.e., efficient, industrious, cheap labor and heavy reliance on imported raw materials). Moreover, agriculture, transport, and other sectors of the economy have similar characteristics. Korea also has, in its Long-Term Plan (1972-81), a pattern of industrial development which is not very different from the one Japan pursued with great success in the sixties.



**BALANCE OF PAYMENTS, INTERNAL ASSISTANCE AND DEBT**  
(amounts in millions of U.S. dollars at current prices)

1976 - Annual Growth Rate 1975-1976

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																						
<b>SURPLUS BALANCE OF PAYMENTS</b>	1,478	2,078	3,461	5,179	5,714	8,762	10,500	12,496	14,848	17,213	20,500	22,496	24,848	27,213	29,500	31,496	33,848	35,213	37,500	39,496	41,848	43,213	45,500	47,496	49,848	51,213	53,500	55,496	57,848	59,213	61,500	63,496	65,213	67,500	69,496	71,848	73,213	75,500	77,496	79,848	81,213	83,500	85,496	87,848	89,213	91,500	93,496	95,848	97,213	99,500	101,496	103,848	105,213	107,500	109,496	111,848	113,213	115,500	117,496	119,848	121,213	123,500	125,496	127,848	129,213	131,500	133,496	135,848	137,213	139,500	141,496	143,848	145,213	147,500	149,496	151,848	153,213	155,500	157,496	159,848	161,213	163,500	165,496	167,848	169,213	171,500	173,496	175,848	177,213	179,500	181,496	183,848	185,213	187,500	189,496	191,848	193,213	195,500	197,496	199,848	201,213	203,500	205,496	207,848	209,213	211,500	213,496	215,848	217,213	219,500	221,496	223,848	225,213	227,500	229,496	231,848	233,213	235,500	237,496	239,848	241,213	243,500	245,496	247,848	249,213	251,500	253,496	255,848	257,213	259,500	261,496	263,848	265,213	267,500	269,496	271,848	273,213	275,500	277,496	279,848	281,213	283,500	285,496	287,848	289,213	291,500	293,496	295,848	297,213	299,500	301,496	303,848	305,213	307,500	309,496	311,848	313,213	315,500	317,496	319,848	321,213	323,500	325,496	327,848	329,213	331,500	333,496	335,848	337,213	339,500	341,496	343,848	345,213	347,500	349,496	351,848	353,213	355,500	357,496	359,848	361,213	363,500	365,496	367,848	369,213	371,500	373,496	375,848	377,213	379,500	381,496	383,848	385,213	387,500	389,496	391,848	393,213	395,500	397,496	399,848	401,213	403,500	405,496	407,848	409,213	411,500	413,496	415,848	417,213	419,500	421,496	423,848	425,213	427,500	429,496	431,848	433,213	435,500	437,496	439,848	441,213	443,500	445,496	447,848	449,213	451,500	453,496	455,848	457,213	459,500	461,496	463,848	465,213	467,500	469,496	471,848	473,213	475,500	477,496	479,848	481,213	483,500	485,496	487,848	489,213	491,500	493,496	495,848	497,213	499,500	501,496	503,848	505,213	507,500	509,496	511,848	513,213	515,500	517,496	519,848	521,213	523,500	525,496	527,848	529,213	531,500	533,496	535,848	537,213	539,500	541,496	543,848	545,213	547,500	549,496	551,848	553,213	555,500	557,496	559,848	561,213	563,500	565,496	567,848	569,213	571,500	573,496	575,848	577,213	579,500	581,496	583,848	585,213	587,500	589,496	591,848	593,213	595,500	597,496	599,848	601,213	603,500	605,496	607,848	609,213	611,500	613,496	615,848	617,213	619,500	621,496	623,848	625,213	627,500	629,496	631,848	633,213	635,500	637,496	639,848	641,213	643,500	645,496	647,848	649,213	651,500	653,496	655,848	657,213	659,500	661,496	663,848	665,213	667,500	669,496	671,848	673,213	675,500	677,496	679,848	681,213	683,500	685,496	687,848	689,213	691,500	693,496	695,848	697,213	699,500	701,496	703,848	705,213	707,500	709,496	711,848	713,213	715,500	717,496	719,848	721,213	723,500	725,496	727,848	729,213	731,500	733,496	735,848	737,213	739,500	741,496	743,848	745,213	747,500	749,496	751,848	753,213	755,500	757,496	759,848	761,213	763,500	765,496	767,848	769,213	771,500	773,496	775,848	777,213	779,500	781,496	783,848	785,213	787,500	789,496	791,848	793,213	795,500	797,496	799,848	801,213	803,500	805,496	807,848	809,213	811,500	813,496	815,848	817,213	819,500	821,496	823,848	825,213	827,500	829,496	831,848	833,213	835,500	837,496	839,848	841,213	843,500	845,496	847,848	849,213	851,500	853,496	855,848	857,213	859,500	861,496	863,848	865,213	867,500	869,496	871,848	873,213	875,500	877,496	879,848	881,213	883,500	885,496	887,848	889,213	891,500	893,496	895,848	897,213	899,500	901,496	903,848	905,213	907,500	909,496	911,848	913,213	915,500	917,496	919,848	921,213	923,500	925,496	927,848	929,213	931,500	933,496	935,848	937,213	939,500	941,496	943,848	945,213	947,500	949,496	951,848	953,213	955,500	957,496	959,848	961,213	963,500	965,496	967,848	969,213	971,500	973,496	975,848	977,213	979,500	981,496	983,848	985,213	987,500	989,496	991,848	993,213	995,500	997,496	999,848	1001,213	1003,500	1005,496	1007,848	1009,213	1011,500	1013,496	1015,848	1017,213	1019,500	1021,496	1023,848	1025,213	1027,500	1029,496	1031,848	1033,213	1035,500	1037,496	1039,848	1041,213	1043,500	1045,496	1047,848	1049,213	1051,500	1053,496	1055,848	1057,213	1059,500	1061,496	1063,848	1065,213	1067,500	1069,496	1071,848	1073,213	1075,500	1077,496	1079,848	1081,213	1083,500	1085,496	1087,848	1089,213	1091,500	1093,496	1095,848	1097,213	1099,500	1101,496	1103,848	1105,213	1107,500	1109,496	1111,848	1113,213	1115,500	1117,496	1119,848	1121,213	1123,500	1125,496	1127,848	1129,213	1131,500	1133,496	1135,848	1137,213	1139,500	1141,496	1143,848	1145,213	1147,500	1149,496	1151,848	1153,213	1155,500	1157,496	1159,848	1161,213	1163,500	1165,496	1167,848	1169,213	1171,500	1173,496	1175,848	1177,213	1179,500	1181,496	1183,848	1185,213	1187,500	1189,496	1191,848	1193,213	1195,500	1197,496	1199,848	1201,213	1203,500	1205,496	1207,848	1209,213	1211,500	1213,496	1215,848	1217,213	1219,500	1221,496	1223,848	1225,213	1227,500	1229,496	1231,848	1233,213	1235,500	1237,496	1239,848	1241,213	1243,500	1245,496	1247,848	1249,213	1251,500	1253,496	1255,848	1257,213	1259,500	1261,496	1263,848	1265,213	1267,500	1269,496	1271,848	1273,213	1275,500	1277,496	1279,848	1281,213	1283,500	1285,496	1287,848	1289,213	1291,500	1293,496	1295,848	1297,213	1299,500	1301,496	1303,848	1305,213	1307,500	1309,496	1311,848	1313,213	1315,500	1317,496	1319,848	1321,213	1323,500	1325,496	1327,848	1329,213	1331,500	1333,496	1335,848	1337,213	1339,500	1341,496	1343,848	1345,213	1347,500	1349,496	1351,848	1353,213	1355,500	1357,496	1359,848	1361,213	1363,500	1365,496	1367,848	1369,213	1371,500	1373,496	1375,848	1377,213	1379,500	1381,496	1383,848	1385,213	1387,500	1389,496	1391,848	1393,213	1395,500	1397,496	1399,848	1401,213	1403,500	1405,496	1407,848	1409,213	1411,500	1413,496	1415,848	1417,213	1419,500	1421,496	1423,848	1425,213	1427,500	1429,496	1431,848	1433,213	1435,500	1437,496	1439,848	1441,213	1443,500	1445,496	1447,848	1449,213	1451,500	1453,496	1455,848	1457,213	1459,500	1461,496	1463,848	1465,213	1467,500	1469,496	1471,848	1473,213	1475,500	1477,496	1479,848	1481,213	1483,500	1485,496	1487,848	1489,213	1491,500	1493,496	1495,848	1497,213	1499,500	1501,496	1503,848	1505,213	1507,500	1509,496	1511,848	1513,213	1515,500	1517,496	1519,848	1521,213	1523,500	1525,496	1527,848	1529,213	1531,500	1533,496	1535,848	1537,213	1539,500	1541,496	1543,848	1545,213	1547,500	1549,496	1551,848	1553,213	1555,500	1557,496	1559,848	1561,213	1563,500	1565,496	1567,848	1569,213	1571,500	1573,496	1575,848	1577,213	1579,500	1581,496	1583,848	1585,213	1587,500	1589,496	1591,848	1593,213	1595,500	1597,496	1599,848	1601,213	1603,500	1605,496	1607,848	1609,213	1611,500	1613,496	1615,848	1617,213	1619,500	1621,496	1623,848	1625,213	1627,500	1629,496	1631,848	1633,213	1635,500	1637,496	1639,848	1641,213	1643,500	1645,496	1647,848	1649,213	1651,500	1653,496	1655,848	1657,213	1659,500	1661,496	1663,848	1665,213	1667,500	1669,496	1671,848	1673,213	1675,500	1677,496	1679,848	1681,213	1683,500	1685,496	1687,848	1689,213	1691,500	1693,496	1695,848	1697,213	1699,500	1701,496	1703,848	1705,213	1707,500	1709,496	1711,848	1713,213	1715,500	1717,496	1719,848	1721,213	1723,500	1725,496	1727,848	1

KOREA

THE STATUS OF BANK GROUP OPERATIONS IN THE REPUBLIC OF KOREA

A. Statement of Bank Loans and IDA Credits (as at September 30, 1975)

<u>Loan or Credit Number</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>US\$ Million</u>		
				<u>Amount (less cancellations) Bank</u>	<u>IDA</u>	<u>Undisbursed</u>
Six loans and credits fully disbursed				53.8	39.7	
600	1969	ADC	Irrigation	45.0		4.9
151	1969	Republic of Korea	Education		14.8	2.1
669	1970	Republic of Korea	Railways	40.0		2.6
234	1971	Republic of Korea	Livestock		7.0	0.3
769	1971	Republic of Korea	Highways	54.5		1.3
283	1972	Republic of Korea	Irrigation		15.0	1.0
795	1972	ADC	Irrigation	33.0		30.1
335	1972	Republic of Korea	Agricultural Cr.		10.5	1.5
863	1972	Republic of Korea	Railways	40.0		10.8
905	1973	KDFC	Dev. Fin. Co.	40.0		3.9
906 & 394	1973	Republic of Korea	Education II	23.0	20.0	42.8
917	1973	Republic of Korea	Ports	80.0		74.3
942	1973	Republic of Korea	Seeds Production	7.0		6.6
953	1974	Republic of Korea	Tourism	25.0		22.8
956	1974	Republic of Korea	Highways II	47.0		25.6
994	1974	AFDC	Agriculture	13.0		12.8
1070	1975	Republic of Korea	Secondary Cities	15.0		14.9
1094	1975	Republic of Korea	Program Loan	100.0		23.0
1095	1975	KDB	Dev. Fin. Co.	60.0		60.0
1096	1975	Republic of Korea	Third Education	22.5		22.5
1101	1975	Republic of Korea	Fifth Railway	100.0		100.0
1145	1975	KDFC	DFC	55.0		55.0
Total				883.8	107.0	518.8
of which has been repaid				16.4	.5	
Total now outstanding				867.4	106.5	
Amount sold				2.0		
of which has been repaid				<u>0.8</u>		
				<u>1.2</u>		
Total now held by Bank and IDA (prior to exchange adjustment)				866.2	106.5	
Total undisbursed				<u>494.1</u>	<u>24.7</u>	<u>518.8</u>



B. Statement of IFC Investments (as of September 30, 1975)

<u>Fiscal Year</u>	<u>Obligor</u>	<u>Type of Business</u>	<u>Amount in US\$ Million</u>		
			<u>Loan</u>	<u>Equity</u>	<u>Total</u>
1968	KDFC	Development Financing	-	0.7	0.7
1969	Honam Silk Co.	Textiles	1.4	0.3	1.7
1970	Atlas Paper Co.	Pulp and paper	4.5	0.5	5.0 <sup>1/</sup>
1971	Korea Investment and Finance Corp.	Capital market development	-	0.7	0.7
1974	KDFC	Development Financing	-	0.4	0.4
1974	Korea Investment and Finance Corp.	Capital market development	-	0.3	0.3
1975	Gold Star & Co., Ltd.	Electronic Products	16.0	1.3	17.3
1975	Korea Securities Finance Corp.	Capital market development	5.0	0.6	5.6
1975	Tong Yang Nylon Company Ltd.	Synthetic fibers	6.9	2.1	9.0
1975	Hae Un Dae Development Company Ltd.	Tourism	2.7	0.7	3.4
		Total gross commitment	36.5	7.6	44.1
		less cancellations, terminations, repayments and sales	12.8	0.8	13.6
		Total commitments now held by IFC	23.7	6.8	30.5
		Total undisbursed	2.9	0.7	3.6

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<sup>1/</sup> Cancelled at the request of the Company

PROJECTS IN EXECUTION <sup>1/</sup>

Loan No. 600                      Pyongtaek-Kumgang Irrigation Project; US\$45.0 million  
Loan of May 23, 1969; Closing Date: December 31, 1976

The Project includes irrigation for about 35,000 ha, improvement of drainage and roads, consolidation of paddy fields, benching of upland and tidal land reclamation. Construction was delayed by a reorganization of the executing agency and a delay in hiring consultants. The major project components (two sea dikes, the main distribution system and pumping plants) were largely completed by the end of 1974. Contracts for nearly all of the remaining work have been awarded. Cost considerations have led to the exclusion of about 5,000 ha of land from the project. Costs have risen from US\$90 million at appraisal to about US\$130 million largely because of the increased costs of right-of-way, engineering, administration and land consolidation. Preliminary estimates indicate increases in the price of rice will partially offset the effects of higher costs and reduced irrigable area. The economic rate of return is now estimated to be about 10 percent, compared with the appraisal estimate of 14 percent. The implementing agency (ADC) has reviewed ways of economizing on the remaining work which should lead to some marginal cost savings. About 88 percent of the Loan has been disbursed. Construction is progressing satisfactorily and is scheduled for completion by mid-1976.

Credit No. 151                      First Education Project; US\$14.8 million Credit  
of June 4, 1969; Closing Date: September 30, 1976

This Project comprises: (a) the expansion and equipping of 27 technical, commercial and agricultural high schools, 5 post-secondary higher schools and 4 university teacher training departments; and (b) 26 man-years of technical assistance and 20 man-years of overseas fellowships to support the development of agricultural and technical education. All civil works, furniture, technical assistance and fellowships included in the Project have been completed. Equipment procurement is more than 90 percent complete and the remaining 38 items are being tendered. Disbursement has now reached about 85 percent of the total. The total project cost is estimated to remain about 3 percent below the appraised estimate. Due to delays in final equipment procurement, the Closing Date has been extended by nine months.

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<sup>1/</sup> These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

Loan No. 669                      Third Railway Project; US\$40.0 million loan and  
Credit No. 183                      US\$15.0 million Credit of May 14, 1970; Closing Date:  
December 31, 1976

The bulk of the Loan and Credit was earmarked for the purchase of freight cars, diesel locomotives, and telecommunications and track maintenance equipment. Progress is generally satisfactory except for delays in the procurement of some microwave equipment which had to be re-tendered. The Closing Date has been extended by a year to December 31, 1976 to provide adequate time for the completion of procurement.

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-sized dairy farms by providing long-term loans and the construction and operation of two dairy products processing plants are the principal components of the Project which also includes the provision of management and technical services. To date, about 580 farmers have participated and farm loans of about US\$4.5 million equivalent have been approved. About 4,900 head of cattle have been purchased and two dairy plants have been constructed and are in operation. The proceeds of the Credit are almost fully committed.

Loan No. 769                      First Highway Project; US\$54.5 million Loan of  
June 29, 1971; Closing Date: December 31, 1976

The construction of approximately 370 km of national highways between Jeonju and Busan was satisfactorily completed in December 1973, at a final cost about five percent above the appraisal estimate. Feasibility studies and detailed engineering have been completed for 1,400 km and 1,100 km of national highways, respectively. A study of road maintenance and the establishment of a pilot maintenance organization formed the basis of the creation of a country-wide Highway Maintenance Organization which is being carried out under the Second Highway Project. The Closing Date has been extended by 13 months to permit completion of procurement of highway maintenance equipment.

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

This Project aims at transforming an area with the highest drought frequency in Korea into one with reliable irrigation and crop diversification. Also, there will be increased production of high value crops such as fruits and winter vegetables. Design work is proceeding satisfactorily and the work on four dams, the main canals and land consolidation has started. Award of all major contracts have been made, although the delay on several means that construction will begin roughly a year later than scheduled at appraisal. The delay was caused mainly by increased costs due largely

to price escalation and design modification. The cost increases will be partially compensated for by benefits attributable to the enlargement of the area to be irrigated by about 1,400 ha., and ADC plans to reduce costs by constructing only canals, roads and drainage systems for contour furrow irrigation on all lands exceeding 2 percent slope. Also the Bank has begun monitoring construction costs on each of the ten major civil works contracts on a monthly basis.

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

The Credit supports a three year lending program to small farmers to develop orchards, sericulture and mushroom production and to encourage the breeding of poultry and swine. It also finances an organizational and accounting study of the National Agricultural Cooperative Federation (NACF) and the strengthening of its training facilities. The Project is progressing satisfactorily and disbursement is proceeding on schedule.

Loan No. 863            Fourth Railway Project; US\$40.0 million Loan of November 22, 1972; Closing Date: December 31, 1976

The main elements of the Project are: electrification of lines in the Seoul suburban area; purchase of electric railcars and locomotives; the completion of electrification of 350 km of line running from Seoul to the northeastern part of Korea; track and bridge renewal; provision of yard facilities; acquisition of passenger and freight cars; and improvement of facilities for the maintenance and repair of motive power and rolling stock. No major problems have been encountered; nearly all of the Loan proceeds have been committed.

Loan No. 905            Fourth KDFC Project; US\$40.0 million Loan of June 13, 1973; Closing Date: December 31, 1977

The Project is progressing satisfactorily.

Loan No. 906            Second Education Project; US\$23.0 million Loan and Credit No. 394 US\$20.0 million Credit of June 13, 1973; Closing Date: December 31, 1977

The Project provides equipment for and extensions to the buildings of: 18 technical and 14 agricultural high schools; ten higher schools/junior colleges for industrial, agricultural, fishery and nursing training; colleges of agriculture, engineering and natural sciences in nine universities and a merchant marine college; and ten junior teacher colleges and 12 colleges of education. It also includes pre-investment studies on health and management education. Implementation is about seven months behind schedule due to delays in the preparation of equipment lists (civil works, which are being financed by the Government, are slightly ahead of schedule). The Project has encountered two problems: delays in equipment procurement and lack of counterpart funds to cover cost overruns on civil works (about

75%). However, steps have been taken by the Government and the Bank to overcome these problems and therefore implementation should improve within the next six months. The Project is expected to be completed on schedule by the end of 1977. Disbursement has been somewhat slower than expected at appraisal due to the delay in the preparation of equipment lists but is expected to improve.

Loan No. 917                    Ports Project; US\$80 million Loan of June 27, 1973;  
Closing Date: June 30, 1979

The Project includes the provision of container and bulk cargo facilities and equipment at Busan and coal piers and handling equipment at Busan and Mukho. Some contracts for dredging and pier construction have been awarded. The design-work and preparation of tender documents for the remaining items are proceeding satisfactorily. Revised cost estimates show an increase of about 30 percent over appraisal estimates. A Phase II Port Development Study and consultants' services in connection with the establishment of a "Korean Port Authority" are proceeding satisfactorily.

Loan No. 942                    Seeds Project; US\$7.0 million Loan of November 16, 1973;  
Closing Date: December 31, 1978

The Project consists of: (a) the installation of five field crop seed processing and storage facilities; (b) farm machinery for seed production; (c) procurement of seasonal seed inventories through the operation of a revolving fund; (d) seed testing laboratories and equipment; (e) crop research (financed in part by USAID); (f) feasibility studies for irrigation and area development; and (g) technical assistance. The necessary legislative and administrative action for revising the Seed Law and establishing an "Office of Seed Production and Distribution" has been taken. Project implementation is proceeding satisfactorily. Preliminary estimates suggest that Project costs would be somewhat higher than envisaged at appraisal; the estimates are being reviewed.

Loan No. 953                    Kyongju Tourism Project; US\$25.0 million Loan of  
January 4, 1974; Closing Date: December 31, 1978

The Project forms part of the first phase of the planned development of the Bomun Lake resort near Kyongju. It provides for a multi-purpose dam; an irrigation system for about 1,200 ha; improvement and expansion of the water supply and sewerage and solid waste disposal systems for the city of Kyongju and the resort area; installation of electrical supply and telecommunication facilities for the resort area; the construction and/or realignment of about 57 kms of roads; infrastructure including storm water drainage, environmental sanitation, community facilities, a golf course, a school for training hotel personnel; and a feasibility study for the development of tourism on Cheju Island. Final design for almost all Project components is complete and several contracts have been awarded.

Loan No. 956                    Second Highway Project; US\$47.0 million Loan of  
January 25, 1974; Closing Date: December 31, 1977

The Project, which forms part of the Government's 1972-76 road construction and paving program, consists of the construction (chiefly on new alignments) of about 130 kms and paving (largely on existing alignments) of approximately 635 km of national highways; feasibility studies by consultants of about 1,000 kms of national and provincial roads, followed by detailed engineering where justified; and the procurement of highway maintenance and workshop equipment for the extension of a new highway maintenance program from a pilot province to the remainder of the country. All construction and paving contracts have been awarded.

Loan No. 994                    Integrated Agricultural Products Processing Project;  
US\$13.0 million Loan of June 7, 1974; Closing Date:  
June 30, 1979

The Project aims at integrating the on-farm production of commercial crops for export with efficient hygienic processing facilities using land that is presently idle or underutilized. It comprises (i) on-farm development of asparagus, oak mushrooms and mushrooms; (ii) construction of and improvements to facilities to process asparagus, oak mushrooms, mushrooms and fruits; and (iii) technical assistance including training of staff, services of consultants, etc. The Project is progressing satisfactorily.

Loan No. 1070                    Secondary Cities Regional Project; US\$15.0 million  
Loan of January 15, 1975; Closing Date: March 31, 1979

The principal aims of the Project are the establishment of an organizational framework for regional investment, planning and development and to improve working and living conditions in the secondary cities of the less developed Gwangju region. The main elements of the Project are; (i) housing sites and services in the cities of Yeosu, Mogpo and Gwangju (370,384 m<sup>2</sup>); (ii) a fishery harbor complex with industrial processing zone (215,385 m<sup>2</sup>) in Yeosu; (iii) a city market in Suncheon City (33,160 m<sup>2</sup>); and (iv) access roads in Yeosu and Mogpo (6.61 km). It also provides technical assistance to strengthen regional planning and development, to improve the utilization of existing water supply systems in the four cities, to assist the management and operation of the fishery complex and to carry out feasibility studies of project proposals identified under the UNDP-financed Phase II Regional Study. The Loan was declared effective on August 18, 1975.

Loan No. 1094                    Program Loan; US\$100.0 million Loan of March 31, 1975;  
Closing Date: May 1, 1976

The principal aim of the Loan is to help meet the foreign exchange requirements of the import into the Republic of Korea by the private sector of essential capital and intermediate goods. Over 80 percent of the Loan has been disbursed.

Loan No. 1095                    Korea Development Bank Project; US\$60.0 million Loan of March 31, 1975; Closing Date: June 30, 1979

The Project provides funds to KDB which will be used to make sub-loans to finance direct imports for industrial sub-projects during the period mid-1975 to mid-1977.

Loan No. 1096                    Third Education Project; US\$22.5 million Loan of March 31, 1975; Closing Date: June 30, 1980

The principal aims of the Project are to assist in supplying needed skills and to establish a framework for evaluating performance and improving the educational system. The Project consists of: (a) construction and equipment of a new technical high school; (b) equipment and extension of buildings for three agricultural junior colleges; (c) equipment and enlargement of buildings for a fisheries college, three fisheries high schools, and equipment for one merchant marine junior college; (d) construction and equipment of seven new vocational training institutes; and (e) financing of engineering and technical services required for the preparation of future education projects.

Loan No. 1101                    Fifth Railway Project; US\$100.0 million Loan of April 10, 1975; Closing Date: December 31, 1978

The Project will help the Korean National Railroad (KNR) continue as a major carrier of freight and passengers by helping in: the upgrading, modernization and expansion of track, rolling stock, motive power, and other equipment; the improvement of the efficiency of operation; and its financial recovery. The main components of the Project are: an increase in station and line capacity and improvements in signalling; acquisition of rolling stock, diesel and electric locomotives, spare parts and repair facilities; track renewal and improvement; bridge strengthening; completion of electrification of 71 km of industrial lines; and other miscellaneous items. The Loan was declared effective July 15, 1975.

Loan No. 1145                    Fifth Korea Development Finance Corporation Project; US\$55.0 million Loan of July 23, 1975; Closing Date: June 30, 1980

The Loan will cover about half the KDFC's foreign exchange requirements through the end of 1977. It will be used to finance direct imports of machinery and equipment, and the foreign exchange component of domestically produced capital goods and of civil works. The Loan was declared effective on September 5, 1975.

LOAN AND PROJECT SUMMARY

Medium Industry Bank

Borrower: Medium Industry Bank (MIB)

Amount: \$30.0 million

Terms: The proposed loan will bear interest at 8-1/2 percent per annum. Amortization to conform substantially to the aggregate of the amortization schedules applicable to the specific investment projects financed out of the proceeds of the proposed loan. The maximum repayment period would be 18 years, including three years of grace. Sub-loans would be repaid to MIB over a maximum period of 15 years, including three years of grace.

Purpose: The proposed loan would be used to help cover the foreign exchange requirements of industrial sub-projects to be financed by MIB.

Estimated  
Disbursement:

<u>Calendar Year</u>	<u>US\$ Million</u>
1976	9.3
1977	18.8
1978	1.9

Appraisal Report: No. 865-KO dated November 4, 1975.



